

Henry George School

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Political Economy

This lesson will present past and current explanations for the persistence of poverty and unemployment, and the cyclic intensifications of poverty called recessions/depressions. Then we will review measures currently proposed to alleviate poverty.

*The World is Overpopulated.* This implies that all the land is being used, and used in the most efficient way in every time and place.

According to the United Nations, there are over a billion acres of unused, but potentially productive agricultural land throughout the world, most of it in impoverished countries. The Institute for Food and Development Policy believes that of all the world's arable land less than half is being cropped.

*Poor People are Inefficient Producers.* Before poverty can be attributed to the inefficiency of the workers, it must be ascertained that no portion of the wealth that they produce is taken from them for the private gains of any landowner, which would explain the inefficient ratios of capital. And it must be shown that they applied their labor to the best land that was previously not in use.

Numerous surveys assert that a small minority of the people control the vast majority of the land within every country. Two examples: a United Nations survey of 83 impoverished countries found 3% of the land owners in control of 80% of the land; and a survey published in Harper's magazine, 1979, concluded that approximately 95% of all privately held land in the United States is controlled by about 3% of the population. (About half the total land area is privately owned).

*Recessions / Depressions are Caused by Overproduction.* The overproduction theory: It asserts that commodities have been produced in excess of their demand; that the lack of demand for commodities becomes a lack of demand for the labor and capital to produce them, and therefore causes unemployment. A reduction in the demand for automobiles reduces the demand for auto workers; the unemployed auto workers demand less new clothing; the unemployed garment workers demand less new televisions; the unemployed electronic workers demand less automobiles and a myriad of other products. Through countless reverberations, the overproduction of certain commodities is transformed into a reduction in the demand for labor in general, thus a recession / depression occurs.

Can this theory really explain why people who are willing and able to work cannot produce anything for long periods of time? Take an economy of one: Robinson Crusoe. He produces food, clothing, shelter and transportation. Suppose he becomes enthused with building boats, and before he takes stock, he has completed four vessels, twice the number that he shall currently have any use for. There is an overproduction of boats, when in fact, what he really has use for is more, and better quality, food, clothing and shelter. He will now have to produce the food clothing and shelter that he wants, but Unlike the unemployed auto worker, this man will not be unemployed;

People produce things they do not intend to consume, like automobiles, because, through the process of specialization and exchange, they can get more of the things they do want than by producing them directly. The primary reason the unemployed auto worker, who wants food, clothing and shelter, does not produce the things wanted directly is because there is no affordable access to land on which and from which food, clothing and shelter can be produced.

*Recessions / Depressions are Caused by a Lack of Capital Investment.* This theory hypothesizes that a given amount of capital must be invested before each worker can achieve a profitable level of productivity and be employed. Adherence to this theory explains the government-subsidized loan to Chrysler Corporation. The loaned money would buy new capital and keep the workers employed. Lower interest rates or taxes are often proposed to aid in the accumulation of capital. It is only possible to attribute unemployment to a lack of capital investment if labor and capital have access to the very best quality land within the economy, and no portion of that which is produced is taken by those who do not produce a commensurate value in exchange. This not only applies to the production site, but to the raw materials as well.

## PROPOSED REMEDIES

*Increased Education:* this includes all improvement in knowledge and skill, and simply increases the results of labor. With no free land available, it cannot raise wages.

While our educational standards seem to be falling below that of many other countries, the present generation of high school and college graduates have developed skills and knowledge that were not even in existence when their parents were in school. They are indubitably more productive, and yet they enjoy no higher standard of living than their parents did 30 years ago. When people increase their levels of productivity faster than the average worker, then the increase in productivity will increase the wages of the individual, but not the general level of wages.

*Inventions:* this includes all innovations and new discoveries, all of which increase labor's ability to produce.

With no free land available, they cannot sustain higher wages; the effect of these inventions is only to increase rent. Whether it's typing a letter on a word processor or welding a car together with a computerized robot, new inventions are revolutionizing the way we produce almost everything. Over the last ten years computers have phenomenally increased labor's ability to produce; and yet wages have not significantly increased during that same period.

*Economy in Government:* this includes anything which lowers taxes. As seen in lesson #6, with no free land available, these things only increase rent.

*Minimum Wage Laws:* in effect, the government tells the landowners that they must give the least productive workers more of what they produce than they would be willing to accept in a free market, otherwise no one may be employed on said land.

It does insure a higher standard of living for the least productive workers, and it is on the wages of the least productive workers that the wages of all other workers are based. However, the increased wages are offset to one degree or another by increased housing rents, which are bid up in the process.

*Labor Unions* demand that if workers are not given more of what they produce, not only will they not produce anything, but they will not let anyone else produce anything either. If nothing is produced, the landowner enjoys no rent.

While labor unions have actually increased wages, their power to do so seems quite limited. Their success depends upon their ability to sustain themselves while they are refusing to work, which produces nothing for the landowners or themselves. Who is in a better position to do without? Their success also depends upon their ability to keep other workers from taking their jobs. These workers, who certainly have equal rights to work, may be more desperate than themselves.

*Social Security*, paid partially by the worker and partially by the employer, is, for those at the bottom, like an extension of minimum wage laws --- a greater remuneration is required for work being done. The worker's portion is also mandatory, so the Minimum Wage after the Social Security deduction, must be sufficient to meet the workers basic needs. Social Security has clearly enhanced the lives of elderly workers, but it has done so as an extension of the Minimum Wage.

*Welfare* has alleviated enormous suffering. Perhaps it has given an alternative to the choice between working for subsistence or starving to death. Unfortunately, neither it or anything else has prevented an increasing need for the alleviation of poverty. And where it has been widely available, it has to an equal extent diminished the incentive to produce.

### QUIZ:

1. Would the general level of wages rise if everyone increased their level of education? (yes)(); (no)()
2. If the Gross National Product doubled, would wages sustain an increase? (yes)(); (no)()
3. If Social Security withholdings were eliminated, as has been proposed, would net paychecks increase commensurately and sustain the gains? (yes)(); (no)()

Answers on top of previous page.