

# THE GOOD SOCIETY!

8212

Thomas Carlyle

"The widow is gathering nettles for her children's dinner. A perfumed seigneur, delicately lounging in the Oeil de Boeuf, hath an alchemy whereby he will extract the third nettle and call it rent."



Alumni Group International  
August/September, 1981

## Progress and poverty

by Harry Pollard

From time to time, we have been dealing with Murray Rothbard's critiques of Henry George's analysis. Rothbard's remarks are significant because to a large extent they have been accepted as the given word on the subject of the 'single tax', even though Rothbard shows clearly that he hasn't so much missed the boat — as missed the ocean. Whenever he has taken up the cudgels against Georgist theory, he has swung mightily at the wrong target.\*

### Landlords and Tenants

To summarise earlier analysis, Rothbard accepts a land ownership mechanism that rests on the first claimer, even though such a contention would turn the first generation into landlords, and we who come after, into tenants. Nevertheless, when the value of land is low, and the settling is hard, such a crude allocation might be usefully expedient.

However, with increasing population and its accompanying increase of land-value, the first-comers and their heirs become joyful beneficiaries of Mill's 'unearned increment'. Custom, reinforced

\* Principal error is the Rothbardian assumption that payment of a Rent charge for a location is a matter of landholder choice — rather as if one could occupy a theater seat, then choose to pay, or not to pay, for the ticket. In every way, George's 'single tax' may be regarded as a user charge, which must be paid.

by the power of the state,\* establishes the privilege of levying a 'tax' on the producers.

Ayn Rand's more attractive fantasy of honest and industrious farmers tending the soil with fierce independence must give way to sober reality. Most cultivators are renters paying as much as two thirds of their crop to someone who inherited from the 'first-comer'.\*\* 'Inherit' obscures the truth, for between first tiller and latest tenant is a sorry tale of, fraud, violence and murder — with always an solicitous state ready to traditionalize the crime and confirm the legal ownership of the swag.

Land does not behave in the market place as do other things. Henry George recognised this — not an arduous exercise — and offered his elegant solution, characterized by the Austrian School's von Mises as "utterly incompatible with the preservation of the market economy"! In counterpoint, George's remarks about Austrian theory included the words 'grotesque confusions'! (cont'd on Page Three)

\* the term 'state' is derived from 'estate'. The early fief and the modern state have much in common.

\*\* People who accept the landholder/peasant relationship often become outraged when confronted with the widespread practice of 'rack-renting'. They hold that only 'fair rents' should be charged, thereby exposing their ignorance of both the real world and the market.

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The Good Society circulates to members of the Alumni Group International - an association of people firmly committed, not only to the constitutional principles of liberty and justice, but to a belief that reasonable solutions may be found for pressing personal and societal problems.

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**A SPECIAL L/10 ISSUE**

**"Help hook a teacher."**

We really don't have anything against Murray Rothbard, who writes, often brilliantly, but perhaps too much. This dissection of his 'critique' of George began some time ago and this is the last of the series. No doubt we will return to the subject, for libertarians expose themselves to mortal defeat if they don't handle the land problem properly.

The Good Society comes to you because you want it. If you wish to contribute (in tax-deductible fashion) to the Alumni Group, you'll join many fellow libertarians. The income goes to promote InterStudent, probably the most extensive Economic Program in secondary education teaching unrestricted free enterprise and the necessity of taking responsibility for your own actions.

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This is a magazine of opinion, comment and debate. The opinions are those of the Editor and contributors. Responsibility for unsigned comment rests with the Editor. Contributions and letters are welcomed. They should be connected with the broad subject of political economy, which concerns itself with Man as a person and as a member of society.

(cont'd from Page One)

At the other end of the spectrum, Karl Marx, described by George as "the prince of muddleheads", gloomily warned that 'Progress & Poverty' was "the capitalists' last ditch".

Contemporary Georgists would contend that without solution to the land problem, the market economy of the Austrians is not compatible with individual freedom. Further, they would assert that failure by defenders of the free market to address themselves to this question is directly responsible for the worldwide slide into socialism. Virtually every legislative 'remedy' of the western world is directed to an effect of the land problem. Of course they never work.

#### Privilege — the Coercive Value

Value can be created in three ways and one of them is coercive. The most important 'values' are created by production of wealth. They can also be created by 'obligation'. If I sign a paper obliging myself to pay you \$1,000 in the future, that paper has an exchange value. The act of accepting the obligation creates value — but, unlike production, it does not add to total wealth.

