

WHERE HENRY GEORGE WAS CONFUSED

In his "wide savannah to big city" saga, George built up a picture of how increased population increases the locational utility of land, so that there is a socially-generated bonus to the productivity of labour and associated capital.

In this passage, he is talking about the physical processes of production in the first instance. His important initial conclusion from his descriptive process could and should have been that the increasing locational utility of land due to community growth and specialization was responsible for a progressively increasing proportion of the totality of wealth produced; and that this was due to the fact that the "bandwidth" of locational advantage stemmed from both the more intensive and extensive use of land. It would have been possible for him to establish this point without and reference whatsoever to conditions of land tenure.

Then, having established this effect of increased population upon the generation of a supramarginal surplus, he could have entered the next, separate and distinct, phase of the discussion, and considered what happened when all of the wealth thus produced was subjected to competitive evaluation in the market and then fetched a price. He could at this stage have pointed out that land endowed with locational advantages would be at a premium, and that the rentals that land could fetch would constitute, along with wages and interest, a distributive portion of the totality of prices fetched in the market, i.e., of the values-in-exchange effected in the market; and, what is more, that locational rental values would grow both absolutely but also relatively to wages and interest as a distributive share of market return. In fact, he beautifully portrays this, with its implications for what we might legitimately call "Georgeist socialism" in a separate context in his THE CONDITION OF LABOUR, herewith quoted:

"Here is a natural law by which, as society advances, the one thing that increases in value is land — a natural law by virtue of which all growth of population, all advance of the arts, all general improvements of whatever kind, add to a rent fund that both the commands of justice and the dictates of expediency prompt us to take for the common uses of society. Now, since increase in the rent fund available for the common uses of society is increase in the gain that goes equally to each member of society, is it not clear that *the law by which land values increase with social advance, while the value of the products of labour do not increase, tends, with the advance of civilization, to make the share that goes equally to each member of society more and more important as compared with what goes to him from his individual earnings, and thus to make the advance of civilization lessen relatively the differences that, in a ruder state of society, must exist between the strong and the weak, the fortunate and the unfortunate.*"

In this second phase, then, he would not be talking about the mechanism whereby surplus product was generated, but, rather, about the manner in which the economic value of surplus product was to be identified in the summated land rentals of the nation, i.e., the tripartite distribution of total prices received into wages, interest and site rentals.

He could then have pressed the inexorable logic and ethics of the case for channelling the socially-generated locational rentals into the public sector as the earned wages of the Community.

Up to this point, he would have been talking entirely about the normal phenomena of human association, and of the normal operation of the distributive economy in a NO tax situation.



Then, and only then, way down the line, should he have introduced discussion of what would happen if locational rentals, by default of government and in violence of the natural order, were to be retained privately by individual landowners. It was at this point AND NOT BEFORE, that he could have introduced the picture of his settler settling into his Rip Van Winkle act, growing rich without working.

But, NO! This is precisely where George confused the scene that he had earlier so graphically portrayed.

He saw that the landowner, in the absence of legislation to the contrary, could claim RENT for the land; and he defined RENT as being that which goes to the landowner by virtue of his ownership - and he thereby placed rent firmly in the category of robbery..... And so, the only way to correct this injustice was to TAX it away from the landowner!

The pity of it is that, if only he had carried through his earlier concept to its fulfilled conclusion, he could have defined RENT, not as an enforced payment to any landowner, but as that social bonus to be socially shared, that arose within the beneficence of the normally functioning society. And in the socialization of land rentals within the normal distributive economy, he could have demonstrated how the community could meet its needs in a TAX-FREE manner.

The way in which George mixed up the Good News and the Bad News is illustrated in Version A on the accompanying sheet. Conceptualizing RENT as a payment to the landowner, he says that it measures difference in productiveness; he gives it the quality of a value - a value which the landowner lays claim to in a payment. And whilst he correctly illustrates the way in which the "bandwidth" of this rent increases, the major impression and message he leaves is that it is at the expense of labour and capital.

