

DISTRIBUTION OF WEALTH IN A GEORGIST ECONOMY*Graham Hart*

1. An exercise to determine the value of economic rent under present conditions and the effect of the collection of economic rent as the sole source of public revenue, together with the abolition of all forms of disincentive taxation and legal monopolies.
2. Consideration is also given to the effect of the reduction of disincentive taxation and the curtailing of bureaucratic socialism without the collection of economic rent for revenue, as advocated by the Institute of Economic Affairs.

Note - In order to follow the reasoning presented, it is necessary for the reader to have a general knowledge of classical political economy according to science developed and terminology used by the American economist Henry George.

DISTRIBUTION OF WEALTH IN A GEORGIST ECONOMY

1. When I was a young man in the nineteen forties, an old friend, whose fiery oratory, peculiar to the Welsh race I well remember, encouraged me to join him in Sunday afternoon open air meetings on the Perth Esplanade. These meetings continued for many years until the beginning of the television era. Sometimes we would hold an audience of up to a thousand people for a couple of hours.

Mr. William Bell, became my lifetime friend until finally I conducted his funeral service. It may be of passing interest to note that my friend regarded himself as an atheist, although a more earnest man, dedicated to the ideals of Christianity, practiced through the brotherhood of man, never lived. His last request was that the funeral service be conducted by a Georgist. Mr. Bell taught me many aspects of the Georgist philosophy which, although I had read all of George's works including *Progress & Poverty* several times, otherwise might not have registered.

2. One remark I well remember which bothered me for many years - "All taxation ultimately is at the expense of rent." In those days, taxation by modern standards was very low, so also was economic rent, and those of us who have failed to appreciate the full significance of this observation, for so long may well be excused.

3. During a lifetime of writing and speaking for our cause, constantly in the company of Georgists, I have never heard this most important and now vital subject, featured as a major issue. The initiative should have been taken to focus the spotlight on this central truth, the importance of which cannot be over emphasised, that unless the bargaining power of labour and capital is improved and ultimately brought into equity with that of the land holder, all taxation ultimately will be at the expense of rent.

4. This recent declaration has met with a mixed reception in my country. Upon closer examination, however, and after rereading the relevant Chapter VI of *Progress & Poverty*, most Georgists have now agreed, but some are still unable to see what should be so obvious, once stated. There have been vague notions that we would all be so much better off if only taxes and extravagant spending on the welfare state could be reduced. Our opponents and even many who support some degree of taxing land values, shake their heads sadly and claim that there would not be enough revenue arising from land rent, to support even the most elementary and limited form of government.

5. Our response, after looking at the visible value of rent from such statistics as are available to us, has been, reluctantly to agree, but to look the other way and talk vaguely of the savings which could be effected in the cost of government under a Georgist economy and of the enormous increase in productivity which would be possible under a Georgist

form of government and which in some way would increase wages. Be this as it may, it is still begging the question and is too vague and hypothetical to arouse much support for our cause.

6. This line of argument also has landed us with some strange bedfellows; those who agree with the confining of governments to their proper functions and see the absurdity of protective tariffs, but are silent on the vital subject of land reform. Such people, and many of us with them, believe that free trade with efficient government and lower taxes will achieve progressive results, without courting the unpopularity of interfering with the privileges of the rentier class in the initial stages of our programme of reform. Nothing could be further from the truth; the partial application of *laissez faire*, as economic historians should know, would be worse than useless and would drive any country, sufficiently deluded to try the experiment, to some form of totalitarian government, quite possibly by means of bloody revolution.

7. In order to confirm beyond the possibility of doubt that taxation is at the expense of rent and reduction of taxation to the advantage of rent, it is necessary, if somewhat tedious, to marshal the evidence which, we as Georgists, accept and follow wheresoever it may lead, without reservations, inhibitions, or the influence of preconceived ideas, even those of long standing.

8. From the time of Malthus it has been accepted that wages tend to the minimum for which men will consent to work. George agreed that when all natural opportunities are monopolised, wages may be forced to the minimum at which labour will consent to reproduce; and that all increases in productivity, under such conditions, will be to the advantage of rent, because the bargaining power of labour and capital is inferior to that of land holders, whose land may remain idle without cost, whereas labour and capital must live and be maintained.

