

PROGRESS AND POVERTY

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Extracts from pages 4-6

This association of poverty with progress is the great enigma of our times. It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy and education grapple in vain. From it come the clouds that overhang the future of the most progressive and self-reliant nations. It is the riddle that the Sphinx of Fate puts to our civilization, which not to answer is to be destroyed. So long as all the increased wealth which modern progress brings goes but to build up great fortunes, to increase luxury and make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent.

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The ideas that there is a necessary conflict between capital and labour, that machinery is an evil, that competition must be restrained and interest abolished, that wealth may be created by the issue of money, that it is the duty of the government to furnish capital or to furnish work, are rapidly making way among the great body of the people who keenly feel a hurt and are sharply conscious of a wrong. Such ideas, which bring great masses of men, the repositories of ultimate political power, under the leadership of charlatans and demagogues, are fraught with danger; but they cannot be successfully combated until political economy shall give some answer to the great question which shall be consistent with all her teachings and shall commend itself to the perceptions of the great masses of men. It must be within the province of Political Economy to give such an answer. For Political Economy is not a set of dogmas. It is the explanation of a certain set of facts. It is the science that seeks, in the sequence of certain phenomena, to trace mutual relations and to identify cause and effect, just as the physical sciences seek to do in other sets of phenomena.

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That Political Economy, as at present taught, does not explain the persistence of poverty amid advancing wealth in a manner that accords with the deep-seated perceptions of man; that the unquestionable truths that it does teach are unrelated and disjointed; that it has failed to make progress in popular thought - must be due, it seems to me, not to any inability in the science when properly pursued, but to some false step in its premises, or overlooked factor in its estimates.

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The Law of Rent

The relationship that determines under circumstances of free competition (the condition always to be assumed when tracing out the principles of Political Economy) what rent or price can be got by the owner is styled the law of rent. This fixed with certainty, we have more than a starting point from which we may trace the laws that regulate wages and interest. For, since the distribution of wealth is a division, in ascertaining what fixes the share

of the produce that goes as rent, we ascertain also what fixes the share that is left for wages, where there is no cooperation of capital; and what fixes the joint share that is left for wages and interest, where capital does cooperate in production.

This accepted law of rent is sometimes styled "Ricardo's law of rent," from the fact that, although not the first to announce it, he first brought it prominently into notice. It is, that:

The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use.

The mere statement has all the force of a self-evident proposition, for it is clear that the effect of competition is to make the lowest reward for which labour and capital will engage in production the highest that they can claim. Hence the effect is to enable the owner of more productive land to appropriate in rent all the return in excess of what is required to recompense labour and capital at the ordinary rate - that is to say, what they can obtain upon the least productive land in use, or at the least productive point, where of course no rent is paid.

Perhaps it may conduce to a fuller understanding of the law of rent to put it in this form: The ownership of a natural agent of production will give the power of appropriating so much of the wealth produced by the application of labour and capital upon it as exceeds the return that the same application of labour and capital could secure in the least productive occupation in which they freely engage. This, however, amounts to precisely the same thing, for there, is no occupation in which labour and capital can engage that does not require the use of land; furthermore, the cultivation or other use of land will always be carried to as low a point of remuneration, all things considered, as is freely accepted in any other pursuit.

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Relation of Rent to Wages and Interest

Stated reversely, the law of rent is necessarily the law of wages and interest taken together, for it is the assertion that, no matter what be the production that results from the application of labour and capital, these two factors will only receive in wages and interest such part of the produce as they could have produced on land free to them without the payment of rent - that is, the least productive land in use. For if, of the produce, all over the amount which labour and capital could secure from land for which no rent is paid must go to land owners as rent, then all that can be claimed by labour and capital as wages and interest is the amount which they could have secured from land yielding no rent. Thus wages and interest depend not upon the produce of labour and capital but upon what is left after rent is taken out, or upon the produce which they could obtain without paying rent - that is, from the poorest land in use. Hence, no matter what be the increase in productive power, if the increase in rent keeps pace with it, neither wages nor interest can increase. The moment this simple relation is recognized, a flood of light streams in on what was before inexplicable and facts seemingly discordant range themselves under an obvious law. The increase of rent that goes on in progressive countries is at once seen to be the key that explains why wages and interest fail to increase with increase of productive power. For the wealth produced in every community is divided into two parts by what may be called the rent line, which is fixed by the margin of cultivation; that is the return that labour and capital could obtain from such natural opportunities as are free to them without the payment of rent. From the part of the produce below this line wages and interest must be paid. All that is above goes to the owners of land.