A third way to create value is to establish a privilege, or private law ('privi' - 'legel'). A privilege benefits one person at the expense of another. It's a 'one-way-exchange' and is the child of coercion. The right to take from another without payment is saleable. With a private law, backed by force, value has been created without the production of wealth.

#### Price Measures Progress

One would expect that normal progress in the arts of production would reduce the amount of exertion 'paid' for things and that prices would tend continually to reduce. The effort to maintain 'stable prices' is essentially a political play without economic meaning. The price of goods to the consumer, over the long haul, will decline. Declining prices are a measure of advance of a civilization.

Once produced and in the hands of the consumers, products tend to diminish in value as they are used. They wear out. So, prices suffer two declines — the downward trend that accompanies progress

**The Good Society**

and, on transfer to the consumer, the lessening of value that accompanies normal usage. These trends are stressed because later we will find exceptions to the rule.

'Price' may conveniently be regarded as the result of two influences. First, is the effect of alternatives. One may buy one thing, or one may buy something else. The 'something else' may be another version of the same good, or it may be something very different, which still takes the form of an alternative. \*

#### Caddies and Chevies

In an imaginary static market, goods relate to each other according to their cost of production (exertion). Before you scream that this is 'Marxist Labor theory of value', think for a moment. If the manufacture of a Cadillac costs you twice as much exertion as you would spend making a Chevrolet, but you can get only 50% more for the Cadillac in the market, how long will you continue to make Cadillac? Presumably, you will transfer to Chevy manufacture and the Caddies will begin to disappear from the market — even as the Chevies increase.

Thus will Chevies and Caddies reach the market in proportion to demands that will recover their costs of production. In other words, prices will reflect the differing efforts that must be put into their manufacture. A market may be viewed as a counter laden with goods priced according to their cost to the producer.

#### The Price Mechanism

However, markets are not static, and a second influence makes itself felt. Although, goods will 'take station' according to their costs, varying inputs occur as people bring their production for sale. Changing supply will affect prices, just as the converse is true — changing prices will stimulate changes in supply.

This process, whereby demand is constantly fed by changing supply, we call the 'price-mechanism'.

\* You may choose between Cadillac and Toyota, or between Cadillac and bicycle. On the other hand, you may decide to buy a suit and use your feet.

If Cadillacs take station in the market \$1,000 above the Chevrolet price, but the price difference opens up to \$1,100, Chevrolets will become more attractive to some buyers. Fewer sales of Cadillacs along with increasing sales of Chevrolets will close the gap and again the cars will take station \$1,000 apart.

In this fashion, thousands of goods find their 'equilibrium price' position in the market and the price-mechanism will keep them hovering around it.

#### **Steaks and the Mona Lisa**

At least, this is true of the overwhelming business of the market which deals with similar and interchangeable goods. It doesn't happen with a far less significant activity where goods are priced for their specific, unique, or limited characteristics.

When you buy a steak, you don't buy a particular piece of meat, but whatever happens to be in the meat department. You may have particular preferences, such as more fat, or less fat, 1" thick or ½" thick, a pound or 8 oz. – but at the moment of sale, the permutations are many between what is available and what you will accept.

But, when you shop for Mona Lisa, you cannot pick between possibilities, nor raise or lower your sights. You have no alternative. If you want to buy Mona Lisa there is but one and there will be no more (but see below).

#### **How the Free Market Works**

The market value of a general trade good is profoundly affected by the 'price mechanism' – the process which opens and closes the supply spigot. Yet, the price mechanism works properly only when two conditions are met: when there is no restriction on the production of alternative goods; and when there is no restriction on movement of the goods to market – free production and free trade.

When goods cannot come to market, the action of the price-mechanism continues, but fails to establish a clearing price (when supply just satisfies demand). When production is aborted, or when existing supplies are kept from market, the price-mechanism process still seeks to force input by raising prices higher.

