

I shall try in this work to put in clear and systematic form the main principles of political economy. ...The place I would take is not that of a teacher, who states what is to be believed, but rather that of a guide, who points out what by looking is to be seen. So far from asking the reader blindly to follow me, I would urge him to accept no statement that he himself can doubt, and to adopt no conclusion untested by his own reason. [Henry George]<sup>125</sup>

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## CHAPTER 5

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### ***FUNDAMENTALS AND FIRST PRINCIPLES***

In the first chapter, I asked you to think of a circle graph as visually descriptive of the storehouse of material *wealth* existing at any given moment in time. Some attention has subsequently been given to the socio-political arrangements that encourage or thwart the production of wealth, as well as how wealth comes to be distributed to various individuals or groups within and between societies. Another important assertion I have asked you to accept is that although nature is the *source* of our material wealth, any claim by some individuals or groups to ownership or control over nature inherently diminishes the access of others to nature (and, hence, the opportunity to apply one's labor to nature to produce wealth). While this may not always be the case in an

absolute sense—as when population is very low and the resources provided by nature are relatively abundant—history reveals that over time very real struggles for survival have emerged between those who have successfully monopolized nature for some period of time and those who have been denied access. The story of the world's early empire-builders provides considerable evidence for this conclusion.

We have also seen that *cooperation*, the primary strength of the hunter-gatherer tribal society, experiences a striking deterioration once subjected to fixed settlement and a hierarchically-directed division of labor, with those gaining and holding power by coercive means engaged in a systematic theft of wealth from producers. In effect, throughout history those in power have manipulated the law and directed the police powers of the State to impose what is often a severe and extreme redistribution of wealth from producers to non-producers. Certainly, the extractions of empire-builders have been far greater than what producers would be willing to freely exchange for the administrative and protection services the warrior-protector groups (and their successors, the landed barons, the monarchs, the military-dictators and the oligarchies) were originally obligated to provide under feudal-like arrangements.

The political economist examines this body of historical information for tendencies that are repetitive and seem to suggest the existence of laws governing human behavior in the same way the physicist searches for the laws governing the material universe. Inquisitive minds search for the reasons why societies tend to rise in dominance over others but eventually fall. What, they ask, are the seeds of this destruction? And, can behavior be modified to prevent the collapses that have characterized every society formed by human beings.

Merely by investigating these questions, the political economists enhance the potential for survival of our species. And, if any truth is self-evident, it is that our survival requires, first, an understanding of the moral principles of what constitutes the just society, and, second, the systematic inculcation of these principles by the general population.

Therein lies the promise of political economy as a science of human behavior and of the socio-political institutions we create. As to the appropriate method of investigation, I recommend that adopted by Henry George as the key to such a synthesis of contemplation and observation.<sup>126</sup>

Nothing is more important to political economy than the identification of first principles, and those principles so formulated must stand rigorous tests for consistency of operation in the real world, independent of time and space. In the study of human behavior, we are provided by Henry George with just such a principle; which is, that we seek to satisfy our desires with the least exertion. Our behavior over time and across space demonstrates our consistently strong desire to ensure our own survival; and, in order to survive we pursue whatever opportunities are provided to us to prosper (prosper, that is, in a combined physical, psychological and material sense of well-being). Often, individuals will set aside or act in direct contradiction to generally accepted moral and ethical standards if we perceive some personal advantage can be gained. We may or may not attempt to justify our actions by invoking pseudo-principles (i.e., of *situational ethics*), the most practiced of which is *the ends justifies the means*. What is certainly true, however, is that survival and prosperity require considerable access (directly or indirectly) to nature and its elements. How such access is distributed under a society's socio-political arrangements is a bench mark of the highest importance to the political economist interested in ascertaining the degree to which moral principles have been introduced and made secure.

**DEPENDENCIES: NATURE, the UNIVERSE,  
the EARTH, LAND and PEOPLE**

Is it not obvious that we are both a part of and dependent upon nature for our survival? Our physical bodies are comprised of the same

chemical elements present in all of the widely diverse forms of life on earth. Yet we have come to possess unique, species-specific characteristics so that we are the only known creature possessing the capacities for self-contemplation, reason and sustained comprehension of abstract knowledge. In short, we stand high above all other known animals in the acquiring and utilization of information in order to function in and alter our physical environment. Despite our intellectual superiority, however, we must not take our fortunate circumstance for granted. Natural conditions, after all, only recently evolved to a stage where our emergence and survival became possible. Many of us are now concerned that we have not only destructively taken advantage of nature and its resources but have altered nature in ways that, on the one hand, satisfy immediate desires while, on the other, threaten our very existence.

The dependency relationship between ourselves and the rest of nature remains decidedly one-sided, enormous though our power to manipulate nature has become. Almost the entire universe remains pristine, untouched by our activities. At the same time, our destiny is linked absolutely to the relative changelessness of the universe, while our actions are constrained by the physical laws within which the universe operates. Our presence or disappearance from the universe is of no real consequence to the functioning of nature beyond our own planet; and yet, our innate moral sense tells us that we have an obligation to act in a manner that preserves the life-giving character of this planet. Although we live in the shadow of the forces of nature, in the short run that portion of nature on which we are most directly dependent must be treated as a sacred trust. Whether or not this trust has been handed to us by a higher intelligence in the universe is a matter of faith; that we must not ignore this trust if we are to survive is a matter of fact.

History is, in many respects, fundamentally a description of how individuals and groups have interacted in pursuit of access to and

control over nature—improving their own chances for survival, almost always at the expense of others whose moral claim to equal access is conveniently ignored or reasoned away. Hence, the Greek and Roman empire-builders categorized foreigners and outsiders as *barbarians*, uncivilized and not worthy of consideration as equals. This attitude continues, reflected in the treatment of minorities within societies and the claim by some that poverty is a condition caused by inferiority of individual merit rather than by structural injustice in a society's socio-political arrangements and institutions.

