

Henry George School

4

Basic Economics

This lesson will explore what will happen when all land is monopolized — when no free land is available for use. In the previous model (lesson #3), wages and interest are 8 units of wealth on all land. This is because workers and capitalists have a free alternative place to produce 8 units of wealth. No one will work on someone else's land for less than they can produce on their own. Rent equals the greater results from superior land. In the next model there is no free land, and therefore no alternative for the self-employment of labor and capital. The ocean and the air are also considered land, but are incapable of supporting independent productions. The first thought might be that wages and interest would fall to zero. However, if nothing is paid, no production takes place, the workers starve, and the land owner gets no rent. The workers must be paid enough to keep them working and reproducing. Therefore the wages of the least productive workers fall to a bare subsistence.

Because there is no free land, skilled and professional workers also have no alternative way of employing themselves - but: would they go to college or otherwise acquire special knowledge and skill, work harder or more intelligently, if they were not rewarded for their greater productivity? They need not be paid the difference between what they produce and what the least productive workers produce, but just enough to entice their greater productivity. (supply and demand)

<b>AVG. WEALTH EXPECTED</b>	36	32	28	24	20	IDLE	IDLE	IDLE
<b>AVG. WAGE &amp; INTEREST</b>	4	4	4	4	4	IDLE	IDLE	IDLE
<b>POTENTIAL LAND RENT</b>	32	28	24	20	16	12	8	4
<b>All land already owned: No free land</b>								

In the model above, wages of the least productive workers fall to a bare subsistence. Interest falls to a point below which the supply of capital would not meet the demand. The average wages and interest together equal 4 units of wealth --- arbitrarily chosen for the model.

Clearly, the least productive workers do not enjoy the increases in material progress; every increase in productivity inevitably goes to the owners of land, whether it results from specialization and the minute subdivisions of labor; inventions, innovations, and new discoveries; or roads, police and public education.

In the absence of a free land alternative, the owners of capital can either loan their capital, or rent a piece of land to employ their capital on. The rate of interest tends to fall until the diminished incentive to accumulate, maintain, and loan capital would create a shortage. Without the use of capital (machines, buildings, inventories), labor becomes very inefficient. As production falls, the profits of land ownership fall with it --- so, in self-defense, landowners pay what ever rate of interest insures the supply of capital meets the demand for maximum efficiency

Today we think of corporations owning the land and the capital --- buildings, machinery etc. However, many corporations sell bonds and borrow money at fixed interest rates. The owners of corporate bonds and corporate debt are to an extent, the owners of corporate capital. While their risk is comparatively minimal, they do not share in corporate profits, which often include land rent and other monopoly profits.

After subtracting monetary inflation, long-term interest between borrowers and lenders of minimal risk is thought to have been between 3 and 4% for nearly 100 years. (1889 Oklahoma land rush gave free land to labor and capital)

Hoarding land not only drives wages to a bare subsistence, beyond a certain point it causes unemployment. As population increases and the economy expands, more land is needed for production. When too much of land is withheld for speculation, it results in unemployment. You can't produce something out of nothing.

Suppose two people are competing for the last job. Of course they are the least demanded, least productive workers. Let's say that the first worker, on a given piece of land, can produce \$7 per hour and is willing to work for \$3 which is equal to a bare subsistence. Suppose the second worker, who is also willing to work for \$3 or a bare subsistence, can only produce \$6 per hour. In the first case, the landowner gets \$4 per hour; in the 2nd case he only gets \$3 per hour. Worker #1 gets the job! And although worker #2 can

produce twice what he must be paid, he is still categorically unemployable. No matter how much we increase productivity, if we don't make land available for production, we can't increase the number of employable people. The more land is withheld from production, the more people are unemployed.

Production falls as speculation impedes cooperation. So far, our models only accounted for alterations in the distribution of wealth. Imagine what would happen to the productive potential of any area - industrial, commercial, etc., if a fourth or a third of the labor and capital (buildings, machinery, inventory) were to leave. The most valuable areas are those which support the smallest divisions of labor and largest aggregations of capital. In other words, the most valuable areas have the best infrastructure and the densest populations.

The following model represents an extrapolation of aggregate productions. The amount of wealth produced by each unit of labor and capital is taken from previous models. Since the efficiency of each worker is increased as concentrations of labor and capital are increased, the numbers, 36, 32, and so on represent not only the amount produced by each unit of labor and capital, but the number of workers and units of capital necessary in each area to achieve that level of production. The model, therefore, has multiplied each number by itself. Adding each total will give us the whole production of the economy.

<b>AVERAGE AGGREGATE WEALTH EXPECTED</b>	<b>36</b> x36	<b>32</b> x32	<b>28</b> x 28	<b>24</b> x 24	<b>20</b> x20	<b>16</b> x4			
<b>NO LAND WITHHELD</b>	<b>land already owned</b>						<b>free land</b>		

In the next model where one-fourth of the land is held for speculation, only 27 workers and units of capital are able to cooperate on the best land, so by the same principle, each worker will only produce 27 units of wealth on the best land, and so on.

<b>AVERAGE AGGREGATE WEALTH EXPECTED</b>	<b>27</b> x27	<b>24</b> x24	<b>21</b> x 21	<b>18</b> x 18	<b>15</b> x15	<b>12</b> x12	<b>9</b> x9	<b>6</b> x6
<b>¼ OF ALL GRADES WITHHELD</b>	■ ■	■ ■	■ ■	■ ■	■ ■	■ ■	■ ■	■ ■

In the second model the aggregate wealth fell 17%. It fell partly because labor and capital were moved to less productive land; partly because subdivisions of labor and the concentrations of capital were reduced; and partly because 8% of the 144 workers, and the accompanying capital, were unemployed - there wasn't enough land available to employ them all.

- QUIZ:** #1. With no free land, wages of the least skilled and educated workers: tend to equal whatever they do produce (A)( ); tend to a bare subsistence (B)( ).
- #2. With no free land, the higher wages of the skilled workers: are equal the reward necessary to generate the supply of superior workers within each occupation (A)( ); are equal to the more valuable results of their labor (B)( ).
- #3. With no free land, interest will be equal to: that which represents the savings of time (A)( ); an amount below which productivity would fall (B)( ).
- #4. Unemployment results because: not enough land is available for everyone to work on (A)( ); the lack of education and training (B)( ).

Answers on top of previous page.

H  
E  
R  
M  
A  
N



"Sorry, pal. I just bought the planet. I want you and all your buddies off by next Friday."

<p>1950</p>	<p>1987</p>	<p>The median 30-year old male head of a household now earns 10% less (in inflation-adjusted wages) than his father did when he was 30 years old. Not only does today's male earn less than his father did, but today, a 30-year old man must spend 44% of his income to live in a median-priced home, while his father in the 1950s spent only 14% of his wages to pay off his mortgage.</p> <p>The cost of financing a median-priced home has grown from 21% of the average gross earnings of a 30-year old in 1973 to 44% by 1983, pushing homeownership out of reach for many people.</p> <p style="text-align: right;"><i>National Taxpayers Union</i></p>
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