**Page Four**

### **INTERNATIONAL CONFERENCE for LAND VALUE TAXATION and FREE TRADE**

Woudschoten, Holland  
July 24-31, 1982

Information from:

Council of Geologist Organizations  
5 East 44th Street, New York NY 10017

United Committee  
177 Vauxhall Bridge Rd.  
London SW1V 1ER England

Thus, when an increasing price fails to produce another Mona Lisa, it continues to rise apparently with no end to the increase (the word is 'priceless'). The price-mechanism struggles to draw to market the non-existent alternative, but does no more than provide incentive for theft and forgery. \*

#### **Prince Charles' Wineglass and Billy Beer**

A market deals with similar things. A buyer may choose between non-identical alternatives. One may shop for wineglasses and find any number of acceptable variations.

Not so for the wineglass that was raised by Prince Charles for the wedding toast. The authentic wineglass that touched his lips achieves a value outside of normal commerce. There are no similar glasses, nor are there any identical alternatives. Demand for this special wineglass cannot attract to market more identical specimens to compete and thus lower the price. It is one of a kind.

The behavior of such unique specimens has led to a growth industry in 'collectibles' which range from a genuinely unique gem to a somewhat contrived 'uniqueness' (a check signed 'Aaron Burr' – \$115), and extends even to a uniqueness specially

\* Six 'original' versions of the Mona Lisa have been authenticated!

**The Good Society**

manufactured by issue of limited editions, special runnings and first covers.

The value of these collectibles is based not on any original beauty, or artistry, but on their rarity. One does not want a well-crafted chest of drawers, but a bonnet-top highboy, tiger maple, c. 1765 (\$3,800). One does not want a cold can of Billy beer, but an empty Rosalie beer can (\$10,000).

Collectibles are valuable because the unique, the 'almost unique', and even the apparently unique are not subject to the authority of the price-mechanism. \* Prices rise as the market labors to draw forth a competing supply – and fails. Appreciation is the name of the collectible game.

You might think that such an aberration would dampen the enthusiasm of those who advocate the free economy. A continual price increase without restraint surely indicates the 'invisible hand' has lost its touch. But, not to worry, these constantly appreciating collectibles are of little importance to the smooth functioning of the economy.

#### Churchill's Comment

Said Winston Churchill, speaking to this point: "Pictures do not get in anybody's way. They do not lay a toll on anybody's labour; they do not touch enterprise and production at any point; they do not affect any of the creative processes upon which the material well-being of millions depends . . . " \*

Churchill was comparing 'collectibles' with that most essential basis of all production – land. Why the comparison? Because land, like collectibles, in the market place is not governed by price mechanism action. And there's the rub, for land 'collection' does get in everybody's way.

Just like other things, land takes its station in the market. Unlike other things, market separa-

\* Or, apparently not subject; Billy Carter's beer cans are being offered as rarities for \$1,000 apiece. Yet, unbeknownst to the aspiring collectors, there are tens of thousands of cases of Billy Beer available in the warehouses of the south.

\* General Election speech – Lancashire, Dec. 1909  
The Good Society

tion of locations is not related to production costs. Land requires no production. It was there before we were – and it will be there when we are gone.

Land takes station according to its value as an aid to production. This value to production is known as Economic Rent. \* Simply put, land renting for \$2,000 a year may be expected to add \$1,000 more to production than land renting for \$1,000.

#### Community Created Value

Rent is directly related to the activities of the community as a whole. It is called a 'socially created value' because it is. The value of a location would exist without the landholder qua landholder, but not without a surrounding community of individuals. Essentially, all that a landholder does – for a price – is to allow a producer to use a value provided by others.

It can be seen that a landholder's return is pure privilege. He does nothing, as a landholder, for his Rent. Private law, reinforced by power of the state, ensures continuance of the 'one-way exchange.

The first influence on land price in the market place is, like other things, the available alternative. But the alternative is always other land. There is no similar thing that may be substituted.

The second influence is, of course, the price-mechanism, but in crippled cast. For those necessary conditions of a free market – unrestricted production and mobility, are absent from the land market. Demand for land shown by rising prices, cannot stimulate production of more land, nor can it draw land in from elsewhere. Market response to rising prices – the arrival of fresh supply – is impossible. The mechanism that effects a 'clearing price' for other goods waxes impotent in the land market.

#### The Ultimate Collectible

If you have noticed that land, divorced from market control, takes on the familiar aspect of a

\* Rent may be defined as the sum of advantages, less disadvantages, that attach to a location. Technically, it's the difference in value between a location and the best land that can be had for nothing.

genuine 'collectible', you are perceptive. And the resemblance grows.