### Land: The First Factor

Political economists, examining the dynamics of relationships for repetitive tendencies and in search of governing principles, came to describe all of nature—the surface lands, the seas, the plant and animal life, mineral resources—by one term, *land*. The Romans of antiquity described their large, landed estates as *latifundia* and the earth's dry surface as *terra firma*; although much of Latin survives in the vocabulary of science, the origins of the term *land* are Germanic. More importantly, the Feudalistic arrangements of Germanic Europe cemented a direct dependency on the productivity of very limited geo-political territories and provided the historical background for investigation of land tenure systems by the earliest political economists. In the process, the usage of the term *land* came to describe everything that is encompassed within nature, with two important exceptions. As nature is the factor acted upon by individuals in order to produce wealth, the term *land* had to exclude us, even though we are as much a part of nature as any other animal. Additionally, as already asserted, we make use of nature in ways no other animal does. The political economist, therefore, came to use the term *land* to mean *the entire material universe outside of ourselves and those things we produce by our*

*labors*. Referring to land and people as *factors of production*, land is the original factor of production, the source of all that we produce and consume.

### What People Do

To most modern observers, reason and only a modest understanding of the principles of physical science are necessary to conclude that the universe operates independent of human intervention. Should we become extinct as a species, life on earth for most species of plants and animals would go on undisturbed and in many cases with improved chances for their own survival. We, on the other hand, could not survive one second outside the influence of the earth (or an artificially created earthly environment). Within this physical environment, however, we have become a manipulator of nature—a *producer*. What we produce from nature (i.e., from *land*) is sometimes merely ornamental, often pleasure-giving but most commonly crucial in our daily struggle to sustain ourselves. Much of what we produce, subjected to certain specific criteria, has long been described by political economists as *wages*, a primary category of material *wealth*.

The production and accumulation of material things in general became more and more important to ancient people as they ceased to wander. At the simplest level of accumulation one would include the acts of killing animals or gathering wild plants as food for consumption, the animals and plants being part of *land* as provided to us by nature. The earliest hunters stalked their prey with nothing more than bare hands to make the kill, succeeded, and ate the catch. In this primary relationship between the hunter and nature, the hunter has applied his skills to land, producing food for consumption. In time, the word *labor* would enter the vocabulary of the political economist to

describe any human effort—mental and physical—that contributes to the production of wealth (i.e., the hunter's *wages*) from land.

Specialization and technological advancements have distanced the labor of most people from direct application to land—distanced, but not removed, although many economists and other social scientists have failed to appreciate this fact (causing them to reach very erroneous conclusions about the way the world works and to offer ill-fated solutions to societal problems as public policy).

### Wealth in Political Economy

As individuals we are apt to think of wealth in very personal terms. Our homes and the furnishings we own are personal assets we generally consider to be part of our wealth, as well as our automobiles, paper currency (i.e., legal tender), stocks and bonds or other real estate. Many, but not necessarily all of these tangible assets, would command something in exchange should we decide to sell them. We also consider certain intangibles as part of our personal wealth; in particular, our health, our physical strength and mental capacity.

Our success in *leasing* ourselves to others in an economic relationship has much to do with the uniqueness and demand by others for what we as individuals have to offer. The characteristics unique to each of us comprises our strengths and our weaknesses as measured against one another. Our potential productivity is closely tied to what we know and what we can do. In the study of political economy, these personal traits are not counted in the *aggregate wealth* produced by a society and do not contribute to the size of the circle graph I suggest be used to represent our storehouse of material wealth existing at any point in time. While such attributes certainly contribute to our ability to produce wealth, they are not themselves items of material wealth. In order to scientifically explore human behavior and institutions, the

political economist must, then, distinguish between what individuals think of as personal wealth and the material things produced from the first factor of production—*land*—that also meet specific additional tests.

First of all, the attention of the political economist must be focused on the circumstances by which wealth is produced; namely, the socio-political arrangements and natural factors that encourage or thwart the ability of the individual to access *land* and apply *labor*, thereby yielding production of some material goods. Direct production of goods from land is a primary function, without which the aggregate wealth of a society cannot increase. Whether that which is produced ought to be considered by the political economist as wealth depends on whether the good has exchange value in the marketplace. The exchange value of any good, in turn, depends on many variables; most particularly, the utility or pleasure value as perceived by others and (for goods that are generally essential to survival) the equilibrium relationship between supply and demand.

The haphazard and inconsistent use of the term *wealth* by political economists in his own day was identified by Henry George as one of the major reasons why political economy lost much of its credibility and was displaced by economics and other specialized social sciences. I have updated George's observations somewhat in the passage below; however, the heart of his insights remain, I trust:

As commonly used the word "wealth" is applied to anything having an exchange value. But when used as a term of political economy it must be restricted to a much more definite meaning, because many things are commonly spoken of as wealth which from a societal standpoint cannot be considered as wealth at all. Such goods or items may have an exchange value and often enable the holder to obtain wealth, but they are not truly wealth, inasmuch as their increase or decrease does not affect the sum of material wealth. Such are bonds, mortgages, promissory notes, bank bills, or other stipulations for the transfer of wealth. Such are slaves, whose value represents



merely the coercive power of one class to appropriate the production (i.e., the *wages*) of another class. Such are deeds to locations in towns and cities or to natural resource-laden lands, or other natural opportunities (e.g., the control over rights of way or the radio and television broadcast spectrum), the exchange value of which is based on the fact that certain persons have acquired exclusive control which, in turn, enables the holders of deeds and certain forms of licenses to demand a share of the wealth produced by others without having to invest their own labor.