9. The reasons that wages and interest, the returns to labour and capital, tend to a minimum unless an element of monopoly is introduced, are as follows :- Those who have only their labour to sell, together with their dependents, must be fed, clothed, sheltered, educated and taken care of in sickness and in old age. They cannot afford to remain idle for any length of time.

Similarly, those who invest their wages indirectly in enterprises requiring the use of capital, in order to obtain a greater return at a later period, must keep such capital employed, otherwise, whether the investment be in machinery or goods in the process of exchange, or in factories, or any form whatever, it will deteriorate. Machinery requires maintenance, goods will corrode or rot according to their nature, industrial processes will become obsolete and redundant and a replacement factor must be provided, before a net return on capital investment can result.

Capital, which in reality is only wealth arising from labour applied to land, the enjoyment of which is deferred, for the ultimate greater satisfaction of desire, is subject to all the disadvantages though in different form to labour. It cannot remain idle for long periods.

10. Land, on the other hand, is not similarly affected, it has no cost of production. Much of its value arises from situation only, i.e, from proximity to the more densely populated areas. Agricultural land even improves in quality by remaining unused for a time. Provided population remains and government services are maintained, whether particular sites or areas are used or not, potential value and, therefore, value in exchange will remain.

Some land can lose its value by movement of population to other areas and for other reasons which seldom happen.

Valuable land also is relatively fixed in extent. Demand increases with pressure of population and advancing technology. Despite any possible disadvantages that may be involved with land holding, the bargaining power of the land holder, under present conditions is infinitely greater than that of labour or capital.

11. Unless public charges are made conditional upon the holding of land, returns to labour and capital will depend on the competition of labourers and capitalists with each other for the use of land. This condition would be equalised if public charges were levied on economic rent. Land then, could not remain unused. Land holders also, would then be obliged to compete with each other, to attract labour and capital to engage in production and accept employment on the land holders' particular sites.

By one means or another, land would have to be put to use in order to pay the rent.

12. The law of supply and demand, then would equalise bargaining power between the three factors concerned, with special advantage to none.

13. Not only, are all forms of taxation which bear on production and consumption at the expense of rent, but so also are the rewards from legalised monopoly and the cost of inflation, which is only a disguised form of taxation.

If wages and interest are forced, because of inferior bargaining power, to the minimum return that workers and the investors of capital are prepared to accept, it follows that the additional costs arising from monopoly and inflation will not be absorbed by labour and capital but will be passed on and eventually be at the expense of rent.

14. The waste of human effort, also inseparable from disincentive taxation and bureaucratic administration, otherwise, would add to productivity, increase the demand for land and, therefore, be to the advantage of rent.

15. Although not generally apparent, there is a substantial ingredient of rent in many forms of taxation; this is indeed a diversion of economic rent from land holders to government, which lowers land prices correspondingly kerbs the bargaining power of land holders and is to the advantage of labour and capital. With the remission of such taxes, this marginal benefit would be lost.

16. The labour movement has blindly accepted the teachings of Marx, that capital is the employer and exploiter of labour; from which the false belief has developed that wages are drawn from capital.

This explains the continual demands for shorter hours of work, for more pay, often quite unrelated to earnings and prices consumers are prepared to pay, for premature retirements, for the sacking of married women, for artificial wage and price fixing, for go slow tactics, for strikes and disruption of industry, for compulsory unionism, for the creation of unnecessary jobs, subsidising employment and unemployment, at the taxpayers' expense, for the discouragement of labour saving devices and the promotion of waste and inefficiency, also for attempts to restrict immigration.

Such strange behaviour, no doubt, is inseparable from the socialist method of raising wages by creating monopoly conditions in the labour market, but the side effects are so destructive of normal standards of decency, order and recognition of human rights that the net gains are at heavy cost to the community. There must be a better way.

17. It is a common belief that the number of jobs are fixed in extent and that every man in work deprives another man of employment. The exact opposite, we all know to be the case; every person in employment produces wealth, much of which will be exchanged for the products or services of others. So each person employed generates employment for others. It is the unemployed who create unemployment in a society engaged in specialised production.

