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## GEORGEISM - GOOD NEWS ?

### ABSTRACT:

To define Rent as "that which goes to the landowner by virtue of his ownership" or to regard it as robbery, begs the question and inspires nobody.

Then just what IS Rent ? What follows is a discussion of that question.

It is a direly necessary discussion, because Henry George succeeded in his "wide savannah to big city" saga, in thoroughly confusing the issue. Firstly he demonstrated how the social bonus of surplus product arises when community growth generates fresh utility in land upon which labour and capital are employed - thereby increasing their efficiency and output. GOOD NEWS!

But then he directed his immediate argument off-target by saying, "So look what the landlord can exact without even working." BAD NEWS!

Therefore we MUST determine what we mean by RENT. It is herewith recommended that RENT should be the term used for the social bonus of surplus product, and that the term RENTAL should be the term used in reference to payments made - or exacted - for the use of land. Further discussion can then - and only then - proceed on true site rentals, pseudo rentals, and so forth.

Here, let us imagine, is an unbounded savannah, stretching off in unbroken sameness of grass and flower, tree, and rill, till the traveller tires of the monotony. Along comes the waggon of the first immigrant. Where to settle he cannot tell—every acre seems as good as every other acre. . . . Tired out with the search for one place that is better than another, he stops—somewhere, anywhere—and starts to make himself a home. . . . It is an easy matter for him to get enough to eat; but beyond this his labor will only suffice to satisfy the simplest of wants in the rudest way. Soon there comes another immigrant. . . . He settles by the side of the first comer, whose condition is at once greatly improved, and to whom many things are now possible that were before impossible, for two men may help each other to do things that one man could never do.

Another immigrant comes, and, guided by the same attraction, settles where there are already two. Another and another, until around our first comer there are a score of neighbours. Labor has now an effectiveness which, in the solitary state, it could not approach. . . . A blacksmith and a wheelwright soon set up shops, and our settler can have his tools repaired for a small part of the labor they formerly cost him. A store is opened, and he can get what he wants as he wants it; a post office, soon added, gives him regular communication with the rest of the world. Then comes a cobbler, a carpenter, a harness maker, a doctor, and a little church soon arises. Satisfactions become possible that in the solitary state were impossible. . . . Population still keeps on increasing, giving greater and greater utility to the land, and more and more wealth to the owner. The town has grown into a city—a St. Louis, a Chicago or a San Francisco—and still it grows. Production is here carried on upon a great scale, with the best machinery and the most favorable facilities; the division of labor becomes extremely minute, wonderfully multiplying efficiency; exchanges are of such volume and rapidity that they are made with a minimum of friction and loss. . . . Hither run all roads, hither set all currents, through all the vast regions about. . . . Here are museums and art galleries, collections of philosophical apparatus, and all things rare and valuable, the best of their kind.

So enormous are the advantages which this land now offers for the application of labor, that instead of one man with a span of horses scratching over acres, you may count in places thousands of workers to the acre. working tier on tier, on floors raised one above the other, five, six, seven and eight stories from the ground, while underneath the surface of the earth engines are throbbing with pulsations that exert the forces of thousands of horses. . . . The productive powers which density of population has attached to this land are equivalent to the multiplication of its original fertility by the hundred fold and the thousand fold. And rent, which measures the difference between this added productiveness and that of the least productive land in use, has increased accordingly.

One settler, or whoever has succeeded to his right to the land, is now a millionaire. Like another Rip Van Winkle, he may have lain down and slept; still he is rich—not from anything he has done, but from the increase of population. There are lots from which for every foot of frontage the owner may draw more than the average mechanic can earn; there are lots that will sell for more than would suffice to pave them with gold coin. . . . It is a well-provisioned ship, this on which we sail through space. If the bread and beef above decks seem to grow scarce we but open a hatch and there is a new supply, of which before we never dreamed. And very great command over the services of others comes to those who as the hatches are opened are permitted to say, "This is mine!"

To recapitulate: The effect of increasing population upon the distribution of wealth is to increase rent (and consequently to diminish the proportion of the produce which goes to capital and labor), in two ways: First, by lowering the margin of cultivation. Second, by bringing out in land special capabilities otherwise latent, and by attaching special capabilities to particular lands.