Thus wealth...consists of natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion, so as to fit them for the gratification of human desires.<sup>127</sup>

Summarized into four concise characteristics, wealth must: (i) have a physical presence and be comprised of material substances; (ii) be exchangeable for other things or for the services of other people; (iii) be produced from land, directly or indirectly (i.e., with the aid of *capital* goods), by our labor; and (iv) satisfy some individual desire or desires. All four of these characteristics must be met for a good to add to the aggregate storehouse of *wealth* available for use by a society.

Even without a detailed examination of history, reason directs us to recognize the relationship between what Jacob Bronowski describes as *the ascent of man* and a corresponding increase in the quantity and quality of this storehouse of wealth at our disposal. During the earliest period of our presence on earth, virtually everything produced was consumed directly by its producer and an immediate family group; exchange awaited the formation of larger groups, the beginning stages of specialization and the division of labor. The killing of animals also resulted in immediate or almost immediate consumption; when the domestication of animals appeared, the idea of *saving* versus immediate consumption was added to the dynamics of these still largely cooperative-based societies.

What accelerated our ascent were several discoveries, each of which unlocked knowledge extremely valuable in the struggle for survival.

These discoveries involved the use of tools, fire and methods of storing foodstuffs over long periods of time. Acquired knowledge in these areas provided the earliest people with behavior options. Larger quantities of food could be obtained at one time and stored for later processing and consumption. Tools facilitated the modification of the natural environment for shelter and the use of animal skins for protection and warmth. Fire also provided protection, warmth and served a host of technological advances in travel, communication, food preparation and the construction of tools and weapons. These innovations became critical for human survival in the face of a long period of environmental hostility. "*Man survived the fierce test of the Ice Ages because,*" writes Jacob Bronowski, continuing:

[H]e had the flexibility of mind to recognize inventions and to turn them into community property. Evidently the Ice Ages worked a profound change in the way man could live. They forced him to depend less on plants and more on animals. The rigours of hunting on the edge of the ice also changed the strategy of hunting. It became less attractive to stalk single animals, however large. The better alternative was to follow herds and not to lose them—to learn to anticipate and in the end to adopt their habits, including their wandering migrations.<sup>128</sup>

Some 35,000 years ago, Cro-Magnon humans, our direct ancestors, occupied many areas of western and central Europe and may have already reached Asia and Africa. These people reached the Americas at some point—perhaps as long ago as 15,000 or 20,000 years. By this time, the Cro-Magnons had already become skilled and deadly hunters; and, as in our own time, the hunters paid little attention to the preservation of other animal species for the future. By about 50,000 years ago, nearly a third of all large game animals had been hunted into extinction. Based on the diminishing availability of game animals (particularly in the face of a rising human population), one could reasonably predict the transition from a migratory, hunting and

gathering way of life to that of a settled, agriculturally-centered lifestyle. This transition occurred over at least several thousand years. More and more, the successful hunt required that smaller groups travel greater and greater distances in different directions. Some hunter-led groups turned their attentions to the large herds of grazing animals, eventually shifting their activities from actual hunting to domestication of these animals. In the northern latitudes, hunting groups turned to the reindeer as the primary source of sustenance.

As the last Ice Age ended and the glaciers gave way to new forests and seas, many human groups shifted their hunting activities to the waters and to fishing. In those climates closer to the equator, the presence of wild cereals provided the seeds for cultivation and the beginnings of agriculture. In all of these changing environments, people were learning to store that which human *labor* produced from *land* and learning as well how to fashion ever more effective tools and weapons. Thus, wealth took on a new and more long-term purpose than that of sustaining immediate survival; it began to be used to improve the efficiency of acquiring and producing ever more wealth. The political economists identified wealth utilized in this special way as *capital*. To further clarify the use of wealth in the manner and to distinguish such use from the modern and general use of the term capital to include financial reserves, I will endeavor to refer with some consistency to wealth used in the production of additional wealth as *capital goods*. I hope the reader will agree that this is a distinction that will, as the discussion proceeds, contribute to a better grasp of the dynamics associated with the production and distribution of wealth (*distribution* being a subject treated extensively by political economists and which has a critical meaning in the discovery of first principles).



## PRODUCTION AND DISTRIBUTION: A CLOSED SYSTEM

Political economy begins with the investigation of the laws by which these three *factors of production*—*land, labor and capital goods*—operate to increase the world's storehouse of wealth. Whatever laws are found to exist must operate within the constraints of our natural environment, and are influenced by *externalities* associated with the creation of our socio-political arrangements and institutions. Neither environment—natural nor socio-political, allows for perfect predictability. While the physical universe beyond everyday existence operates with incredible consistency, this consistency includes a wide range of earthly cataclysms that are generally predictable but not absolutely predictable as to time and place. A disturbing result is that such events continue to bring human lives to an untimely end. Although the socio-political arrangements and institutions that direct our behavior are ostensibly subject to change in response to our recognition that change is warranted, we have demonstrated a very unfortunate but strongly evident attraction to self-destruction. Our actions and inactions significantly outdistance the worst our natural environment has asked us to endure. A thorough understanding of our natural environment is certainly essential to our long-term survival and prosperity; of more immediate concern, however, is that we come to understand the operation of our socio-political environment. The earth has survived at least several billions of years, nurtured by its special place in just the right distance from the glowing star at the center of the earth's solar system. With the exception of a cosmic collision with a large asteroid, only our own behavior threatens life on this planet over the long planetary history that remains to the earth.

Henry George, more than any other political economist of his time or before, sensed that certainty was obtainable because the laws governing the interaction of the three factors of production represent a *closed system*. Wealth is produced directly when human labor is applied

to land, and indirectly when wealth used as capital goods is added to the production process. This idea that fundamental laws operate whether the organization of a society is highly participatory or autocratically directed, primitive in its storehouse of capital goods or complex, is central to the reliance on political economy as a scientific mode of investigation. For this reason, Henry George devoted a great deal of energy to the investigation and detailing of these laws.