In version B, I have omitted all reference to the landowner, and I have treated RENT as being synonymous with the social bonus or social product. I have replaced the word "measures" with "is". And so, when RENT regarded as a bonus increases, as noted in the last paragraph, this is an indication that the proportion of wealth available to the community has increased in size. Just think of the significance of this for those who are fearful of what the advent of automation and high technology will mean for individual employment. When the nature of the production of the social bonus in surplus product is comprehended, it will be realized that the benefits of more social sharing with less tyranny of toil will be achieved through the socialization of locational rentals as a social dividend. Significantly, when the surplus product is evaluated in land rentals, it will be seen to have increased as a proportion of the total value of production - which makes its socialization all the more mandatory. I refer you again to the quotation inserted from THE CONDITION OF LABOUR. And we may now, at the appropriate point in the discussion, correlate RENTAL with RENT by stating that RENTAL measures the value of difference in productiveness from site to site.

But the emphasis remains upon the Good News of the Abundant Society and of the normality of land rentals being distributed to it as its natural share.

In this form, the story does NOT finish up on the negative note of labour and capital being progressively impoverished whilst the landlord grows richer and richer without working - with the need to impose a TAX to correct the injustice. In short, the real message of the "savannah to city" story is NOT the story of the SINGLE tax Society. It is the story of the naturally ordained, naturally regulated, NO tax Society.

K.N.GRIGG

16/2/84



A

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.

RENT AS

ROBBERY

*Cross-hatched sections  
are the "bad news"  
jumbled up amongst  
the "good news"*



Georgeism:

"Individual liberty - Social sharing"

B

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—Henry George in "Progress and Poverty."

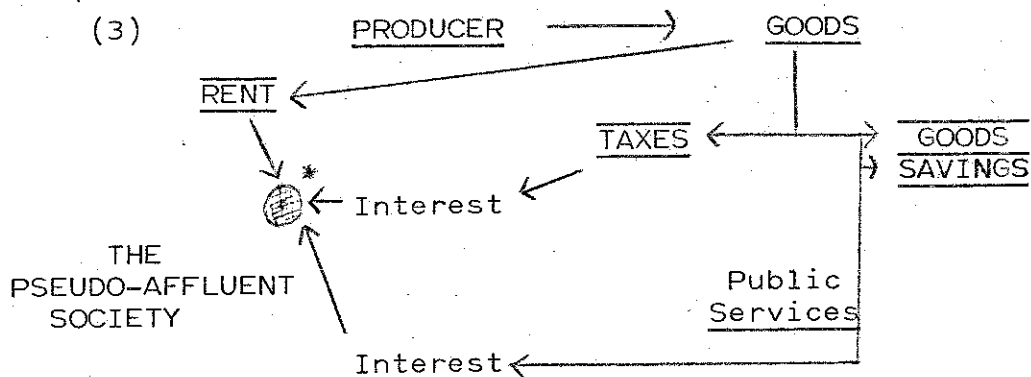
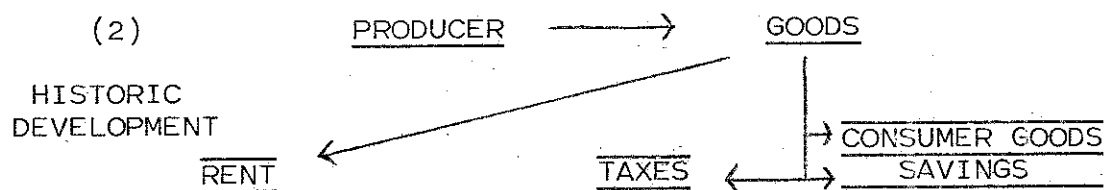
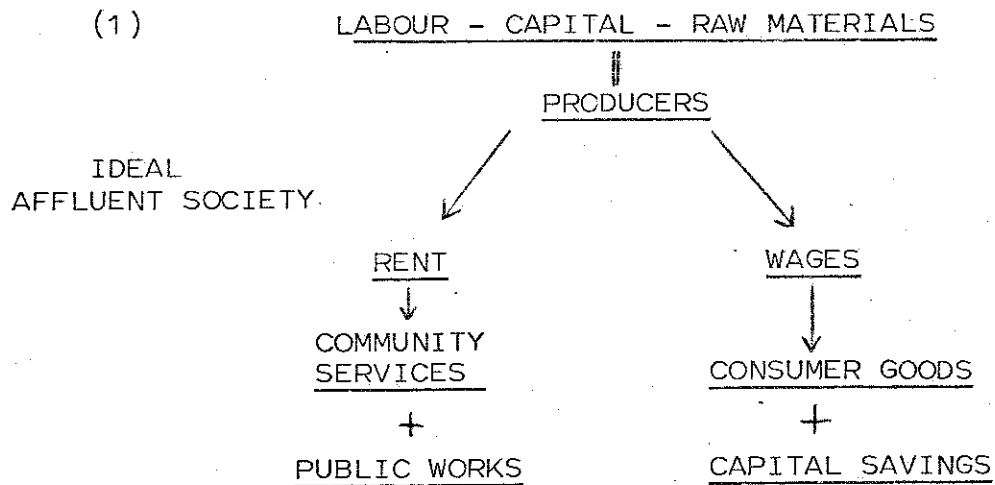
RENT

