

ext: Progress and Poverty, Published in 1880

Key Question: Why, in spite of progress, does poverty persist?

The association of progress with poverty is the great enigma of our times. It is the central fact from which spring the industrial, social and political difficulties that confront the world.

Economic Axioms (self-evident truths)

- People seek to satisfy their desires with the least exertion.
- Human desires are unlimited.

Political Economy

Political economy is the science that examines the nature of wealth and the natural laws governing the production and distribution of wealth.

Political economy is the explanation of a certain set of facts. It is the science which, in the sequence of certain phenomena, seeks to trace mutual relations and to identify cause and effect, just as the physical sciences seek to do so in other sets of phenomena.

Wealth

- Any material thing
- Produced by labor
- Which satisfies human desires
- Having an exchange value

Production

All the processes involved in making wealth and bringing it from its place of origin to the ultimate consumer.

Distribution

The division of wealth among the factors that produce it.

Factors of Production (inputs used to produce goods and services)

Land

The entire material universe, excluding people and their products.

Labor

All human exertion, mental and physical, in production.

Note: The demand for consumption determines the direction in which labor will be expended in production. [P&P P77]

Capital

Wealth that is used to produce more wealth, or wealth in the course of exchange.

Note: All capital is wealth, but not all wealth is capital. [P&P P42]

Avenues of Distribution

Rent

That part of wealth which is the return for the use of land.

Wages

That part of wealth which is the return to labor.

Note: Production is always the mother of wages. Labor always precedes wages. [P&P P57]

Interest

That part of wealth which is the return for the use of capital, excluding compensation for risk.

Summary

Factor of Production	Definition	Laws of Distribution	Ave of Distribution	Definition
Land	The entire material universe, excluding people and their products.		Rent	That part of wealth which is the return for the use of land.
Labor	All human exertion, mental and physical, in production.		Wages	That part of wealth which is the return to labor.
Capital	Wealth that is used to produce more wealth, or wealth in the course of exchange.		Interest	That part of wealth which is the return for the use of capital, excluding compensation for risk.

Malthusian Theory

The doctrine that poverty is due to the pressure of population against subsistence, or, to put it in its other form, the doctrine that the tendency to increase in the number of laborers must always tend to reduce wages to the minimum which laborers can reproduce. [P&P P101]

"I assert that the new mouths which an increasing population brings into existence require no more food than the old ones, while the hands they bring with them can in the natural order of things produce more." [P&P P141]

Let labor again exert itself, and wealth will almost immediately reappear. [P&P P148]

Even if the increase in population does reduce the power of the natural factor of wealth (land), by compelling a resort to poorer soils, etc., it yet so vastly increases the power of the human factor as more than to compensate. [P&P P149]

The Laws of Distribution

The laws of distribution are the laws of the division of wealth among the factors that produce it.

The laws of distribution are the natural laws which determine what proportion of wealth produced is the return to each factors or production, namely land, labor and capital.

The laws of distribution must account for the distribution of the entire product.

Law of Rent

The rent of land is determined by the excess of its produce over that which the same application of labor and capital can secure from the least productive land in use.

The margin of production is the least productive land in use, or the best land to be had for nothing.

Rent, in short, is the share of the wealth produced which is the exclusive right the use of natural capabilities gives to the owner. Whenever land has an exchange value there is rent in the economic meaning of the term. Whenever land having a value is used, either by the owner or a hirer, there is rent actual; wherever land is not used, but still has a value, there is rent potential. Until its ownership will confer some advantage, land has no value. [P&P P166]

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Wages

"People seek to satisfy their desires with the least exertion" sets the stage for the labor market.

Differences between wages:

- Agreeable / disagreeable
- Expense of learning the skill or profession
- Security of employment
- Trust
- Probability of success
- Cost of living
- Age / race / gender / legal status

Capital

Does labor employ capital or does capital employ labor?

Capital increases the power of labor to produce wealth by:

- 1 Enabling labor to apply itself in more effective ways.
- 2 Enabling labor to avail itself of the reproductive forces of nature.
- 3 Permitting the division of labor.

[P&P P80]

The amount of capital used in an economy is variable. Capital is increased by being produced. Capital is decreased by being used up, destroyed, or becoming obsolete.