Land, limited by definition to the material universe in its natural condition and excepting us and what we produce, is the only source from which wealth can be derived. The needs and desires of individuals, influenced by the socio-political constraints under which we live, determine the exchange value of different forms of material wealth. And yet, the value of some specific items of wealth will vary a great deal from individual to individual based on personal needs and desires. For most items that have a broad appeal, the market (when operating under a reasonable degree of competitiveness) will yield an equilibrium price range that satisfies both the producer and consumer, subject to movement during temporary periods of surplus or shortage.

Labor is, again, all human exertion involved in the changing of land into things of material wealth. For greater ease in analysis, we can group certain forms of labor into *primary*, *secondary* and even *tertiary* activities, insofar as they contribute to the production of wealth. Primary activities are those closest to the extraction of resources from land—such as mining, agriculture, fishing and forestry. Secondary activities convert or refine raw materials and resources into basic materials for use in manufacturing and assembly. Thus, the more distant tertiary activities would include the manufacturing, packaging, transportation, merchandising and selling of finished goods.

Notice that the distinctions made do not focus on whether labor is mostly mental or mostly physical; all labor in some meaningful sense demands the application of mental and physical effort. This runs counter to much of the conventional treatment by economists of

managerial or entrepreneurial abilities as a factor of production separate and distinct from labor. The primary reason for rejecting such a division of human labor into two separate factors is, I suggest, moral, even though the practical difficulties are also rather significant. To do so suggests a difference in kind between members of our species rather than of degree, creating a serious contradiction if one is to operate under the assertion that all persons are entitled to the same societal protections and that the behavior of all persons is subject to restriction based on an understanding of universal moral principles.

The division of categories of labor based on relationship to wealth production also presents certain problems of specificity. A degree of subjectivity will undoubtedly appear in any detailed categorization. Nevertheless, the widespread existence of all three types of activities within a society generally indicates a highly developed industrial and service economy. Comparing societies by the number and/or percentage of productive workers employed in these arenas tends to reveal a good deal of information about the organization of that society. Long-term success at producing large quantities of many different forms of wealth also suggests to the political economist the existence of a healthy balance between the forces of cooperation and competition. Another important indicator of long-run success is the distribution of the wealth among all citizens. The less concentrated is the control over wealth (either by the State or by individuals or groups), the more likely it is that the system and collection of laws of the State are in relative harmony with moral principles (i.e., are just). Just laws tend to ensure that individuals are free to use their labor and capital goods to produce, acquiring their wealth from production and not privilege or coercion.

*Capital goods* include such items of wealth as machinery, tools, factory buildings, trucks, transport jets, irrigation systems, microprocessors, domesticated cattle, tree farms and any material item that is not directly consumed but is utilized to expand the storehouse of wealth. Capital goods are abundant and sophisticated in some societies,

scarce and crude in others. Also, a too-often overlooked characteristic of capital goods—and wealth in general—is that it suffers from a continuous process of depreciating functional utility. This depreciation in use value is normally accompanied by a decline in exchange value. Things we produce will simply wear out whether we make use of them or not, and often wear out faster with disuse than with use. In fact, maintaining the utility of most forms of capital goods requires constant infusion of additional labor and newly-produced wealth. As we make use of capital goods, many component parts deteriorate and must be replaced; eventually, most tools and machinery become too worn out to be repaired and must be replaced altogether.

### **From The Beginning: All Land And No Wealth**

When we were few in number and our technologies only crudely developed, the amount of wealth produced above our immediate needs for consumption was inconsequential. The size of a circle graph depicting the storehouse of total wealth would be extremely small, perhaps nearly disappearing each and every day as a result of consumption and loss (i.e., through spoilage and other causes). With our improved understanding of the physical laws of nature and learned methods of producing of wealth for use as capital goods, the overall stock of wealth not only expanded absolutely but began to dramatically change in composition. A great deal of wealth was still being consumed and lost; however, an even greater quantity was being produced, saved and/or utilized in the production of ever more wealth. The size of the circle graph began to grow and remain enlarged.

Because of the unfortunate tendency of capital goods to depreciate in utility, a growing proportion of our labor has over time been directed to the preservation of existing capital goods. These efforts represent very rational behavior, consistent with our quest to satisfy our desires

with the least exertion. We have learned that capital goods enable us to be more and more productive and at the same time reducing the brute effort forms of labor.

The darker side of our behavior is unfortunately revealed by a willingness to not only consume what we produce ourselves or acquire by means of free exchange, but to take—using force, or fraud, or theft—from others what they have produced. When individuals hold positions of privilege and power in a society, the police powers of the State can and often do become the mechanism for enforcing positive law that sanctions the confiscation of wealth from producers by non-producers. The historical evidence we have thus far examined shows this very clearly. However, even a *natural* distribution of production is not necessarily a *just* distribution, in the same sense that actions arising out of greed are at the same time natural and unjust. Thus, in opening an examination of wealth distribution we become involved in a discussion of values and moral principles essential to the just society.

One may be able to dispassionately explore the socio-political dynamics by which wealth is distributed, but those economists and other social scientists who do so with no particular desire to bring about improvement fall far short of political economy. In the quest to establish just socio-political arrangements and institutions, the relationship of law and public policy to moral principles cannot be ignored. Concerned primarily with the production of wealth and only incidentally with the well-being of people, the economist has sought to identify relationships between production and consumption that exist outside socio-political arrangements and institutions.

Comparing the exchange value of accumulated wealth of one society against that of others, then examining the possible reasons for such differences is one way the political economist gradually reduces the quest for knowledge to a concentrated examination of the most prevalent and important externalities affecting the production of wealth. The real world is far more complex and our behavior much less



predictable than what the economist is able to incorporate in any statistical models of how *markets* are supposed to operate, even under purely competitive conditions. The political economist, therefore, examines the historical and contemporary information for evidence of how wealth comes to be distributed to those who actually acquire it. Then, beyond the mere analysis of who gets what and how this is determined, the political economist asks, *Is this just?*—applying a test of principle. The questions raised compare *what is* to *what ought to be*, judged on the basis of principles arising out of our moral sense of right and wrong. Where existing arrangements fail the test of moral principle, a restructuring or an outright dismantling are the only avenues open to those who believe in and seek justice.