18. Wages and interest are drawn from production and not from capital; each man advances a week or a month's work before receiving his wages; farmers may wait a year for their returns and investors, in some cases, many years. The use of capital increases efficiency and the rewards of industry but is not the origin of employment or of wages.

19. It is mainly the counter monopolies created by the Trade Union movement, which have increased living standards above the level of subsistence.

There is no doubt that combinations of workers, can and do raise wages; such increases, however, are at the expense of rent, rather than of capital, and when land is monopolised, any weakening of the power of the trade union movement would be to the advantage of rent.

20. The owners of capital also combine to resist wage demands, secure tariff monopolies and subsidies, eliminate the competition of their weaker rivals with 'take over' bids and fix prices above market value etc. The net rewards ultimately are at the expense of rent and not of labour. The abolition of such practices, therefore, would be to the advantage of rent.

21. Monopolies in the labour and capital markets, do not work uniformly for all labour and all forms of capital investment. The more powerful unions and industrial monopolies fare better than their weaker associates, but the higher living standards achieved, increase the minimum standards which the lesser privileged will accept, and so there is a measure of averaging the advantages, to increase wages and interest generally.

22. The higher rewards to labour and capital arising from monopoly are not without cost; however, production is reduced, lawlessness and the crime rate worsen and secondary unemployment is generated. For example, in Australia an aboriginal is not allowed to work unless he can earn the minimum wage decreed by the white mans' tribunals, which in general he cannot and, therefore, is condemned to idleness and degradation, which often leads to crime and debauchery.

Ambitious young couples determined to beat the system, often work at two jobs and live together without marrying. Average types live in muddled confusion doing the best they can and the below average just drift and degenerate.

23. The waste and loss of production generated by monopolies in the market for labour or capital, reduces the demand for land, raises the margin and, therefore, is at the expense of rent. It follows that a reduction in industrial lawlessness and the abolition of policies which reduce the hours of work and the efficiency of labour and capital will increase production and therefore, the demand for land, lower the margin and increase rent.

24. Of recent years, there has been a resurgence of a school of economists preaching the doctrine of partial application of laissez faire, without land reform. The Institute of Economic Affairs, for example, would reduce taxation and government spending and curb trade union and industrial monopolies, without realising that the benefits achieved would be to the advantage of rent, increasing unemployment and poverty and the income gap between rich and poor. Such policies would not be tolerated under democratic government and would lead to dictatorship and revolution.

25. Wages and interest cannot be increased generally unless the bargaining power of labour and capital is improved and brought to equity with that of land holders. This can only be done by collecting land rent for revenue and forcing valuable land into use. Rents would fall initially, as idle land was released, but thereafter would increase with rising productivity, as incentive was restored to labour and capital, as the senseless waste of taxation was abolished and as respect for law and order was restored.

26. Buoyant revenue, sufficient to support highly efficient government would then be ensured, together with the full earnings of labour and capital.

Economic rent available to a Georgist form of government would be equal to the annual value of all taxation at present taken by governments plus the residual rental value of land remaining with land holders, increasing with the rise in productivity and the abolition of monopolies and declining as the bargaining power of labour and capital tended to improve and ultimately equate with that of land holders.

27. Arguments and reasoning developed to this stage have been highly theoretical, although such theories have been and can be confirmed by observation.

28. The case, however, might be strengthened by considering the effects of reducing taxation under various forms of government policy.

29. It should be obvious to Georgists that all forms of government in the so called developed countries are highly socialistic. Wealth is confiscated from producers on an arbitrary basis, by legal force without regard to the right of property in the product of a person's labour and without regard to service rendered in exchange.

Taxes are levied on the socialist principle of ability to pay, but assessments in this regard are often wide of the mark. If a man has a large house, the size of his family regardless, it is often wrongly assumed that he has greater ability to pay. If a man works hard to increase his income, regardless of his commitments and obligations, the taxgatherer assumes, again without foundation, that his ability to pay is correspondingly greater. Socialists often turn the blind eye to those whose ability to pay arises from investing in land, situated in the path of progress and whose incomes arise, without the expenditure of labour, from the rising value of land in a progressive community.