Maximum rate of interest: increase capital will bring

Minimum rate of interest: replacement of the capital

Labor and capital are different forms of the same thing – human exertion.

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Labor	All human exertion, mental and physical, in production.	Wages depend on the margin of production: the most productive land available without the payment of rent.	Wages	That part of wealth which is the return to labor.
Capital	Wealth that is used to produce more wealth, or wealth in the course of exchange.	The return to capital depends upon the increase of capital at the margin of production.	Interest	That part of wealth which is the return for the use of capital, excluding compensation for risk.

Opportunity Cost

The monetary sacrifice when a factor of production is not used in its most profitable activity.

Risk

Variability about income, returns, or other financial variable.

Productivity

Productivity: increased output for a given set of inputs

Changes contributing to material progress:

- Increase in population, allowing division of labor
- Improvements in the arts of production and exchange, allowing increased productivity
- Social development – education, regulation

Every labor-saving invention has a tendency to increase wealth.

“Wealth in all its forms being the product of labor applied to land or the products of land, any increase in the power of labor, the demand for wealth being unsatisfied, will be utilized in procuring more wealth, and thus increase the demand for land.”

[P&P P249]

Depressions and Recessions

A recession / depression is failure of production to increase proportionately to the growth of the community. A slowdown of demand for products and services results in a decrease in hours worked and employment.

Three conditions that contribute to restoring production after a period of recession / depression:

- Falling land values (lower prices of natural resources).
- New inventions, increased population, and increased productive capacity.
- The willingness of labor and capital to accept smaller returns.

The Remedy

To raise wages, increase the earnings of capital, give employment to whoever wishes it:

- 1 Appropriate rent by taxation.
- 2 Abolish all taxation save that upon land values.

"if the remedy ... is the true one, it must be ..."

- just
- practicable
- in accord with social development

What is the moral basis of ownership, i.e. private property?

"real estate" = land + "improvements"

Older traditional views of land holding (e.g. Native Americans)

The commons were traditionally defined as the elements of the environment - forests, atmosphere, rivers, fisheries or grazing land - that are shared, used and enjoyed by all.

(e.g. Mongolian grassland management, lobster fishery of Maine) [wikipedia]

Henry George advocates that we expand the commons to everything given by nature.

Superior claim of the people to the land

eminent domain - the right of a government to appropriate private property for public use, usually with compensation to the owner

Different ways of dividing the wealth pie between private and public income:

- left-wing
- right-wing
- middle-of-the-road
- Georgist

APPLICATION OF THE REMEDY

1 - best use of land

requires security for the improvements
do people really need to own land?

2 - simplest way to establish equal rights to nature's gifts

3 - comparing how well various taxes score on Adam Smith's 4 canons of taxation
(canon - a principle or criterion by which something is judged)

4 - LVT endorsements and objections

LVT - land value taxation

[P&P P 395-429]

Adam Smith's Canons of Taxation

The best tax by which public revenue can be raised is evidently that which will closest conform to the following conditions:

- 1 That it bear as lightly as possible upon production - so as to least check the general fund from which taxes must be paid and the community maintained.
- 2 That it be easily and cheaply collected, and fall as directly as it may upon the ultimate payers - so as to take from the people as little as possible in addition to what it yields to the government
- 3 That it be certain - so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of the taxpayers.
- 4 That it be equal - so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

- 1 light on production
- 2 easily collected
- 3 certain
- 4 equitable

[P&P P 408]

- 1 Ricardo: "A tax on rent would ... fall wholly on landlords, and could not be shifted to any class of consumers," for it "would leave unaltered the difference between the produce obtained from the least productive land in cultivation and that obtained from land of every other quality."

The Law of Human Progress

The mental power which can be devoted to progress is only what is left after what is required for non-progressive purposes.

[P&P P507]

Association is the first essential of progress. Improvement becomes possible as men come together in peaceful association, and the wider and closer the association the greater the possibilities for improvement. And as the wasteful expenditure of mental power in conflict becomes greater or less as the moral law which accords to each an equality of rights is ignored or is recognized, equality (justice) is the second essential of progress.

Thus association in equality is the law of progress.

[P&P P508]

This tendency to resist innovation, even though it is improvement, is observable in every social organization - in religion, in law, in medicine, in science, in trade guilds, and it becomes intense, just as the organization is close.

[P&P P519]