Throughout history, every proposal to dismantle systems of privilege and monopoly license has met with determined resistance from those who most benefit, and, ironically, even from those who are the victims. Thus, the political economist is obligated not only to seek truth but to promote justice in the face of conventional wisdom, tradition, law and coercive power. No wonder that so few found the courage to speak and write truthfully or to call for action to overturn wrongs. Socrates was condemned for challenging the status quo; Plato was enslaved by one ruler and threatened by others; and, Aristotle, was forced into exile. In their own time, most far-thinking individuals have been persecuted, tortured, imprisoned, exiled or executed to keep them from espousing views unpopular with entrenched power. In our own time, there are still numerous societies in which truth remains the most serious challenge to those who control the State. Eventually, as we have seen in so many countries where socio-political institutions have long secured and protected privilege, the disincentives to produce wealth and to participate in civic affairs generate apathy and become more powerful than outright coercion. “*History shows,*” writes Peruvian economist Hernando de Soto, “*that in countries where the migrants were integrated and institutions were created which gave each member of the population*

*the chance to participate and engage in production, a developed society emerged.*"<sup>129</sup> Yet, even in the developed societies the key to systematic advance in total wealth production and in the general well-being are institutions that sanction and protect just socio-political arrangements:

In countries where success began to come from producing goods and services which the country needed instead of from receiving privileges from the state, there was progress and, of course, integration. In countries where legal institutions remained unchanged following migration, on the other hand, greater prosperity was not achieved, unrest grew, and violence often erupted.<sup>130</sup>

As Hernando de Soto intimates, the migration of people in large numbers has often occurred in response to complex factors. Nature may force migration on a people into areas already populated, resulting in conflict and warfare, or even genocide of the unwelcomed intruders. Persecution for religious beliefs has plagued numerous minority groups throughout much of their histories. Others simply flee to escape direct enslavement or the tyranny of a despotic ruler. In reality, there are far too few examples of successful efforts to create a fully integrated and pluralistic society within which equality of treatment under law and equality of opportunity in the pursuit of economic goods prevail. A clear common denominator linking every society is the presence of poverty, whether poverty is the experience of a minority or the overwhelming majority.

## WEALTH DISTRIBUTION

Our capacity for self-contemplation reinforces in us a moral, if imperfect, sense of just and unjust actions toward others. Most of our societal problems exist because our moral sense has been clouded by centuries of societal experiences directed by arrangements and

institutions created to advance the interests of a few at the expense of the many. Even today, the number of individuals whose material, educational, physical and socio-political well-being is reasonably high represents a minority of the global population. Billions of people continue to live in misery and under ongoing oppression. A crucial issue is to what extent these conditions are associated with the limits of the natural environment as opposed to socio-political arrangements.

In general, there are few instances where the limits of the earth are a significant cause of prolonged misery; rather, the evidence demonstrates that the impoverished masses are the victims of unjust socio-political arrangements that result in the discouragement of production and the theft by non-producers of most of what wealth is produced. Once again, an exploration of our ascent from the hunter-gatherer experience is extremely revealing.

During what we think of as our primitive state of existence, the hunter-gatherers lived cooperatively in small groups. They practiced a division of labor but treated the wealth they produced as community property. All individuals played important roles in production (i.e., gathering) of food, as well as all other measures necessary for survival. The transition to agriculture promised a reasonably continuous surplus of food, following on the discovery that grains could be stored for long periods of time. And, over time the practice of agriculture stimulated tremendous changes in the socio-political arrangements within groups, none more important than the acceptance of food production as individual rather than community property. In making this leap, survival demands that individuals in society must engage in commerce and negotiate exchanges of goods and services.

To the hunter, the meat and hides obtained from kills are *wages*; to the gatherer, wages are the fruits, nuts and other plant life collected; to the fisherman, the catch represents wages; and so on. Provided each individual is free to utilize skills and knowledge acquired during the long nurturing process that is our childhood, voluntary decisions to

specialize in one activity or another will result in the expansion of a market economy characterized by a division of labor, specialization, frequent exchanges of goods and services and (importantly) the appearance of written language in order to record these activities. In short, market transactions by definition are voluntary and win-win for all parties involved. At least that is how the dynamics ought to operate. History tells a very different story. In the transition from cooperative and *communitarian* tribal structures to more hierarchical societies, the key result is that the coercive power of the State arose to redistribute wealth from producers to non-producers, from *labor* to holders of titles and privilege. As explained without critical commentary by the Scottish political economist, Adam Smith:

ok? Product?  
In that original state of things, which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him.<sup>131</sup>

Our moral sense of what is just should provoke an immediate response; namely, questioning by what right some individuals should have in the distant past been permitted to claim control over a portion of the earth to the exclusion of others. As far back as the era of the first empire-builders, the written record tells us that those who possessed power unhesitatingly issued directives for such appropriations. Yet, others had already laid claim to the land, and others before them. The written record is, in fact, lost to us well before the chain of appropriation can be traced to its original instance in most of the Eurasian world. Thus, from a very early time the actions of those who held power subverted moral principles. Whether the holding of privilege and power has rested on heredity or divine right, force has long been the primary instrument by which power is maintained or displaced. In society after society the same pattern lawlords and landlords become one in the same until there is no tradition or

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experience of things existing in any other manner. Smith attempts from his own perspective to further clarify the source of the so-called *economic problem* in the following passage:

This original state of things, in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land [because] as soon as land becomes private property, the landlord demands a share of almost all the produce which the labourer can either raise, or collect from it. His rent makes the first deduction from the produce of the labour which is employed upon land.<sup>132</sup>

In essence, what Smith sees is that without voluntary exchange of goods for services producers are coerced into a redistribution of wealth to those who have gained control over the machinery of the State, the end result of which is a perpetuation of socio-political arrangements and institutions based on privilege, and which are therefore inherently unjust. Yet he chooses to remain silent on the moral issue raised. To Smith, the consequences were inevitable given human nature and the institutions we as a result create.

