

or for a "share-the-wealth" scheme than to attempt to discover, by careful investigation and analysis, what are the different specific evils from which our society suffers and how each specific evil can be prevented without, necessarily, revamping the entire economic system.

It would be manifestly unreasonable to claim that, once the annual rental value of land, or the major part of it is appropriated by the public, no further reforms will be necessary to make the price system ("capitalism") work most smoothly and fairly for the general good. But it is none the less a fact that this particular reform is one of the most important along the line of making "capitalism" or the price system what its conservative defenders claim it is, viz., a system which rewards industry and thrift and enterprise and gives most to those who are most deserving,—presumably to those who serve the public best. It leaves in the economic order its essential element of freedom, freedom as to what work to do, freedom to save and invest in capital construction or not to do so, freedom on the part of each individual and group of individuals to use his or their capital in whatever line of industry seems most profitable. And this reform would add a new freedom, viz., freedom to live and to work on the earth without being hindered or prevented by persons who, not desiring to use their land (or much of it) themselves, hold it out of use speculatively in the hope of making money from a *community*-produced increase of value.

How can it be consistent with the ideals of an economic philosophy which would base incomes on service, which would reward industry, enterprise, thrift and inventive genius, to support such an incongruous element in the economic system as that which enables a part of us to collect from the rest of us merely for *permission* to work and to live on the earth in those locations having *community*-produced advantages?

And now let us raise a question as to those industrial magnates who have recently been so much publicized in the matter of their insistence on preservation of constitutional rights, the maintenance of freedom in our economic system and the continuance of an economic order based on individual initiative and thrift. If such industrial magnates do not support—if, perchance, they oppose—a system of taxation which would make our economic order more nearly conform to their professed principles, which would bring it about that the rewards of industry, henceforth, would be distributed more consistently with the contributions, by each person, of effort, thrift, and productive enterprise, which would no longer, through heavy taxation of capital, deprive those who save, and so accumulate capital, of the returns which this capital yields,—if they do not support such a system of taxation, what must reasonable men say about them? Will not the simplest and most obvious conclusion be that such magnates are *not really interested in a free society*, any more than are the radicals who seek "the dictatorship

of the proletariat"; that they are not really interested, any more than are socialists and communists, in the giving of its full reward to voluntary individual *thrift* and enterprise, or in the development of the fullest practicable degree of *individualism*; but that they, along with their sympathizers among journalists and politicians, are using the slogans and rhetorical flourishes descriptive of such an ideal, as a smoke screen to conceal their real purpose, viz., the maintenance of special privileges which are altogether inconsistent with the ideal they profess to support?

Have we here a case where "extremes meet," since radical "leaders," including the literary intelligentsia of radical leanings, and conservative business men and journalists, alike, support the principle of letting some live as parasites on others,—the one group desiring that those who do not save shall enjoy the fruits of the saving of others, and the other group desiring that certain individuals, as owners of the earth and of community-produced location values, shall continue to collect from others for permission to live and to work on the relatively livable parts of the earth's surface? If, perhaps, the first group should finally so sway the masses as to win its goal, might this not be due in part to a general confusion of thought, regarding the distinction between earned and unearned incomes, contributed to no less by the second group than by the first?

Radical, dreaming, literary intelligentsia and hard-headed industrial magnates! Each group supposedly scorning the other! Is their thinking fundamentally alike, after all?

Rent, Wages and Interest— The Law of Their Relation

EDWARD WHITE AT HENRY GEORGE CONGRESS

IN teaching political economy certain fundamentals must be strongly impressed upon the students, for there are points wherein the least wobbliness causes confusion and results in the propagation of error.

Political economy shows us that wealth is produced from natural resources, termed land, by human effort, termed labor, aided by various instrumentalities, termed capital. Frequently it is stated that the product wealth is divided into three portions, rent for land, wages for labor, and interest for capital. This statement accords with common speech, but it is incomplete and tends to obscure the actual relationships involved.

Ordinarily people speak of rent as payment by a tenant to a landlord, of wages as payment by an employer to a workman, of interest as payment by a borrower to a lender. These statements do not accord with basic facts

but reflect superficial appearances only, like the conventional statement that the sun rises in the east.

Rent, wages and interest are receipts, not expenditures. Primarily they are received by man from nature as a result of wealth-producing activity on the part of man. Only secondarily and only in part can they properly be viewed as payments by some men to other men.

The point can be illustrated by simple facts of common knowledge, the significance of which we are apt to overlook.