30. The distribution of wealth through the agency of government services, particularly under the welfare state, is based on the hypothetical socialist theory of need, which is quite impossible to define since each person, if needs are unrelated to effort, finds that his or her needs are insatiable and without limit. The assessment of need, therefore, must be by bureaucratic decree and impossible of equitable achievement.

31. Taxes vary to suit the political climate. Some are imposed directly on the processes of production and others indirectly on consumption. Both methods are equally disastrous in discouraging the production of wealth.

32. It is assumed, as the natural order for a poor and under privileged class, always to exist, side by side with a rich and over privileged class and that governments must continually plan to rob the latter and endow the former. There is no concept that both conditions are unnatural and arise only because of bad government.

33. There is no concept of, or distinction made between, incomes arising from industry and enterprise on the one hand and incomes arising from the power to levy tribute, on the other.

The failure of governments to raise adequate finance on this basis leads to public debt, unrelated to the use of capital and to inflationary pressures, which, with the aid of a fiduciary monetary system, enables governments to tax all income levels regardless of how small and to transfer indebtedness to future generations in violation of every moral concept of human rights.

34. In the process of attempting such impossible conditions of government finance, an unnatural demand for land arises because opportunities are created to "cash in" on the future growth of the community and which serve as a hedge against inflation and taxes based on work value.

35. This further destroys the prospects of stable government by increasing the proportion of those who are able to live without working and decreasing the proportion of those who must, not only, live from their own efforts, but must also support the idle, tribute levying class.

36. Rent, under conditions which depress the bargaining power of labour and capital, must be unnaturally high and wages and interest unnaturally low.

It is important to understand such basic concepts when attempting to forecast the distribution of wealth in a Georgist economy.

37. In order to forecast the trends arising from our proposals, which are twofold, (1) to collect rent for revenue, and (2) to abolish taxation, it is necessary to consider the objectives both separately and jointly.

38. With regard to the abolition of taxation, although this is not possible without collecting land rent for revenue, it is interesting to consider the effect of a very substantial measure of tax relief, without any change in the present conditions of land tenure, generally in line with proposals of the Institute of Economic Affairs.

39. The best way to gauge the effect of a remission in taxation is to consider how wealth, if not confiscated as taxes, would otherwise be spent or invested.

The conditions of access to land would not be changed, therefore, it would not be realistic to consider any improvement in the bargaining power of labour and capital and, therefore, any improvement in unemployment, inflation or the public debt structure.

40. Those in the lower income bracket would undoubtedly increase their expenditure on consumable goods. This would increase the demand for land and raise rent. Others would seek avenues of profitable capital investment. Industry is at present over capitalised in relation to demand. There are not many capital enterprises working above 60% capacity. But assuming

this lag to be taken up by increased consumer spending, then the additional capital investment would increase the demand for raw materials and rent would rise accordingly. Those with surplus funds, however, will invest in the best market open to them and with rising rents, buying land in the areas of progress has so many advantages, with which the capital market will have to compete, that a large part of tax reduction, undoubtedly, would be invested in land speculation.

41. The net effect of the proposals of the I.E.A. will be to increase rent and lower wages and interest as a proportion of production. This in turn will increase unemployment and thus the demand for government welfare, create additional inflationary pressures and the demand for non interest earning credit.

42. Under such conditions any substantial reduction in taxation, ultimately, will be the advantage of rent, rather than of wages and interest and the proposal would become an impracticable pipe dream, impossible of fulfillment.

43. If such a policy could succeed it would require dictatorial powers with direction over labour and capital, as in Communist countries, otherwise the gap between rich and poor, between over and under privileged, would widen to alarming proportions, accompanied by increasing lawlessness and crime and the inevitable drift to revolution.

44. Under such conditions the exercise of power by trade unions to create artificial monopolies in the labour market would be more important than necessary than ever.

The users of capital, similarly, would be obliged to seek higher protection, subsidies and whatever monopolies could be achieved by political lobbying.