One doesn't shop for land in general. Just as you always choose a particular collectible, so do you always specify a location. You must locate on Main Street, or at the scenic view. You go to the garment district, or the legal building. You occupy space near the freeway, bus stop, heavy sewers, high voltage lines, grade school, or church. You must settle close to your fellow wholesale jewellers, or in the vicinity of other stereo stores.

The desire for the specific, the unique and only site parallels the desire for the specific, the unique and only Tiger Beer can (\$10,000). Except that beer cans, like pictures, don't get in anybody's way.

In common with other 'collectibles', land is not governed by the price-mechanism, which means its price pushes ever upward. \* And the collectible analogy becomes firmer. If six somewhat comparable residential lots are for sale and one is built upon, the effect on the others is instructive. With fewer lots available, the remainder increase their price. The erection of the first building, adds to the price of the remaining lots. The process repeats until one lot is left. This will achieve the highest price of all. It is clearly evident to landholders that the highest price goes to the last one to sell. So, they don't sell, they 'collect'.

#### **Producer and Non-Producer**

The producer cannot be a collector. One can imagine his thoughts as he faces rising prices for his product. Should he hold back his production for even higher prices – those delectable windfalls? Well, he should be warned. If he holds his production from market, his regular customers will not be pleased and he places his future business in jeopardy.

Storage of his unreleased product can be expensive, both in space and because it gets in the way of

\* Until the advent of general economic collapse: Georgist analysis notes the land-price bubble that precedes every industrial depression. The effective limit to land price increase occurs when production stops because cost of location becomes too high.

**Page Six**

his continuing production, and even though his income has been deferred, the wages of his workers cannot be. He must pay them, or they'll leave. And while he hesitates, his competition will be busy.

He must go to market. He is charged, not with merely selling his production, but with maintaining a viable business. Production is less like a lake than a river whose flow must not be impeded by a dam.

We can compare the markets. When demand raises the price of widgets, the widget producer rushes to market. In the act of supplying demand, he cools the price – the classic market response. Second to market will get a lower price. Third to market may find prices have fallen too low. For the producers, the race goes always to the swift.

No such imperative confronts the landholder. Continuing production is not an issue. Once the land is sold, the landholder is no longer a landholder. And his land is rising in price. When you have something to sell which, at no cost to you, will be worth more tomorrow, and yet more the day after, there is little incentive to putting it on the market.

Further, the act of holding land from the market still more reduces available supply and heats the price. The person who holds on longest to land will receive the best return. \* The land market becomes more and more arthritic as potential vendors choose to sit around trying to be the last to sell. \*\*

It is illuminating to examine the behavior of the wealth-producer and the landholder. One must rush to market, the other stays away. One must keep the wheels turning, the other may lounge on the beach. One must invest and continually risk over the long

\* Nothing is certain and many a landholder vainly awaits the freeway, sewers, something – anything! – to arrive and prove out his claim. But, at issue is not a potential, actual, or unrealised profit – but the economic consequence of holding ripe land from the market.

\*\* For a fuller treatment of 'land paralysis', see "Land Speculation and Ecology" (Paper presented to the Environmental Section AAS by Harry Pollard Henry George School, Tujunga – 1981)

**The Good Society**

term, the other eschews commitment — preferring a 'cash-crop' income. One gets nothing without exertion, the other gets everything without exertion.

#### **Rothbard's Alibi**

A landholder's job is lucrative — indeed most of the great American fortunes have been built on real estate speculation. Feeling a need to provide an alibi for this diversion of wealth from labor and capital, Rothbard comes up with a most amusing portentousness. He attempts to ascribe to the landholder the needful task of "allocating land sites to their most value-productive uses, i.e., to those uses most desired by the consumers."\*

How this differs from simply selling to the highest bidder becomes as tortuous a train of logic as you might meet anywhere. The sale of land, according to Rothbard, requires certain arcane rituals. The owner performs the service of "transferring ownership". It "does not simply exist; it must be served to the user by the owner". The owner insures "the most productive locations for each use".

The mind boggles at the thought of the landholder waving his tureen at a prospect, but a query disturbs the boggle. What does a landholder do for 100% of the price, that any competent realtor would not do equally well for a 5% commission. Rothbard is appropriately vague on this point, though he warns darkly of "grave effects" if the five-percent get the business.

#### **And Rothbard's Beliefs**

It appears that Rothbard actually believes — in the face of overwhelming contrary evidence — that better sites are all used before producers move to marginal locations. Certainly, this would be expected in the market, where one generally buys the best bargain before turning to second best.