—Henry George in "Progress and Poverty."

man-kind is earth-dependant. Population pressure generates intense competition for land to occupy ("lebensraum") and so gives rise to high premiums upon location. This explains the difference between the value of sand in the Simpson Desert and that at Surfers' Paradise. But the value does not lie in the sand or soil - it lies in the site. And so the annual premium that sites can command in the land market are termed their locational rental value, or more simply, site rental.

There are four factors that, in varying proportions, enter into the production of all goods and services. These are:

Labour  
Capital  
Raw materials  
Location (ie., the site at which the first three operate.)

Each of the first three factors (Labour, Capital, and Raw materials) enters into the value which the final products can command in the market, and so each of these attracts to itself a proportion of the proceeds. The returns distributed to these three factors are fixed by their costs of production at what is known as the "margin of production" (ie., where no locational advantage operates; but the returns which relate to the location attract whatever "supramarginal" surplus value arises, a surplus whose origin lies in the economies in effort that may be available at each location.

It will be seen that the factor of locational rentals arises from the generalized situation of common need for land. It is not a return commanded by the individual expenditure of labour or utilization of capital. Locational rentals are therefore to be construed as a common fund, that particular stream of income within the community to which the community as a whole can claim common equity.

Locational rentals in the hands of individuals constitute an unearned income, and are promptly capitalized into land price - into a sum which is often grossly swollen by wild speculation. Land price then becomes a progressive obstacle to further production, ie., to further productive employment of labour and capital. Then, for public revenue, government, having defaulted on the public appropriation of locational rentals, resorts to punitive, arbitrary taxation upon labour, capital and their products. Artificial regulation of the economy, thus distorted, then appears to be necessary. Hence the pseudo-respectability of Marxism, Keynesianism, the bureaucracy and the Welfare State.

But in fact the price to be paid for a "free market economy" is the socialization of the locational rentals of land. Such is the practical expression of Georgeism.

#### THE LAW OF RENT

"This is the law of rent: As individuals come together in communities, and society grows, integrating more and more its individual members, and making general interest and general conditions of more and more relative importance, there arises, over and above the value which individuals can create for themselves, a value which is created by the community as a whole, and which, attaching to land, becomes tangible, definite, and capable of computation and appropriation. As society grows, so grows this value, which springs from and represents in tangible form what society as a whole contributes to production, as distinguished from what is contributed by individual exertion...  
... all social advance necessarily contributes to the increase of this common value, to the growth of this common fund."

- Henry George

Does the exposition on the previous page encompass the core philosophy of Henry George ?

The answer is "NO".

The previous page is orientated in terms of a discussion of values. It is a valid economic disussion, but it is based upon the concept of scarcity and difficulty. Hence the term land rentals.

THAT is NOT the primary "good news" of Georgeism.

The primary good news is a discussion of plenty and of abundance - of the common profit, or bonus, from human association. It is something which is received, not paid.

It is something which must be physically brought into existence, generated, BEFORE anyone will pay a rental in order to acquire it.

Then what is it, and how does it come about ?

The first requirement in this discussion is to realize that there are two stages to be followed through:

The first stage is concerned with consideration of the way that physical factors enter into production, to yield products as wealth.

The second stage is concerned with consideration of the economic factors that enter into the distribution of the price obtained for products when these enter the market and acquire exchange value.

This second stage has already been revealed in the orientation of the discussion on the first page, where it has been shown that a premium will be paid for land according to the scarcity-value of its particular qualities.

Dear land is bad news for those who don't benefit. But what we have to portray as "good news" is the fact that the corporate Society, by its very existence, generates a bonus of extra-attainable goods and services that would not be attainable by labour working in isolation; and that it is a bonus available to the equal enrichment of all.

Adam Smith made the "first approximation" to this exposition when he dwelt upon the economies of specialization and trade - the "third hand" that contributed the bonus or "profit of association".

But it was left to Henry George to highlight what Adam Smith left out; and in doing so he drew upon Ricardo and the Physiocrats. He developed the argument to portray that the "profit of association" did not arise merely from economies in the application of labour and capital as such, but that the economies to be effected and the bonus of wealth to be thereby attained was very largely dependent upon the advantages inherent in or bestowed upon the locations at which labour and capital operated. For any particular industry, there was a baseline of land at a location of no particular advantage below which it was uneconomic, under prevailing circumstances, for labour and capital to be applied. This land, then, lay at the economic "margin", and it was the price attainable for production at this margin which determined whether labour and capital would be applied at that location. The locational advantages would be, variously, natural fertility, accessorial services, access to markets.