Wealth being the product of human exertion applied to nature with the aid of capital, it is plain that the individual who undertakes productive activity receives in the product the entire quantity of wealth resulting from the union of land, labor and capital, and it is plain that this product is received from nature, not from man.

To use an illustration stripped of non-essentials, consider some man who undertakes some productive activity on some location and uses some capital. As a result of his exertion (labor) applied to natural resources (land) with the aid of certain instrumentalities (capital) there is a product (wealth). Part of the product is due to the man's exertion; this is the wages of labor. Part of the product is due to the man having a superior location; this is the rent of land. Part of the product is due to the capital which the man used; this is the interest of capital.

After the man has received wealth from nature as a result of productive activity on his part, the product is usually, but not always, shared with other men who permitted or aided the activity. Here is where confusion enters, because at first glance we see this secondary act of sharing the product take place in the form of payments commonly called rent, wages or interest; it is only by closer attention that we see the producer first receive from nature the entire product out of which all shares must come. So do we see the sun rise in the east; it is only by closer attention that we perceive the revolution of the earth.

Not always is any sharing of the product involved. The producer who owns the location where he labors does not pay rent, but receives rent from nature in the form of wealth to the extent of whatever advantage his location gives him. Self-employing labor does not pay wages, but receives wages from nature in the form of the wealth produced. The producer who owns the capital he uses does not pay interest, but receives interest from nature in the form of wealth due to his use of capital.

If the producer needed only the labor power of himself, that portion of the product resulting from labor is his wages; if he needed the labor power of other men to aid in part or all of the undertaking, the wage portion of the product results from the labor of all the men involved, and that wage portion must be shared among them according to the part performed by each.

If the producer had only to choose a more productive location upon which to labor, the rent or superiority differential of his location comes to him as an advantage

over other men who used less productive locations; if he must first buy permission to use a better location than he could use without permission, part of all or the rent portion of the product, must be paid to the person whose permission was bought.

If the producer owned the capital he used, that portion of the product due to the use of such instrumentalities comes to him as the interest of his capital; if he had to borrow capital from others, part or all of the interest portion of the product must be paid to those whose capital he used.

Of the three, rent seems to be the most difficult to grasp. It must be understood that rent is a differential expressing the greater productiveness of superior land. Take farm land for example. If there is plenty of it available on any of which a farmer can produce twenty bushels of grain to the acre, and there is some better land on which the same application of labor and capital will produce twenty-five bushels of grain to the acre, there exists a differential of five bushels per acre in favor of the better land. The man using that better land receives from nature five bushels more per acre than is received by other men using twenty-bushel land, and he receives this additional five bushels, not as a result of labor or capital, but as the result of location. This holds true in all forms of productive activity, although not always so readily perceived. The storekeeper on a busy downtown street does a tremendous volume of business, not because of the labor or capital involved, but because of location. The more advantageous locations are comparatively scarce, which leads men to bid for them and offer a premium for their use. This results in the phenomenon of land value, or a purchase price reflecting the opinion of men as to the advantage secured by using particular locations.

The principle of the illustration given holds true in all the subdivisions and through all the ramifications of human activity in producing wealth, although it may not always be seen clearly. There is a necessary series of steps between the raw material in nature's storehouse and the consumption of finished products by consumers. If these steps are taken by one person at one place, it is not difficult to see the whole picture, but where efficiency requires subdivision of labor, and different steps are taken by different sets of people in different localities, the complexity of the process may obscure the basic principle.

The producer of raw materials, the processor of raw materials into finished products, and the distributor who takes the final step in production by placing finished products in the hands of consumers, all deal with the location factor, land; the human factor, labor; the assisting factor, capital; and all receive from nature a product due to the union of these three factors.

When this relationship is grasped, many difficulties vanish.

The notion that rent enters into price, or is an element

of cost, is seen to be an inversion of the natural order, for obviously rent is in effect a reduction of cost, the user of a superior location producing at less cost per unit than those using inferior locations.

The notion that wages are paid to labor out of capital or by capitalists is also seen to be an inversion of the natural order, for obviously wealth must first be produced before there is anything for labor to have or to share in.

The notion that interest is extorted from producers is seen to be an inversion of the natural order, for obviously it is nature that pays interest, and it pays it to the user of capital by yielding a product that is due to the use of capital.

This discussion is intended to emphasize and somewhat amplify points to which Henry George called attention in "Progress and Poverty," but which he did not enlarge upon because not essential to his inquiry. This discussion is not in any way an improvement on or correction of Henry George, but may serve as a correction of some who have failed to grasp the teaching of this greatest American.