But, at risk of tedium it must be stressed that the land market is not a free market. So, the 'allocation' and use of land-sites is about as haphazard, inefficient, uneconomic and downright whimsical as you could conceive. If the land-site market is an

example of Rothbard's free market process, it has failed every test.

It is frustrating that Rothbard is unable to see a problem so manifest. Our economic difficulties, from California to New York and from Vietnam to El Salvador are essentially land provoked. Even so, the 'fix' provided by the collectivists (of all political persuasions) is rarely countered by any free market alternative.

#### **Success and . . .**

An outstanding exception is Georgist inspired Taiwanese land reform.\* Despite a population density rising above 1,200 people to the square mile (about twice that of India and 4½ times that of China) the Taiwanese have a net export of food. Given similar incentive, one might imagine the farms of India, now teetering always on the brink of disaster, becoming the 'bread basket' of South-East Asia — and even perhaps a food exporter to the US.

#### **. . . Failure for Libertarianism**

Rothbard seems to be unaware of the consequences of failure to solve the land problem. Our progress towards a free society depends on effective solution, both here and abroad. And we have little time. In the wings, and occasionally on center stage, await the communists, ready and willing to attend to any important matter we may neglect.

Against the realities so well understood by the communists, Libertarians march bravely, but unarmed. They have lost before they begin. They will not win 'the hearts and minds' of people by confirming their position as rack-rented peasants.

They will not persuade the poor, who clearly see the extraordinary consequences of successive industrial revolutions, that poverty is inevitable.

\* Sun Yat Sen was strongly influenced by Henry George. His philosophy arrived in Taiwan with the Nationalist Generals. The result is a land reform which has turned loose the energies of people in pursuit of private profit — the 'mainspring of human progress'. So, hidden behind the somewhat wretched political facade of Taiwan, there exists a solution to the basic problem of Asia, which is survival.

\* "Power and Market" (Institute for Humane Studies — Menlo Park, 1970)  
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### Address Correction Requested

The argument that hard work and struggle will take them from squalor to the good life is likely to be greeted by cynical amusement. Hard but honest toil at the poverty level retains its glamor only in the wilder imaginings of George Gilder.

Nor will it be easy to explain to the young that land-price explosion is simply an idiosyncrasy of the free market. That they should be satisfied with a less than remote chance of raising a family in their own home, or on their own farm.

Confront them with a 'free market' high rent apartment, or some overpriced farmland, and you'll end up with instant converts to rent control and crop subsidy. Without George's free market approach to the land problem, libertarians are lost.

To the demand "Show me", to where will the libertarians point? To the US? - where land was free, or very cheap, through much of its history. But, not now. Hong Kong, so beloved of Milton Friedman? - the land is leased by the colony to the entrepreneurs. Switzerland? - how lucky to be at the crossroads of Europe. (If you're eager to own land, grab a crossroads.)

### The Georgist Community

Arrant nonsense about the state owning or controlling all the land (that's Rothbard again) in no way describes a Georgist society. Ownership would not change, title deeds would remain, powers of acquisition and sale would be the same. Restrictions would be few or non-existent.

Page Eight

Major changes would be a complete absence of taxes and the presence of a user charge for every site above the margin. The Danes call this a 'ground-debt'. Community created value attaches to your ground, so you pay your 'debt' - not a bad name. \*

The burden of a 'user charge' would make land-sites unattractive as 'collectibles'. No longer would they be kept from the producers. Sites would enter the market as do labor and capital and would be controlled by the price mechanism. Land would be occupied only as a prelude to use. The market would 'allocate' them without the expense or inefficiency of the landholder. They would enter the arena in orderly fashion - the best sites first - as one might expect from a free market.

Cities would become compact and attractive, urban sprawl would end, home-ownership would bloom, intensive and profitable family farming would be the rule. The wilderness - because there would be so much of it - might develop into a nuisance. Because proper environmental husbandry is the corollary of unrestricted economic enterprise, conservation could well become a joke.

This is the Georgist revolution. It is quiet, reasonable, non-coercive, proven effective and, by releasing the energies of free individuals, could win the battle against the collectivists.

\* Nearly 60 years of Danish land-value taxes has led to more than 96% of the Danish farmers owning their own farms. (We're not even close).

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