Then, for a given application of labour and capital - and, indeed, bettered opportunities for such application - at sites yielding greater economies and efficiencies than those operative at the margin, there would be a nett supramarginal return, or Surplus Product - a bonus attributable not to individual effort, but to what the community in general afforded by way of advantages to this site and that.

To quote Robert Clancy, "George broadened Ricardo's Law to all lands; it won't be the "same application" per person on urban land as on farm land, but an equivalent application in terms of exchange value. Urban activities call for more intensive land use and thus more labour and capital are applied to a given area of land - but the total production will still yield more rent per capita than the same labour and capital applied to inferior lands."

Furthermore, as the community grew, it would generate more and more efficiencies, and would facilitate more and more sites to greater and greater degree. So the Surplus Product, the "natural wages" of the community as a whole, would grow as the community grew, available to service the needs of the community when subjected to valuable exchange in the market. This surplus product would grow, not only with growth of population, but with every social and scientific

Henry George portrayed this in the famous "Wide Savannah" 4  
saga in Progress & Poverty. It was the story of the Social Surplus,  
of community enrichment. It was the Good News of Abundance.

I believe that any exposition of Georgeism that does not  
commence with this exposition and emphasis upon the physical  
generation of abundance of (a) returns to labour and capital (Adam  
Smith's "third hand") PLUS (b) the bonus of Surplus Product which  
is generated by the community raising the level of efficiency and  
economy of the sites at which its members operate, will miss the  
prime message of the Good News.

To repeat, what is the Good News? It is that the organism  
of Community, by its very existence, generates Surplus Product for  
its own enrichment, by increasing the advantages accessorial to the  
sites at which its members, each and every one, live and work, And  
further, that this source for public revenue dispels the justifica-  
tion for imposing arbitrary taxation upon labour and capital and  
the wealth that they produce when they have access to the raw  
material of Nature.

It is only after we have established the argument as to the  
existence and method of generation of this natural bonus of wealth,  
this natural Fund, that we can proceed to discussion of how that  
Fund is to be identified and evaluated, ie., what the Surplus  
Product is worth in the market.

Note especially that Surplus Product is received - by those  
who utilize land that has locational advantages to their particular  
purpose. It is received in the form of an augmentation of the fruits  
of their endeavours. But this is really a rather theoretical con-  
sideration, because how does one determine what constitutes returns  
to marginally applied labour and capital, and what constitutes the  
supramarginal Surplus Product? How is Surplus Product to be publicly  
appropriated as the "earnings of community"? :

All wealth will exchange for valuable consideration in the  
market in the normal course of affairs, and the value of any part-  
icular product is quantified in PRICE. But not only products and  
services will exchange for valuable consideration - for so will  
privileges.

And the greatest privilege, literally, on the face of the  
earth, is the exclusive occupancy of land the utilization of which  
will yield Surplus Product. The land whose use will yield Surplus  
Product is the land which will lie at a premium; and that premium  
will be higher or lower according to the scarcity-value of the  
locational advantages concerned.

It is from this point on that the argumentation developed  
on the first page can now sequentially be applied - but not before  
this! We now have to use the scarcity concept to secure to the  
whole community the abundance that it has earned!

Locational rentals thus come to be paid for the privilege of  
exclusive occupancy of land, according to general estimation in the  
market of the value of the Surplus Product that is anticipated.

And so it comes about that the market value of Surplus Product  
as a distributive portion of total wealth production evaluated in  
total prices received, is identified in the locational rental which  
is paid by the occupier of the land.

Surplus Product is physically generated throughout the  
nation. Surplus Product is economically evaluated in the locational

rentals throughout the nation. Summated, these run into tens of billions of dollars. That sum is what the Community is worth. That sum, growing as the Community grows, is the natural revenue of the State.

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We must further note that locational rental levels rise for two reasons - the intensive and extensive use of land. Insofar as land is intensively used as in great cities, Surplus Product in the form of myriad locational advantages in amenities towards living and working, is high. So rentals are high. On the other hand, population pressure forces the utilization of land further and further out so that the margin is re-established at a point previously submarginal. Henry George pointed out that the cooperative activities of people will, even so, raise the utility of this land also, but the establishment of this new baseline increases the relative advantage of all locations above it, so that, again, for the reason of scarcity, rather than increased utility, the "bandwidth" of rentals rises.

Hence, with the growth of Society, whilst total production of goods and services increases, the distributive proportion that flows to locational rentals rises not only absolutely, but relatively.