A brief discussion of the need to distinguish between *wages* and *capital goods* should remind us why Smith's silence is so important. Both terms are descriptive of wealth—but of wealth used for specific purposes. The term *wages* is less descriptive of particular forms of wealth than of wealth at a specific stage in its cycle of existence. We can think of wages as that portion of the total stock of wealth arising from the direct application of labor. However, not all wealth is produced directly by individual labor; a vast amount of the storehouse of wealth would not now exist had there not been the factories and machinery to assist us in our productive efforts. Where reason sometimes fails us is that we tend to forget the cumulative process by which wealth utilized as *capital goods* becomes significant to the quantity and quality of wealth produced. Less and less direct input of labor is required to

produce increasingly sophisticated forms of capital goods, even less to maintain a level of utility close to what was original to the design. Some forms of capital goods are today very effectively maintained and monitored by computer-directed machines that require very little human intervention. Automated factories, once assembled, are able to achieve levels of production that only a few decades ago required the continuous labor of hundreds or thousands of skilled workers. All things being equal, having machines take care of the more tedious and mundane forms of physical labor frees us to utilize our creativity, our talents and our energies in ways far more satisfying of our desires.

In order to measure just how great is the addition to our storehouse of wealth provided by the use of capital, the political economist distinguishes such wealth by applying to it the term *interest*. There is in this nomenclature no attempt to establish value judgments, merely a desire to be clear and specific. *Interest* identifies that portion of wealth produced above what human labor by itself could produce. In the advance of civilization, our expanded understanding of the material universe and the development of new technologies have combined to yield a greater output of wealth per unit of labor expended; we have learned to work smarter rather than merely harder, to experiment in the utilization of capital goods by constant reassessment of the production process.

At first, all wealth was directly produced by labor without the aid of any tools or other forms of capital goods. Although there is some question as to whether such a time ever really existed, there certainly was a very long period during which very little in the way of capital goods was employed. Assuming none at all, the entire stock of wealth in existence would fit the definition of *wages*.

Over time, we reached a turning point in the productivity of labor with the discovery of the secrets of metallurgy and the introduction of agriculture. During this stage, most wealth resulted from a primary relation between human effort and land. Nonetheless, a growing

portion accrued to the utilization of new and better tools for hunting, for farming and for storing. Longer life, greater security, planning and the manipulation of the natural environment enabled our distant ancestors to accumulate more from each unit of labor expended.

Very little time, perhaps as few as several thousand years, was required to accumulate sufficient capital goods to double and then double again the storehouse of wealth. This was true despite periodic setbacks caused by warfare, plague and environmental disasters. Greater production, particularly of food, combined with enhanced means of transportation, stimulated the growth in human population; a larger population, in turn, permitted a greater division of labor. With every unit of labor expended, more wealth was produced than previously, and every unit of capital goods became increasingly productive because of the efficient manner employed.

We might be tempted to forecast a permanent and widespread satisfaction of desires, at least among those individuals willing and able to use their labor to some advantage. Unfortunately, this expectation based on political economy's laws of production and distribution is applicable to only this primitive stage of development. The control over the three factors of production—land, labor and capital goods—do not automatically function to achieve a just distribution of wealth, for as Adam Smith correctly observed, the happy circumstance of the individual gaining wealth as a direct result of labor applied to nature "*could not last beyond the first introduction of the appropriation of land.*" In our quest to satisfy our desires with the least exertion, an important strategy has from the very beginning of the settled community to appropriate and monopolize land and the land's natural resources for our private benefit. At some point in every society, either soon or far into the future, individuals seeking access to land found that all land capable of yielding a necessary level of wealth to survive was appropriated. What then?

Some individuals would be forced to offer their labor to those who gained control over nature—the holders deeds granted to them by sovereign princes or kings—for a level of wages that represented only a portion of what they produced; others might gain access to land under lease, paying the deed holder a *rent* in the form of a fixed percentage of the wealth produced (or, when coinage and then paper currency came into general use, for a fixed amount of money or its paper representation). A third possibility is that the socio-political arrangements of the society would incorporate a mechanism for assuring that all individuals were guaranteed equal access to nature, which would have been the course consistent with moral principle. As history reveals, however, this was the path not chosen. For those victimized by the subsequent and continuous unjust arrangements, they faced the choice of living with the known or escaping and migrating (if they could) to uninhabited regions to begin anew a cycle of settlement that offered—at least for themselves and several generations thereafter—a window of opportunity to enjoy a significantly-greater degree of liberty.

In the period prior to widespread fixed settlement, the competition for access to nature existed between tribal groups rather than individuals within groups. Whether intuitively or by the result of reason decision-making, our distant ancestors recognized the benefit in saved labor of turning wealth into capital goods; a drive to improve the quality of life for themselves and their families as well as an insatiable thirst for understanding motivated and stimulated them to produce with ever greater efficiency. Necessity also played an important role, for their very skill in hunting of large game animals operated without regard for the future. Our own record in this era is not much better. Still, their hunting caused the extinction or significant depletion of the very game animals from which they thrived. Scarcity arose because of their failure to practice sustainable methods of taking game and to recognize that the animal population was finite. At the same time, their



effect on the natural environment was accompanied by new discoveries. The socio-political innovation which resulted was the long-term appropriation of territory under group control, followed eventually by the allocation of land parcels to subgroups and individuals; and, this changed everything. The cooperative instinct, so long operative in tribal societies became subverted and subordinated by the increasing conflict over the control of land.