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In a simple state of society, each man, as is the primitive mode, works for himself - some in hunting, let us say, some in fishing, some in cultivating the ground. Cultivation we will suppose has just begun, and the land in use is all of the same quality, yielding a similar return to similar exertions. Wages therefore - for, though there is neither employer nor employed, there are yet wages - will be the full produce of labour; and, making allowance for the difference of agreeableness, risk, etc., in the three pursuits, they win on the average be equal in each that is to say, equal exertions will yield equal results. Now, if one of their number wishes to employ some of his fellows to work for him instead of for themselves, he must pay wages fixed by this full average produce of labour. The Margin of Production Let a period of time elapse. Cultivation has extended and embraces, instead of land of the same quality, lands of different qualities. Wages now will not be the average produce of labour as they were before. They will be the average produce of labour at the margin of cultivation, or point of lowest return. For, as men seek to satisfy their desires with the least possible exertion, the point of lowest return in cultivation must yield to labour a return equivalent to the average return in hunting and fishing. (This equalization will be effected by the equation of prices.) Labour will no longer yield equal returns to equal exertions, but those who expend their labour on the superior land will obtain a greater produce for the same exertion than those who cultivate the inferior land. Wages, however, will still be equal, for this excess which the cultivators of the superior land receive is in reality rent; and if land has been subjected to individual ownership, the result will be to give it a value.

If under these changed circumstances, one member of this community wishes to hire others to work for him, he will have to pay only what the labour yields at the lowest point of cultivation. If thereafter the margin of cultivation sinks to points of lower productiveness, so must wages sink; if on the contrary the margin rises, so also must wages rise. Here then we have the law of wages as a deduction from a principle most obvious and most universal. That wages depend upon the margin of cultivation, that they will be greater or less according as the produce which labour can obtain from the highest natural opportunities open to it is greater or less, flows from the principle that men will seek to satisfy their wants with the least exertion.

Wages in Various Occupations

If we turn from simple social states to the complex phenomena of highly civilized societies, we shall find upon examination that they also fall under this law. In such societies wages differ widely but they still bear a more or less definite and obvious relation to each other. This relation is not invariable. As at one time a philosopher of repute may earn by his lectures many-fold the wages of the best mechanic, and at another time can hardly hope for the pay of a footman; so there are occupations which in a great city may yield relatively high wages but which in a new settlement would yield relatively low wages. Yet these variations between wages may, under all conditions and in spite of arbitrary divergences caused by custom, law, etc., be traced to certain circumstances. In one of his most interesting chapters (*Wealth of Nations*, book I, chapter 10, part 1), Adam Smith enumerates the principal circumstances which, as he puts it, make lip for small pecuniary gain in some employments and counterbalance a great one in others: First, the agreeableness or disagreeableness of the employments themselves; secondly, the easiness and cheapness, or the difficulty and expense of learning them; thirdly, the constancy or inconstancy of employment in them; fourthly, the small or great trust which must be reposed in those who exercise them; and fifthly, the probability or improbability of success in them. It is not necessary to dwell in detail on these causes of variation in wages between different employments. They have been admirably explained and illustrated by Adam Smith and the economists who have followed him, who have well worked out the details, even if they have failed to apprehend the main law. (1) This last, which is analogous to the element of risk in profits, accounts for the high wages of successful lawyers, physicians, contractors, actors, etc.

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The General Law of Wages

Thus, although wages may from time to time alter in relation to each other, as the circumstances change that determine relative levels, yet it is evident that wages in all strata must ultimately depend upon wages in the lowest and widest stratum - the general rate of wages rising or falling as the latter rise or fall. The primary and fundamental occupations upon which, so to speak, all others are built up, are evidently those which procure wealth directly from nature; hence the law of wages in them must be the general law of wages. And, as wages in such occupations clearly depend upon what labour can produce at the lowest point of natural productiveness to which it is habitually applied, therefore wages generally depend upon the margin of cultivation or, to put it more exactly, upon the highest point of natural productiveness to which labour is free to apply itself without the payment of rent. The law of wages we have thus obtained is that which we previously obtained as the corollary of the law of rent. It is, that: Wages depend upon the margin of production, or upon the produce that labour can obtain at the highest point of natural productiveness open to it without the payment of rent. Like Ricardo's law of rent, of which it is the corollary, this law of wages carries with it its own proof and becomes self-evident by mere statement. For it is but an application of the central truth, which is the foundation of economic reasoning, that men will seek to satisfy their desires with the least exertion. The average man will not work for an employer for less, all things considered, than he can earn by working for himself; nor yet will he work for himself for less than he can earn by working for an employer. Hence the return that can be secured by labour from such natural opportunities as are free to it must fix the wages that labour everywhere gets. That is to say, the line of rent is the necessary measure of the line of wages. In fact, the accepted law of rent depends for its recognition upon a previous, though in many cases it seems to be an unconscious, acceptance of this law of wages. What makes it evident that land of a particular quality will yield as rent the surplus of its produce over that of the least productive land in use, is the apprehension of the fact that the owner of the higher quality of land can procure the labour to work his land by the payment of what that labour could produce if exerted upon land of the poorer quality.