Obviously, then, if locational rentals can be privately appropriated, the rich MUST get richer and the poor must get relatively poorer. It is impossible for it to be otherwise!

The socialization of land rentals, therefore, is not only requisite to the needs of revenue. It is utterly mandatory to the attainment of economic justice within Society. It is the price to be paid to Society for the right to economic freedom for labour and capital within Society.

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#### Definitions:

Surplus Product stems from economy in effort and from facilitation of production. It relates to abundance. It is the Good News.

Locational Rentals stem from competition for sites the use of which will yield Surplus Product. Competition establishes rental Value - and Value is a measure of difficulty and scarcity.

The paradox can be resolved towards community enrichment - both absolutely and relatively - by the mandatory socialization of locational rentals. The value of Social Product is thereby socially shared.

Economic Rent, Rent. The meaning of these terms needs to be thrashed out in Georgeist circles. If they mean something received as a social bonus to one's work, then they equate with Surplus Product, and are good news. If they mean something paid, then they equate with Rental. If they are rental that by force or default goes to individuals, then they represent bad news: "Rent is robbery." If they are rental that flows to the community, they are good news. But we must make up our minds. Henry George left the issue confused. It is now up to us to resolve it.

Perhaps a useful term to make more general use of is RENTABILITY. It would have the connotation of land with that element of increased utility which facilitates labour and capital - thereby generating RENT

The discussion is restated in the next two pages wherein is set out the economic argument relating to the contrasting effects of a tax on goods compared with a tax on rental advantage.

Note that whereas in Fig. 1 we treat Rent as a supramarginal "bonus of abundance" - the first step, always, in the exposition - in Figs. 2 & 3 on the other hand, we deal with the market situation of costs and prices. Thus, whereas in Fig. 1 Rent goes above the line of marginal production, in Figs. 2 & 3, on the other hand, rental advantage appears below the level of marginally-determined unit prices in the form of a saving in costs! The textbooks always seem to take this latter approach, in essence, because they tend to treat the term Rent as Rental, and the flavour of the discussion is always in terms of prices and payments, larger or smaller, without correlating the exposition with the other side of the coin as portrayed in Fig. 1. (perhaps this is precisely the reason why they miss the beauty of George!) The two simply must go together - and in the proper sequence. The levy on rental advantage as in Figs. 2 & 3, which does not add to unit price, is the market mechanism for securing to the community the rent bonus that it has caused to be generated in Fig. 1! It is the "equalizer".

On p.2 earlier, I pressed the point that the argument always seems to come out in terms of difficulty and scarcity - which is what George slid into when he immediately pointed out what the landowner made without working, whilst all others paid tribute and suffered hard times. In the quotation included about the "wide savannah" story, I have drawn a line where he breaks the flow of his "good news" argument: Richard Giles of Sydney, in a monograph on the Industrial Revolution, divided the examination into two views - those of the optimists and those of the pessimists. In the wide savannah to big city saga, George followed the optimists right down to the point where he showed that growth of civilization increased the utility of land, and thereby brought blessings. His classical mistake was then to forthwith unwittingly switch over to basing the moral drawn from his optimist's exposition in terms of, not the optimist's conclusions, but the PESSIMIST'S! And confusion has reigned ever since.

This is why I say that, in the history of economic thought, no-one has ever made a more courageous stab at "getting it right" than did Henry George - and the economists around who are not worthy to tie his shoelaces as far as being equally towering figures in thought are concerned, ought to be big enough to acknowledge it! - nevertheless, we, in the present, have the advantage of the wisdom of hindsight; and it is not knocking George's effort to take the view that it was an approximation to the truth that should not be taken as the final word, as Holy Writ. We have an obligation to build upon it with such insights as we ourselves might muster, conscious always of the fact that our OWN statements are also approximations that must not be taken as the final word.

George saw the cause for optimism in the midst of being utterly surrounded by tremendous reasons for pessimism, and in the course of pouring out comment on both, on occasions he mixed them up together. Thus, even his single tax was to be a tax upon land PRICE - a nice case of trying to restore the dividend owed to optimism in terms of building upon the edifice of the ultimate economic form and expression for pessimism! And so I have tried to make the juxtaposition of Figs. 1 & 2 a tacit resolution of the paradox.

The final two pages are an attempt to finally portray the gist of George's socio-economic philosophy with the GOOD NEWS and the BAD NEWS clearly demarcated.

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