

The Cause and The Remedy

By IRVING STARER

OUR ECONOMY travels along the path of "boom and bust" cycles, alternating periods of comparatively high and low industrial activity. In *Progress and Poverty*, Henry George deals with economic and business problems that still plague us, and establishes a common cause for their existence. He then formulates means to solve them. Though his theories were propounded in the latter part of the 19th Century, they remain timelessly valid.

Man, George points out, cannot exist without land (i.e.: natural sites and opportunities.) Since all men have an equal right to the use of land, or alternatively to compensation of some kind for the giving up of this right, a denial of either of these rights by way of a monopoly of land and rent (which is payment for the use of land) benefits a few at the expense of all others. Rent arises when there is a demand for land and a willingness to pay for its use. Such demand is increased by increases in production and population, and rent accordingly rises.

Supplies of labor and capital (the other factors of production) can be increased, but the supply of land cannot, it being a fixed quantity. So, greater demand for land increases its value (rent), and the inevitable rise in cost for its use accrues to its owners, even though they do nothing to create it. But it is the community as a whole, productive users of land, that earns and should receive the rent of land, which could readily be effected via a tax on land values.

One result of land value taxation or the collection of full economic or ground rent by the community, would be the elimination of speculation in land, which George shows to be the primary cause of industrial depressions. Speculation keeps land out of use, and clearly no one would hold land out of use if he had to pay its full value to the community, because only if he puts his land into production can he pay this charge, which can come only from what is produced by labor from land, i.e.: from wealth.

A further result of land value taxation would be the substitution of this public revenue for the burdensome taxation now imposed upon both labor and capital. It would bring about the removal of taxes on wages and interest, and on private property, which in turn would stimulate production, expand employment, and raise the general level of wages. The elimination of taxes (save that on land values, which is not truly a tax, but rather the collection of economic rent)

The Free Market of Henry George

By HARRY POLLARD

HENRY GEORGE'S analysis in *Progress and Poverty* leads to the conclusion that a classical free market is not possible until the "land problem" is solved.

All sciences begin with assumptions. For George there are two: "Man's desires are unlimited", and "Man seeks to satisfy his desires with the least exertion."

Value is what men desire. It is synonymous with "worth" and describes that which is preferable. As free men seek an increase in value by cooperation, a market develops. Specialization becomes the path to greater riches, and so the market soon adopts the characteristics of a "clearing house - a place where goods are routed to their greatest value increase. A network of relationships grows, with each participant seeking constantly to improve his position."

This network is controlled by the price-mechanism. This is the market process whereby production is stimulated by a higher price, even as consumption is checked; and, conversely, whereby production is checked by a lower price, even as consumption is stimulated.

George argues that the price-mechanism will provide proper returns to his (classical) factors of production. The market will fairly determine the wages of Labor, the interest of Capital, and the rent of Land. This holds true only when all factors are drawn to market by price-mechanism pressure. But those who possess Land do not react to it as do those who "possess" Labor or Capital.

Labor and Capital must watch market prices and react quickly to change. The highest price goes to the swift, for the very act of supply lowers the price. Labor cannot hold back for a higher wage or it faces starvation. Capital with unused machines earns nothing. Because of the immediacy of market pressure, the market earns its reputation for efficient allocation.

As civilization advances, products increase, become more varied, and above all, become cheaper. Cheapness is the measure of progress.

would substantially simplify government and reduce its cost. The huge expenditure now required to collect taxes would be eliminated; the enormous amount of time now devoted by labor and business to non-productive processes, such as computing numerous taxes and filing countless official forms, would no longer be necessary, and all could devote themselves to

But there's the rub. Though decreasing product prices are evidence of an advancing society, so also is increasing land rent.

Rent of a location is the sum of its advantages, less the sum of its disadvantages, over marginal land, i.e., land which can be had for nothing. As people gather together to produce and trade, their very actions and presence are measured by increased rent. Increases in population tend to bring marginal land into use. To obtain future income, one needs merely to hold such land until needed. So, soon there is no land which is not held by someone. The landholder adopts a policy which runs counter to price-mechanism pressure: "Trade land tomorrow rather than today."

The necessary conditions for an effective market are not being met. Essential to the price-mechanism is that increased production and supply follow a price rise. But new land cannot be produced, and what exists is kept from the market. Price-mechanism fails - it cannot turn back the price rise. The price-mechanism, faced by "land-shortage" and ever rising prices, waxes impotent and disgraced, the butt for collectivist scorn and the object of distrust even by those who believe in a free society. The land market becomes a witches' brew.

George follows this scenario to its final act - a paralyzed economy leading to a crash and a general collapse of land prices. His solution is a particularly elegant one, for, by laying upon landholders a charge equal to their unearned return, he simply makes land responsive to the price-mechanism.

Once Land is as costly to keep out of production as are Labor and Capital, response to price-mechanism pressure is assured. With all factors under control, the market may be left alone to do its superlative job.

History abounds with instances of "failed *laissez-faire*." In every case, the failure stemmed not from a free market that was not adequate, but from a free market that was not truly free.

more productive endeavors, whose fruits would be more fully enjoyed.

The cause of the economic problems of our complex industrial society having been determined, and Henry George's logical remedy having been revealed, all that remains for us to do is to adopt and apply the remedy, and obtain its salutary effects.