

A STEP FORWARD WITH GEORGE

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In Book IV, Chapter 2 of Progress and Poverty, Henry George discusses cities and the effect of increased population: "The town has grown into a city... Here, in short, is a center of human life, in all its varied manifestations." He then goes on to write: "So enormous are the advantages which this land now offers for the application of labor, that instead of one man with a span of horses scratching over acres, you may count in places thousands of workers to the acre, working tier on tier... eight stories from the ground, while underneath the surface of the earth engines are throbbing with pulsations that exert the force of thousands of horses."

Henry George is clearly indicating that the greater the advantages of a site (i.e., its rent worth) then the greater is the amount of labor and capital that will normally be applied in order to achieve the satisfactions which yield rent. Obviously George had taken a step forward in his thinking from when he quoted Ricardo's "law" which suggests that rent is determined on a basis of the same amount of labor being applied to all sites. We should step forward with George, and cease drawing a horizontal "rent line" in diagrams which suggest that capital and labor are the same on all sites when we are seeking to explain the theory of rent. This basic assumption of the "same application" is as silly as Keynes' assumption in regard to the "propensity to consume" and to "savings are never spent or lent."

But George's final proposals do not rely at all on Ricardo's "law." It seems highly unlikely that George ever drew a diagram with a horizontal rent line. Perhaps our earnest historians can discover when these erroneous diagrams were first introduced. Why is it assumed that there is the same application of labor and capital, when it is obviously not true?

COMMENT BY R.C. The first diagrams illustrating the law of rent were developed by Louis F. Post as early as 1894. This was during Henry George's lifetime, and Post worked closely with George.

Though rent-line diagrams do not appear in Progress and Poverty, there is a basis for them in the book, e.g., Book IV, Chapter 3, where George says: "Let the margin of cultivation, or production, be represented by 20. Thus land or other natural opportunities which, from the application of labor and capital, will yield a return of 20 which will just give the ordinary rate of wages and interest, without yielding any rent; while all lands yielding to equal applications of labor and capital more than 20 will yield the excess as rent."

For the sake of simplicity, in explaining the law of rent, Ricardo's "equal applicaeion" is used, since he was talking just about agricultural land. George broadened the law to all lands; it won't be the "same application" per person on urban land as on farm land, but an equivalent application in terms of exchange value. Urban activities call for more intensive use of land and thus more labor and capital are applied to a given area of land - but the total production will still yield more rent per capita than the same labor and capital applied to inferior lands. One person using an office will pay more rent in a big city than the same office in a small town. The same principle holds no matter how many people you're talking about.

The rent diagrams can be broadened to show the effects of adding more units of labor and capital to a given area of land. In fact, one of the editions of the course based on Progress and Poverty did have such a diagram, but it was found to be too much for beginning students who were still struggling with basic concepts. It could well be revived for an advanced course.

Henry George universalized Ricardo's law of rent, and it certainly is relevant to his "final proposals!"