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Effect of Increases in Population

The manner in which increasing population enhances rent, as it is generally explained and illustrated, is that the increased demand for subsistence forces production to inferior soils or to inferior productive points. Thus if, with a given population, the margin of cultivation is at 30, all lands of productive power over 30 will pay rent. If the population be doubled, an additional supply of land is required and that can be obtained only by an extension of cultivation, causing other lands to yield rent that before yielded none. If the extension be to 20, then all the land between 20 and 30 will yield rent and have a value, and all land over 30 will yield increased rent and have increased value. But a misapprehension arises which it is necessary to clear up for a proper understanding of the effect of increase of population upon the distribution of wealth. It is the presumption that the recourse to lower points of production involves a smaller aggregate produce in proportion to the labour expended. Increased population, of itself, and without any advance in the arts, implies an increase in the productive power of labour. The labour of 100 men, other things being equal, will produce more than 100 times as much as the labour of one man, and the labour of 1,000 men much more than ten times as much as the labour of 100 men; and so, with every additional pair of hands which increasing population brings, there is a more than proportionate addition to the productive power of labour. Thus with an increasing population there may be a recourse to lower natural powers of production, not only without any diminution in the average production of wealth, but without any diminution at the lowest point. If population be doubled, land of but 20 productiveness may yield to the same amount of labour as much as land of

30 productiveness could before yield. For it must not be forgotten (what often is forgotten) that the productiveness either of land or of labour is not to be measured in any one thing, but in all desired things. A settler and his family may raise as much corn on land a hundred miles away from the nearest habitation as they could raise were their land in the centre of a populous district. But in the populous district they could obtain with the same labour as good a living from much poorer land, or they could make as good a living from land of equal quality after paying a high rent, because in the midst of a large population their labour would have become more effective; not, perhaps, in the production of corn, but in the production of wealth generally-or the obtaining of all the commodities and services that are the real object of their labour.

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What Prevents Harmonious Development

To remove want and the fear of want, to give all classes... the decencies and refinements of life, the opportunities of mental and moral development, would be like turning water into a desert. And this force of forces - which now goes to waste or assumes perverted forms - we may use for the strengthening, and building up, and ennobling of society, if we but will, just as we now use physical forces that once seemed but powers of destruction. All we have to do is to give it freedom and scope. The wrong that produces inequality; the wrong that in the midst of abundance tortures men with want or harries them with the fear of want; that stunts them physically, degrades them intellectually, and distorts them morally, is what alone prevents harmonious social development. For "all that is from the gods is full of providence. We are made for co-operation - like feet, like hands, like eyelids, like the rows of the upper and lower teeth." There are people who are unable to conceive of any better state of society than that which now exists - to whom the idea that there could be a state of society in which greed would be banished, prisons stand empty, individual interests be subordinated to general interests, and no one would seek to rob or to oppress his neighbour, is but the dream of impracticable dreamers. Such people - though some of them write books, and some of them occupy the chairs of universities, and some of them stand in pulpits - do not think. If they were accustomed to dine in those eating-houses where the knives and forks are chained to the table, they would deem it the natural, ineradicable disposition of man to carry off the knife and fork with which he has eaten. Take a company of well-bred men and women dining together. There is no struggling for food, no attempt on the part of anyone to get more than his neighbour; no attempt to gorge or to carry off. On the contrary, each one is anxious to help his neighbour before he partakes himself; to offer to others the best rather than pick it out for himself; and should anyone show the slightest disposition to prefer the gratification of his own appetite to that of the others, or in any way to act the pig or pilferer, the swift and heavy penalty of social contempt and ostracism would show how such conduct is reprobated by common opinion.

Differing States of Society

All this is so common as to excite no remark, as to seem the natural state of things. Yet it is no more natural that men should not be greedy of food than that they should not be greedy of wealth. They are greedy of food when they are not assured that there will be a fair and equitable distribution that will give enough to each. But when these conditions are assured, they cease to be greedy of food. And so in society, as at present constituted, men are greedy of wealth because the conditions of distribution are so unjust that instead of each being sure of enough, many are certain to be condemned to want.