Unpublished Letter of Henry George

READ BY A. LAURENCE SMITH AT HENRY GEORGE
CONGRESS

417 First St.,
San Francisco, June 29/'80.

Frank H. Norten, Esq.

My dear Sir:

I have since writing received the copy of the *Era*, also the pamphlets and the pasted articles. I have read these with a great deal of interest and pleasure, and shall read them again. I see that you have given a great deal of thought to these questions, and I see at once that my book will explain itself perfectly to you, and that you will perceive connections and methods on which I have touched but lightly.

Coming from a man who has thought and has *felt* about these things, what you say of my book pleases me. I am glad of your appreciation and recognition. And I will say to you frankly that I have the same idea of its importance which you express. It may be a long while in making its way; but that does not trouble me.

I am very glad to have made your acquaintance, for working in a common cause we can be of much mutual assistance. And you are in a position, it seems to me, to do a great deal. The important thing to be done is to effect a junction between capital and labor. Paradoxical as it may seem to one who has never thoughtfully considered the matter the hope for the enfranchisement of labor is through the selfish aid of the tremendous aggregations of capital whose growth and power you so well appreciate. The interests of the railroad kings and the interests of the day laborers run for a long distance together. But as to their true interests the one class is as ignorant as the other, and it is as necessary to "spread the light" in the one as in the other direction. Cannot this be done? Are there not among the great railroad managers and merchants of New York men intelligent enough to see that what we want is just what will be best for them?

I see the *New York Times* has at last noticed my book—in a very flippant and unjust way, it is true; but still I am glad to see the notice. If the professed political economists will only start in to "refute"

the truths I have tried to make clear, their acceptance will come so much the sooner.

I should like to hear from you again, and I hope you will send me whatever you write on these subjects. Have you by the by any acquaintance with the writings of Agathan de Potter of Brussels? He has recently written to me and sent me some of his writings. I am not only greatly pleased with them, for on essential things we completely agree, but I have formed a very high opinion of the man, and if you know nothing of him I would like you to become acquainted. I presume you read French, which unfortunately I do not.

With best wishes, and hoping to hear from you again, I am

Yours truly,

HENRY GEORGE.

A Popular Novelist Speaks

WE fathers and mothers of today are anxious about the drift of the rising generation toward reckless radical thought, aren't we? Granted.

And at the same time we can't tell the children that everything in the world is all right, that there must be want and hunger in the midst of plenty, and that thousands of hands aching for work must remain idle, can we? Granted.

But we do feel, in the depths of our worrying and loving hearts, that if there *were* something we could do to keep them American, to prove to them that their eternal natural impulse toward change, their eternal young impatience with needless suffering could be satisfied right under their own magnificent Constitution, we would do it. Also granted.

If you reading this, feel that, then give this thing five minutes of your time now, open your eyes to it, and some day hand on to these same fine, restless, ambitious youngsters a better world than the one you and I were born into.

To begin then: Is not every time of social misery identified with cruel, unjust taxes? And what would you say of the injustice that is the base and structure of a stupid taxation system that permits private appropriation of the publicly created revenue and then puts the load that it should bear on the homes, the furniture, the purchases of the everyday people of our state?

There is not a good, thrifty, hard-working farmer's wife in all California who would not resent it bitterly if her husband told her that he and she had to pay the taxes for seven or eight of the neighbors.

"Oh, and what do *they* pay?" she would ask suspiciously, stopping her work, whatever it was, looking at him for an explanation of such madness.

And if he said, "Well, they pay nothing. They're just—in luck. From now on they can travel about, live luxuriously, leave fortunes to their children. And that means we have to work harder, give up comforts and even necessities, mortgage and borrow for the rest of our lives," then wouldn't her emphatic answer be, "Are we *fools*?"

But just the same that farmer and his wife, and every other one of us who pays the Sales Tax and taxes on improvements at all, *is* paying for the unearned idleness and luxury of others, and as taxes multiply and increase in every direction the injustice of the situation multiplies and increases, too.

I'm not speaking of the taxes the rich pay. The rich are always in a minority. I'm speaking of the everyday taxes the very poorest, the hardest-working men and women of the state pay; those sly hidden taxes that make every loaf of bread you buy carry 53 separate assessments; every pound of bacon pay 36 cents to someone; every dollar telegram carry a weight of 60 cents!

And all the while the real wealth-making thing, the *one* thing from which all wealth flows, the land—this earth, the only thing upon which we can live, the thing our presence gives a value to—is being very lightly taxed, or not taxed at all.