45. In other words, an increase in the senseless, unnatural class war between labour and capital would result. The two active factors in production which, in reality, are but one factor, working either for class consumption, or by storing labour applied to land, for the winning of rewards in the future, are natural partners in productive enterprise and the unnatural conflict stimulated by Marxists, succeeds in diverting attention from the real issues.

46. Real wages and real interest rise and fall together, in an opposite ratio to rent. The interests of labour and capital, therefore, are identical and opposed to those of the land holder.

When wages are high an added inducement is necessary, sufficient to induce the foregoing of present satisfactions. When wages are high, it pays to increase the use of capital equipment. So the higher demand for capital increases the return to interest.

47. The proposals of the I.E.A. would inevitably increase class hatreds and lead to the breakup of orderly society.

48. How differently the economy would react to the same proposals, not only for tax reductions, but eventually for the total abolition of all taxation, provided the rent of land were taken for revenue, without which prior condition, other reforms of a basic character are virtually impossible.
49. The bargaining power of labour and capital can only be restored to equal parity with that of the land holder when rent is taken for revenue. It will then be unprofitable to hold valuable land idle, or underdeveloped, in relation to its rent earning capacity. Valuable land must be put to use in order to earn its rent potential. When rent is taken for public revenue, land holders will compete with each other to secure the services of labour and capital. Wages and interest will rise because of the improved bargaining power of labour and capital.
50. Rent will fall initially, as land reform is introduced, not only because of rising wages and interest but also because of the release of valuable land above the margin, previously held idle for speculative gain. As more land becomes available to labour and capital competition will cause rent to fall.
51. Thereafter, because of the enormous increase in productivity, due to the restoring of incentive to labour and capital, thus creating an additional demand for land, the margin will begin to fall and rent will rise, but not, however, at the expense of wages and interest, which will be assured of full value as each contributes to production.
52. With full employment assured for labour and investment for capital and so, with insecurity removed, men will cease to scramble with each other in fierce, cut throat, competition. The emphasis will return to quality as it was in the days of the craft guilds. There will be time for leisure and the mental and spiritual satisfactions, with the certain knowledge that employment will always be available when required.
53. Land rent would lose the speculative element, or future value, as inflation disappeared and investors realised that there was no profit to be made from gambling in land. There would be closer settlement and cheaper services within the metropolis but greater incentive for decentralisation as rural life and smaller communities became economically viable. The idle rich and the idle poor and those wastefully employed would come to delight in the newly found satisfactions of doing useful work and in creative pursuits. With such conditions established, crime and vandalism together with the addictive forms of escapism, not to mention the suicides of those who have lost hope, progressively, would disappear.
54. The pinnacles of rent in the congested overcrowded cities would decrease. There would be a greater spread of land use and consequently of rent and with these conditions, environmental problems would decline and the conservation of natural resources would be made easier.

55. Alternative materials could, more easily, be produced to replace those in short supply, as the free market began to operate, freed from the inefficiency of bureaucratic control.

56. Population growth would respond naturally to living conditions, attuned more closely with nature and from the division of labour, greater prosperity would flow.

57. Prices would fall in highly mechanised industries and rise in labour intensive industries and demand would respond accordingly, to usher in a new way of life, in which the joy of useful service would predominate.

58. To this stage the returns to labour and capital have been considered jointly, because of their common interests, but no enquiry into the distribution of wealth would be complete, without some consideration of the separate rewards of each.

59. (i) As wages rise, so greater inducements must be made to labour, sufficient to ensure the foregoing of present satisfactions, in return for greater rewards in the future.

(ii) The use of capital in modern production is so important and the advantages of its use so great that very little inducement should be needed.

(iii) The opportunity to speculate in land would cease. The capital market would not then have to compete with this other form of investment.

(iv) With governments assured of adequate land rent revenue, the need for public borrowing would cease, or be greatly reduced. The users of genuine capital would not have to compete with this alternative form of investment.

(v) Enforced private debt is a logical consequence of government debt, taxation and bad land policies. The servicing of such debts, do not necessarily involve true interest, nevertheless there is a measure of competition with the use of real capital, which would reduce in a Georgist economy.