as

BUNDANCE







⊙\* = banks, finance corporations, insurance companies, land investment companies, etc., etc.

Shifting the incidence of taxation from consumer taxes to a tax on rent will reverse the trend, i.e. Diagram 1.

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Diagram 1 is self-explanatory. As the national income grows, private and public affluence both grow in their proper and undistorted proportions. "To each their own." The ability of each sector to save surplus earnings as capital is unimpaired.

In Diagram 2, it will be seen that the primary distortion is the deflection of land rent, the "wages of community", into private pockets. Government, now lacking this source for revenue, resorts to taxation upon the wages of individuals (in this is included taxes upon the goods which such wages must buy). As a result, not only is individual purchasing power diminished, but ability to save is diminished also. On the other hand, the volume of the flow of rent into private channels is so large that it far exceeds immediate personal consuming power of its recipients. Hence, these recipients of land rent now have a great surplus of capital. There is a gross disparity between their available capital and the capital surplus to the recipients of tax-eroded wages. Hence, the latter must borrow from the former.

In Diagram 3 it will be seen that the natural outcome of the situation portrayed in the previous diagram is the development of Interest as a phenomenon of scarcity of capital. Interest as well as Rent flows into private channels, as do also the 'pseudo-rents' from other forms of privileged income source. But interest is payable by Government also on public borrowing, for scarcity of capital is felt in the public sector as well as in the private. Hence an increasing proportion of taxation goes in interest, and is therefore unavailable to the needs of community services. The picture of "petrol pumps and potholes" is complete. The PSEUDO-AFFLUENT SOCIETY has arrived!

The analysis of the economy in these diagrams usefully highlights the strengths and weaknesses in Keynesian economics. It shows that the bete noire is primarily the private appropriation of economic rent. This Keynes entirely failed to see. However, it also shows that there is a delay both in time and in volume of the full employment of available capital by those in whose hands it has come substantially to lie. It is reasonable to assume that if the capital available within the community were much more widely spread in ownership, then the rate of investment of capital would be so much the more speeded up.

To the extent that failure to invest or failure to spend is the cause of economic slumps, the analysis made in this paper can be reconciled with the Keynesian viewpoint. Keynes' solution was that by means of taxation, spending power was to be redistributed, and Government itself would assume large responsibility to undertake the investment that the private sector of the economy was failing to do at a rate sufficient to keep all available labour employed.

But where this paper parts company with Keynes in its analysis as to just why there is failure to invest or failure to spend. Reference to the diagram will show that taxation of private goods and earnings, so far from being the proper remedy, is itself largely the cause of this failure. The trouble with the Keynesian analysis is that it does not go back far enough into the antecedents of the situation. When this is done, it may be found that the historical roots of slumps and of poverty in the face of progress lie in the private appropriation of land rentals.

The present taxation system is to be opposed as being harmful to economic growth, not only because indirect taxation in particular cuts down the purchasing power of the great mass of the people, but because it completely fails to deal with capitalized land price as the major hurdle to public and private expansion. Keynesian economics ignores this completely.

Income tax and sales tax involve the socialization of private incomes, and of private purchasing power. These are not the answer to our problem, although they are the Keynesian attempt at an answer.

The real answer lies in the socialization of land rentals.