

Henry George School

3

Political Economy

Lesson #2 focused on the laws of distribution: wages, interest and rent. In this lesson, wages and interest, the returns to the productive factors, will be taken together. It will explore the effects of material progress on the distribution of wealth between producers and landowners.

In the model below the vertical lines represent the different grades of land; the numbers on the top line represent the units of wealth which can be expected to result, on the average, on each particular grade of land with the application of each unit of labor and capital. Land in the shaded area is already owned. Land to the right of it is still free. The numbers on the second line represent that portion of the product which the average producer expects to keep. The numbers on the bottom line represent the potential profits of the land holder (rent).

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|-----------------------------------|--------------------|---|---|---|-----------|---|---|---|
| AVG. WEALTH EXPECTED | 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 |
| - AVG. WAGE & INTEREST | 6 | 6 | 6 | 6 | | | | |
| = POTENTIAL LAND RENT | 3 | 2 | 1 | | | | | |
| | land already owned | | | | free land | | | |

Wages and interest on all land will be equal to what, on the average, labor and capital can produce where the land is free. Skilled, knowledgeable or otherwise superior workers will produce more and receive more, and interest will vary with the risk involved. These numbers represent the **average level of wages and interest**.

The potential rent will be the difference between what, on the average, can be produced on any particular piece of land and what, on the average, can be produced where the land is free.

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|-----------------------------------|--------------------|---|---|---|-----------|---|---|---|
| AVG. WEALTH EXPECTED | 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 |
| - AVG. WAGE & INTEREST | 5 | 5 | 5 | 5 | 5 | | | |
| = POTENTIAL LAND RENT | 4 | 3 | 2 | 1 | | | | |
| | land already owned | | | | free land | | | |

As population increases and the free land is pushed to less productive points, wages and interest fall and rent rises. However, as population increases, the ability to specialize and exchange increases the capacity of labor and capital and more than compensates for the resort to less productive land.

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|-----------------------------------|--------------------|----|----|----|-----------|---|---|---|
| AVG. WEALTH EXPECTED | 18 | 16 | 14 | 12 | 10 | 8 | 6 | 4 |
| - AVG. WAGE & INTEREST | 10 | 10 | 10 | 10 | 10 | | | |
| = POTENTIAL LAND RENT | 8 | 6 | 4 | 2 | | | | |
| | land already owned | | | | free land | | | |

Inventions increase productivity directly, through economies of scale, and, in the realm of transportation, by expanding the availability of things which depend on regional peculiarities like minerals, soil and climate.

Productivity is further increased by governmental activities like roads, police and public education. And they also increase the demand for materials, fuels and space to produce and maintain the new productions. Productivity is increased; free opportunity extends to less productive land.

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|-----------------------------------|---------------------------|-----------|-----------|-----------|-----------|------------------|-----------|----------|
| AVG. WEALTH EXPECTED | 36 | 32 | 28 | 24 | 20 | 16 | 12 | 8 |
| - AVG. WAGE & INTEREST | 16 | 16 | 16 | 16 | 16 | 16 | | |
| = POTENTIAL LAND RENT | 20 | 16 | 12 | 8 | 4 | | | |
| | land already owned | | | | | free land | | |

Wages and interest tend to rise with the increase in productivity. Rent also rises as population grows, roads, police and schools become available, and inventions march on.

In the expectation of this increase in rent, land is hoarded: held as an investment. Some portion of every grade of land is held for speculation: either held entirely out of use, or grossly under-used. In addition to those urban areas that have become worthless, significant portions of the valuable land in every American city are unused and grossly underused. This includes vacant lots and those with abandoned buildings, or surface parking lots and one or two story buildings where a five or ten story building would be the most profitable use of the land. The owners of this land are in no hurry to sell to someone who will use it now, because they are confident that the land will be worth more tomorrow. As population, invention and the infrastructure evolves, the rent of land increases.

Whenever the increase in the selling price of land is expected to be greater than the current rate of interest plus the annual real estate tax, it is more profitable to retain the land as an investment --- an appreciating asset.

Although portions of every grade of land are held for speculation (unused or grossly under-used), the model assigns all of the next two grades as idle to show the effects of land speculation upon the distribution of wealth.

Using land in any less than its most economic way (within the limits of health, safety and the environment) prematurely moves labor and capital's alternative opportunity to an inferior locate, and therefore lowers wages and interest. Non-use or under-use of land reduces production by impeding cooperation. Roads and their vehicles, police and fire, and water and electric lines must all pass by unused land.

| | | | | | | | | |
|-----------------------------------|---------------------------|-----------|-----------|-----------|-----------|-------------|-------------|------------------|
| AVG. WEALTH EXPECTED | 36 | 32 | 28 | 24 | 20 | IDLE | IDLE | 8 |
| - AVG. WAGE & INTEREST | 8 | 8 | 8 | 8 | 8 | IDLE | IDLE | 8 |
| = POTENTIAL LAND RENT | 28 | 24 | 20 | 16 | 12 | 8 | 4 | |
| | land already owned | | | | | | | free land |

The tendency to monopolize land, in the absence of any counteracting force, will continue until all the land which is capable of monopoly and production is owned. What happens then will be the topic of the next lesson.

QUIZ:

- #1. In the first model, why did the workers and the capitalists agree to pay the land owner 3 units of wealth? Land owners can charge what ever they want. (A)() . The producers would still receive as much as they could produce where the land is free. (B)() .
- #2. As wages & interest increase in amount, do they rise (A)() . or fall (B)() as a portion or fraction of the product?
- #3. As long as a parcel of land is being used for something, like a surface parking lot in a downtown area, it does not affect the shortage of land, and therefore lower wages and interest. (T) () (F)()
- #4. Inefficient use of urban land has nothing to do with the availability of agricultural land. (T)() (F)() .

Answers on top of previous page.

Between 1979 and 1986, income for the poorest one-fifth of U.S. families fell while it steadily rose for the richest.

For every \$1.00 lost by poor families, almost \$10 was added at the top.

(New York Times, May 1, 1988)