### A Case Of Mistaken Identity

To the economist, the unlimited desires of people run up against the apparent reality of scarce resources. The economic problem as they seen by economists is how to allocate these scarce resources. One group of economists feels strongly that only the market will do this efficiently; others suggest that the State must allocate resources in order to achieve public policy objectives. Yet, in any absolute sense we might care to consider, the earth has yielded in abundance the resources necessary to sustain a very large human population. The fact that some have so much (and consume conspicuously) while other have so little is a political problem. Allowing for occasions of natural disaster (such as floods, volcanic eruptions, hurricanes, droughts or earthquakes), the primary cause of scarcity is to be found in a society's socio-political arrangements and institutions and seldom in the poverty of the natural environment.

Adam Smith speaks of the appropriation of land as a pivotal change in societal structure, by which he means that the control over land yields tremendous power over those who require access to land in order to survive. Deny access and one denies others a fundamental birthright. Appropriation arrived with fixed settlements and the ability of farmers to produce greater quantities of foodstuffs than their own subsistence needs required. Such a surplus of wealth provided the means with

which to support an enlarged leadership hierarchy, if only the producers could be coerced into redistributing this surplus upward. H.G. Wells, influenced to some degree by Henry George, observed that the road to serfdom was long, subtle and deeply entrenched within a framework of tradition and mysticism:

A certain freedom and a certain equality passed out of human life when men ceased to wander. Men paid in liberty for safety, shelter, and regular meals. By imperceptible degrees the common man found the patch he cultivated was not his own; it belonged to the god; and he had to pay a fraction of his produce to the god. Or the god had given it to the king, who exacted his rent and tax. Or the king had given it to an official, who was the lord of the common man. And sometimes the god or the king or the noble had work to be done, and then the common man had to leave his patch and work for his master.<sup>133</sup>

Some earlier societies had practiced abandonment and infanticide as rather harsh survival strategies. These were measures adopted to eliminate unproductive members of the group during the long era of human experience when there was little or no surplus to be shared. Generally speaking, however, what wealth the group did produce was distributed rather equally. All were expected to make a sincere effort to contribute to the group's storehouse of wealth, and those who failed to do so might find themselves banished.<sup>134</sup> With settlement and agriculture the hunter-protector groups gradually achieved dominance; horticulture reduced the need for food derived from hunting, but warfare assured the hunter's social status and power. Additionally, the production of surplus wealth resulted in greater leisure time, a change that encouraged the development of secret societies and formal hierarchies that bestowed titles, responsibilities and privileges on those accepted into this inner circle. The end result was the creation of socio-political institutions that sanctioned inequality and the conversion of community property into individual possessions.

The historical evidence indicates that in the early stages of settlement the village leader or chief acted largely as steward, with the responsibility to function as a custodian and dispenser of the group's stored wealth. From this collective wealth the chief was to provide for the support of ministers and other members of the tribal council, entertain all visitors and supply food and drink for tribal celebrations. Caring for the sick, the elderly, widows and orphans and other destitute members of the tribe were also responsibilities of the chief. Finally, from the storehouse of wealth, food was to be distributed during famines. In these respects, many tribal societies in the Americas and the less accessible reaches of the Asian and African continents continued to functioned in a communitarian, if exclusive, fashion until very recent times.

Unfortunately for most tribal groups, this delegation of responsibility to one or a small number of individuals contained the seeds for destruction of whatever relative equality existed in the distribution of wealth and power. Few rulers could resist the opportunity to appropriate both land and the collective storehouse of wealth for their own purposes. This was often quite easy to achieve during periods when the quantity of wealth in reserve was expanding and there was enough for all, even if the chief lived in comparative splendor. Under such circumstances, the leader could still technically fulfill obligations to the group while amassing a large quantity of personal wealth. To the extent the amount of wealth exceeded what the remaining individuals would voluntarily exchange for the services of governing and administration, the leader orchestrated a *redistribution* of wealth from producers.

What clearly separates the hunter-gatherer groups from the horticultural societies, then, is the adoption of a formal system of land tenure. Hunter-gatherers loosely controlled territory communally and cooperatively protected their territory from invasion by other groups. With settlement the treatment of land as property that could be

exclusively owned by individuals gradually displaced communal ownership. Specific tracts of land were first assigned to large clans within the community or, more rarely, to individual families. As has already been made clear in the story of the early empire-builders, societies dominated by kings and emperors further altered the patterns of landownership to facilitate what had evolved from practice into a *proprietary theory* of the State, sanctioned by religious doctrine, ritual and (eventually) codified law. As explained further by historian Hans Rosenberg:

The proprietary conception of rulership created an inextricable confusion of public and private affairs. Rights of government were a form of private ownership. "Crown lands" and "the king's estate" were synonymous. There was no differentiation between the king in his private and public capacities. A kingdom, like any estate endowed with elements of governmental authority, was the private concern of its owner. Since *state* and *estate* were identical, *the state* was indistinguishable from the prince and his hereditary personal *patrimony*.<sup>135</sup>

Reason directs us to observe that any particular appreciation for or concern with the rights of the individual are subverted by the supremacy of positive law. Law became the instrument by which the few began to systematically appropriate for themselves a larger and larger share of production (actual surplus wealth and more) as well as the direct appropriation of communal lands. One result of conquests by one tribe over another was the granting of large landed estates by the victorious chieftain or king to friends and allies. At home, similar confiscations yielded control over lands formerly held by minority religious orders, nobles fallen out of favor and from the working peasantry. William the Conqueror, for example, divided all of England among his chief lieutenants with virtually no consideration of the interests or rights of the indigenous population. As we know, this same attitude displaced and decimated the indigenous population of the

Americas after the arrival of Europeans. Appropriation and the shift from user owners to rent-seeking owners materially altered the advance of civilization, as here described by Henry George:

The landowner [as titleholder] is in no sense a producer—he adds nothing whatever to the sum of productive forces, and that portion of the proceeds of production which he receives for the use of natural opportunities no more rewards and stimulates production than does that portion of their crops which superstitious savages might burn up before an idol in thank-offering for the sunlight that had ripened them. There can be no labor until there is a man; there can be no capital until man worked and saved; but land was here before man came. To the production of commodities the laborer furnishes human exertion; the capitalist furnishes the results of human exertion embodied in forms that may be used to aid further exertion; but the landowner furnishes—what? the superficies of the earth? the latent powers of the soil? the ores beneath it? the sunshine? gravitation? the chemical affinities? What does the landowner furnish that involves any contribution from him to the exertion required in production? The answer must be, nothing! And hence it is, that what goes to the landowner out of the results of production is not the reward of producers and does not stimulate production, but is merely a toll which producers are compelled to pay to one whom our laws permit to treat as his own what Nature furnishes.<sup>136</sup>

Very early in the experience of the settled society we find the elements of great injustice described above by Henry George. Chieftains become kings and emperors, surrounding themselves with privileged elites of varied constitutions whose members thrive on the labor of others. In its worst forms, the producers are reduced to serfdom, slavery or (denied access to land under any circumstances) the thievery of the outcast in order to survive. Socio-political arrangements that institutionalize privilege—enforced by coercive physical force—result in an assault on our moral of justice and the system of values respectful of the rights of others. Artificial scarcity and oppression become the status quo under which the overwhelming majority of people must

struggle for daily survival. Appropriation of the land by the few without just compensation to the remainder reinforces other privileges and further pulls a society toward collapse.

Even under conditions of an absence of coercion by a leadership hierarchy, control over land eventually leads to a redistribution of wealth from producers to titleholders. By voluntary agreement the entire geo-political territory held by a people could be divided equally based on some measure of potential productivity of particular locations. New arrivals, whether from other tribal groups or the offspring of existing members, would then still be faced with landlessness. Unless the land was redistributed frequently among all citizens (or at least among all competent adults), some would find themselves forced to negotiate with existing titleholders for access in order to produce wealth and survive. Such a program of redistribution would find little support among titleholders, even those who might very much adhere to the moral principles presented in this work. Redistribution of titleholdings is simply too disruptive to production, interferes with planning for the future and raises questions about property rights in whatever improvements the titleholder might have made on and to the land.

Our moral sense intervenes to influence reason, directing us to a resolution of the problem most consistent with the cycle of birth, nurturing, maturation and death that makes up our life on earth. Just socio-political arrangements relating to land tenure must address not merely the privilege inherent in titleholding but the claim on wealth that titleholding tends to generate. In his analysis of land tenure, Henry George reasoned that such control over specific areas was inherently monopolistic. Even where a social contract initially assured widespread access to land of sufficient quality and quantity to provide a comfortable existence to the user (but no more), the time would eventually come when the unoccupied land would disappear. From that point onward, mere titleholdings would command from others a price

in return for permission to produce wealth on land controlled by the holder of a deed. To this portion of the storehouse of wealth, that which could be claimed by titleholders because of the monopolistic rights granted under positive law, Henry George and other political economists gave the term *natural rent* (or simply, *rent*).

Both our historical experience and our observations in contemporary societies reveal that even the gradual appropriation of land by voluntary agreement has been overwhelmed by a deeply-entrenched pattern of extortion achieved at the point of the sword or barrel of the gun. Landed aristocracies appeared very early in settled societies and employed all manner of treachery to secure for themselves a leisurely existence while those who engaged in production barely survived in constant fear of starvation or arbitrary physical torture. This observation is reinforced by anthropologist Grahame Clark:

The rise of material well-being was accompanied by major changes in social structure, the most notable of which was the emergence of kings or officials of comparable status, at first as temporary war leaders, but in due course as established rulers of the city states. The immediate cause of this was undoubtedly the rise of warfare as an institution and this itself was linked with the increase in wealth already noted: thus, the growing affluence of the cities only served to increase their attraction to marauding pastoralists of the highland and the desert; the citizens needed to secure raw materials in increasing variety and volume from more or less remote territories inhabited by poorer and more barbarous peoples; and, even more to the point, rivalry between the cities grew as the opportunities for enrichment increased and this occurred at a time when armament was becoming more effective and the inhabitants found themselves able to support warriors.<sup>137</sup>

Greed for ever more wealth and greater leisure had the unfortunate consequence of destroying the cooperative spirit by which the earlier tribal societies had survived and prospered. The warrior-kings and the

hierarchy of administrators, knowledge bearers and mystics worked methodically to consolidate their control over nature and the labor of others. All the while, the land yielded ever more wealth to the labor of the individual; moreover, when conditions stimulated and encouraged our creativity, we unlocked the secrets of nature, then converted nature into useful forms of capital goods. As detailed above, our labor and capital goods yielded wealth the political economists described by the terms *wages* and *interest*. The awarding of deeds designating lands as individual property eventually permitted owners to claim a portion of production as *rent*. Privilege, extortion and slavery sanctioned by positive law resulted in a level of *monopoly rent* that far surpassed the level of natural rent attributable to population growth. And, what brought the greatest inequality in the distribution of wealth was the appropriation of monopoly rent by the few.

*Natural rent* is that portion of production that labor and owners of capital goods would voluntarily give up in order to gain access to land. As suggested above, this is determined under conditions where land is neither held out of use by edict nor for speculative purposes. *Extortion* and its modern counterpart, *speculative rent*, exacerbate the consequences of the fact that the quantity of land is finite; these patterns of behavior further distort the natural—and already inherently unjust—distribution of wealth, a distribution that left alone results in an inevitable redistribution of wages and interest to titleholders. The stages of development associated with these changing circumstances are explored more deeply in the next chapter.