(vi) Inflation also increases the demand for spurious interest in competition with the investment of real capital.

(vii) The production of wealth would be so easy, in a Georgist economy, with all present disincentives removed, that adequate capital would be available to support highly sophisticated industry.

(viii) There would be fewer people with very high surplus incomes seeking capital investment.

60. In the foregoing instances there are factors inducing both increases and reductions in real interest. Precise predictions are impossible.

I believe that interest would stabilise at about 5%, which rate held steady for centuries before most of the current, dishonest practices

under reference, were introduced. This would certainly be higher than current rates, after risk and monopoly are accounted for. The audience can attempt to assess the net yield of 14% interest under conditions of 10% inflation and with taxation averaging over 50%.

61. Spurious interest would disappear proportionately as land rents were to be taken for revenue in lieu of taxes.

62. There are some, even included among the ranks of our people, who believe that the taking of interest is immoral and that interest would disappear in a Georgist economy, claiming that since all forms of wealth, and therefore capital, are subject to depreciation, that the borrower is performing an equal service to the lender, in returning his capital in tact after the expiry of the loan period.

63. Since all men seek to satisfy their desires with the least exertion, it is difficult to believe that men would over produce rapidly deteriorating forms of wealth for use as capital.

Precious metals are almost indestructible, whereas other forms of wealth last only a few hours. It may be freely observed that investors select the forms of wealth for use as capital, that will provide capital replacement, plus an added return, during the useful life of such capital and, therefore, will earn real interest.

64. The foregoing examination of interest is of incidental concern only and is added to dispel misconceptions, rather than to make a positive contribution. The important consideration is to understand that rent would be adequate for good and efficient government and that the return to labour and capital also would rise as bargaining power was restored in a Georgist economy.

65. Henry George believed that the natural increase of flora and fauna to be the origin of interest, but upon mature consideration it is evident that this also is the origin of wages and rent and indeed, the sustenance of human life. It is impossible to conceive of any form of life, including man himself, that could exist without the natural increase of living creatures which in turn depend upon the germination of seed and the growth of plant life.

66. That which is common to all factors of the production and distribution of wealth, must cancel out, as a basic, anterior condition and in fact be the subject matter of the science of political economy, rather than an objective condition.

67. This also is a matter of general interest, affecting only the relationship between wages and interest. Our basic concern is the effect of taking rent for revenue and abolishing taxation.

68. Rent would be adequate, not only for the traditional and normal functions of government but also to support those semi communal services such as schools, transport and health which, however, could be administered

with greater efficiency by private enterprise. Governments should only be involved in functions which, by their nature, are necessary monopolies and in which the freedom of competition is impracticable.

69. As Henry George so truly recognised - association in equality is the law of human progress, which can only be achieved by the collection of rent for revenue. Once it is perceived that taxation is at the expense of rent, then the adequacy of rent for government revenue can, so easily, be demonstrated and further, all that can be earned will be the due reward of labour and capital, without the payment of tribute to those who have been able to appropriate the community created value of land. The share of production to the community as rent and to labour and capital as wages and interest, will be measured in the free market with equal bargaining power to all the factors of production and distribution which are so vital to each.

70. All this we are prepared to sacrifice by the failure to expose a handful of communists, indoctrinated economists and satellite politicians and in the process, risk the entire future of Western civilisation.

Every cent that can be raised within our movement and from the suffering populace at large, should be devoted to effective publicity before it is too late.

Henry George said a hundred years ago -

"I know," and he did know, "that the present social adjustments cannot continue, even now I see the clouds are rising. Will the dams hold back till the floods rise to fury and we pass back into bloodshed and anarchy?"

National leaders who persist with the fallacy that the economy can be rehabilitated without doing anything about the land question, and who still appear to believe in Santa Claus, must accept a heavy responsibility for economic and moral degeneracy and the weakening of the ability of their country even to defend itself.

Those who accept public office have a duty to inform themselves of the "stock in trade" of their chosen vocation. Ignorance is not regarded as an excuse for laymen who break the statute law, neither should it be so regarded for those who break the natural laws of political economy.

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