

# The Limitations of "Poleco"

By STEVEN CORD

CAN the principles of political economy be applied without reservation to the real world about us? Many students of George say yes.

Perhaps there is something they are overlooking. By definition "poleco" [to use the term originated by Phil Grant in *The Wonderful Wealth Machine*] deals only with the natural laws, *free competition is always to be assumed*. This condition is frequently stipulated in *Progress and Poverty*. This means that the basic poleco analysis completely disregards the man-made influences of monopolies, taxation, government controls and deficit financing. The analysis is 100 per cent correct within its limitations, but today's economy is a far cry from the free economy assumed by the poleco-ist.

Our economy is permeated with monopoly conditions, taxation taking at least 30 per cent of the national income. Deficit financing is an important factor in business cycle considerations.

A thorough understanding of poleco is absolutely necessary to an economist who wishes to analyze the distribution of wealth. First he must know what the natural distribution of wealth is, and then he can evaluate the effects of the aforementioned man-made influences.

As an example of this, let us consider the effects of monopolies and taxation on the natural distribution of wealth: Taxes and monopoly income take from the producers what the landowner would otherwise take as contract rent. Hence, they reduce the share of wealth production going to contract land-rent.

The poleco-ist does not hesitate to indicate his antagonism to monopolies, but he does not (by definition he cannot) include the effects of monopolies in his analysis of the distribution of wealth.

Government controls are not so important in this country, but undoubtedly rent controls reduce contract rent. Though they do this in the wrong manner and with harmful long-run effects, they nevertheless keep contract land-rent down.

The economic effects of deficit financing have been almost completely ignored by the poleco-ist school of Georgists, despite its enormous influence today. "Poleco deals only with wealth and money is not wealth"—this may be true, but you just can't define economic phenomena out of existence.

It is not my intention to go into the subject of deficit financing in detail in this particular article, but I would like to put this question to the reader: in a depression we have idle capacity and unemployed labor; at such a time, might not government-created new money employ them without raising prices?

If newly printed money is given to labor and capital only, is not the distribution of wealth affected?

In relation to all this, two points need mentioning: (1) when full employment is reached, certainly increasing the money supply will result in inflated prices, (2) the political dangers of deficit financing must be strongly emphasized.

## The Semantic Limitations

That the assumption of free competition does not hold for the real world and that the analy-

sis is true in the real world only insofar as free competition exists—all this should be obvious. But perhaps there are semantic reasons as to why this is not so readily realized by some poleco-ists.

Language can limit our thinking. Let's examine two crucial poleco definitions—rent and wages.

Rent is defined as wealth which is paid for the use of land. There is nothing wrong with this definition, it is simple and realistic. But many poleco-ists use another definition which in any other condition but the free economy (i.e., the real world) is entirely different from the above definition.

This definition is that rent is the difference in production between good land and marginal land, with the same application of labor and capital. This is supposed to correspond to the Law of Rent. In fact it does not. This law states that the rent of land is determined by the excess of its produce over that which the same applicaton *can secure* from the least productive land in use.

Can secure! If monopolists and the tax collectors take a share of production, then the excess of the produce which the producers can secure (and after all, they're the ones who pay the rent) decreases. In a socialist economy, where the government could take all the excess, there would be no advantage to producing on good land rather than marginal land, so rent would be zero. We have not reached this extreme in our present semi-socialist economy, but obviously the part played by taxation and monopoly depredation in reducing rent cannot be ignored.

This poleco-ist definition of rent is more specifically referred to as *economic rent* (i.e., rent of land *if* the economy were free). This should not be confused with that which is paid for the use of land, or contract rent, which approaches economic rent only in a free economy.

Let's consider wages. The poleco-ist definition hold that wages are the return to labor, or all human exertion in the production of wealth. Now a definition is nothing but a tool, like a saw to a carpenter. But if the carpenter's saw is faulty the quality of his work is limited. Similarly, this definition of wages is faulty because it limits the user to a consideration of the free economy, and not of reality.

A steelworker may get \$62.50 a week. He, and everyone else, refers to this as his wages. Does the poleco-ist agree? No! For the steel union obtained a forced increase in his wages by threat of strike; according to the poleco-ist definition this increase has been obtained by force and not by wealth production, and therefore it is not a result of labor and cannot be considered as part of the steelworker's wages.

It is the privilege of the poleco-ist to define words as he pleases, but a good defintior. should agree as much as possible with common usage and reality. What the poleco-ist is talking about is *economic wages*, or the return to labor *assuming* free competition. The little word "if" cannot be disregarded!

In saying this, I am referring only to the poleco-ist's economic *analysis*, and of course not to his remedy—the single tax—which remedy I wholeheartedly support.