

SITE RENT — WHAT IS IT?

(Continuation of the paper Mr. Noel Wigmore, parts A and B appeared in October and November issues.)

PART C.

Parts A and B of this paper are summarized in what I have called the "site rent equation":

$\text{TRUE} = \text{VISIBLE} + \text{DORMANT} - \text{SPURIOUS}$
where

— **"TRUE"** represents "true site rent", i.e. the site rent George proposed to collect for the common benefit by taxation of land values.

— **"VISIBLE"** represents "visible site rent", i.e. the site rent in private hands (as evidenced by site price) plus such true site rent as is being collected by site value taxation.

— **"DIVERTED"** represents "diverted visible site rent", i.e. the wealth siphoned off from labour by taxation, monopolies, crime, sinecurism, etc., thus reducing the amount which can be proffered as rent.

— **"DORMANT"** represents "dormant visible site rent", i.e. the visible site rent which will come into existence as the collection of true site rent by Society increases and as taxation and other discouragements to the production of wealth are removed.

— **"SPURIOUS"** represents "spurious site rent", i.e. that part of visible site rent which is really wages and interest extracted in the guise of rent from labour and the owners of capital by the land monopoly by medium of its superior bargaining power.

What, then, is "economic" rent?

The preface to the seventy-fifth anniversary edition of "Progress and Poverty" comments that although the meaning of "the economic rent of land" or "ground rent" was clearly and universally understood in the latter part of the nineteenth century, "today, astounding as it may seem, it is a mystery of mysteries to many of those to whom we normally look for precise explanations of economic relationships".

In any field of learning a term is of little value unless its meaning has general acceptance in words readily understood by those using the term. Subjected to this test "economic rent" fails miserably. Ask ten Georgists and one would probably receive ten different definitions of "economic rent".

To some Georgists, "economic rent" is what I have called "visible site rent" but many of them see it as "true site rent" — they do not recognize the "spurious" element.

To others "economic rent" is my "true site rent".

There are Georgists who have difficulty in accepting the idea of economic rent being increased by what I have called "diverted site rent".

Some Georgists claim that economic rent arises only when land is used for the production of wealth.

In the whole of "Progress and Poverty" the term "economic rent" appears but twice (on pages 324 and 412 of my 1975 edition.) Elsewhere George uses the term "rent", occasionally qualified, e.g. "actual rent", "market rent", "speculative rent", "urban rent", "ground rent", etc. When so qualified the meaning of and reason for the qualification are clear. It is clear, for example, that on page 324 "economic rent" was used with the meaning "rent in its economic sense", and the reason for qualifying "rent"

was to distinguish it from the word "rent" used in the previous sentence where it included rent for improvements.

"Rent, in its economic sense" is defined in the opening sentence of chapter 2, book III, as "that part of the produce which accrues to the owners of land or other natural capabilities by virtue of their ownership".

The first five paragraphs of that chapter appeared in "Progress" (Nov. 1980) under the heading "Henry George on Economic Rent". It is a pity that space did not permit the printing of the whole of that wonderful chapter. George points out that (economic) rent "does not arise from the productiveness or utility of land. It in no wise represents any help or advantage given to production but simply THE POWER OF SECURING A PART OF THE RESULTS OF PRODUCTION - - - - - (economic) RENT, in short, IS THE PRICE OF MONOPOLY arising from the reduction to individual ownership of natural elements, which human exertion can neither produce nor increase".

This "price of monopoly" or economic rent arises from the superior bargaining power of the landowners relative to that of labour and the owners of capital. It includes not only the rent that we Georgists believe belongs to the community but wages and interest extracted from labour and the owners of capital by virtue of that superior bargaining power. In other words George's "economic rent" is what I have called "visible site rent".

If the bargaining power of the landowners is reduced by site value taxation, visible site rent in private hands tends to fall by the sum of:

- (a) true site rent collected by taxation of land values;
- (b) the additional wages and interest (spurious site rent) labour and the owners of capital are able to retain by virtue of their somewhat improved bargaining power relative to that of the landowners.

But any such reduction is masked by increases in visible site rent due to:

- (a) reductions in taxation and the takes of monopolies, etc., the benefit of which will ultimately flow to visible site rent.
- (b) stimulation of the economy brought about by any reductions in taxation discouraging the production of wealth, the abolition of monopolies and particularly the improved availability of land to those requiring it for use.

Ricardo's law of rent shows us how the amount of (economic) rent is determined. The law states:

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

The least productive land in use is at the "margin". At the margin land commands no economic rent and a labourer retains the whole of his produce as wages and interest on the capital he uses. Not only is his work site free of economic rent but so is all land he uses — his home site and sites he uses in common with others for various social purposes such as his church, his clubs, etc.

I believe the usual attempt to explain Ricardo's law based on units of land used for a particular purpose

(usually agriculture) at and within the margin is wrong. It considers only land actually used for that purpose. It credits the land so used within the margin with the whole of the "excess of its produce" as economic rent. This explanation overlooks the fact that the labourer responsible for the production must use other land for which rent must be paid out of his production. I contend that the "excess produce" represents the economic rent of not merely the work site of the labourer but of ALL land customarily used by such a man. I believe Ricardo's law is more readily understood in terms of units of labour — say one labourer working for one year — and bearing in mind that economic rent is the price of monopoly. At or outside the margin the whole of his produce is retained as wages and interest on the capital he used — land commands no rent. On the other hand if our labourer chooses to work within the margin ALL financial benefit of doing so is siphoned off as economic rent for ALL the land such a man customarily uses — e.g. for his work site, for his house site and for his share of the economic rent for the sites used by his church, clubs, etc.

When all privilege is abolished and the whole of true site rent is collected by society, visible site rent or economic rent and my true site rent will be identical. Land ownership will confer no benefit unless it is used. There will be no spurious site rent because labour, the owners of capital and land owners will meet on equal terms. The site rent extracted by the landowners will not be retained to be capitalized into land price — it will be taken by society as true site rent. Landowners will benefit only from their own labour and the interest on their capital — including that represented by their improvements to, and on, their land.

There will be little or no diverted visible site rent because there will be no taxation, no privileged monopolies and a minimum of crime — it will be easier to earn an honest living. Dormant visible site rent will be dormant true site rent. Society can look forward to receiving the full benefit of future increases in site rent.

When these happy times come the need to qualify site rent as I have done with words such as spurious, visible, diverted, etc., will have long since gone — "site rent" or "economic rent" will suffice.

SITE RENT — IT IS NOT THAT COMPLICATED

by S. S. GILCHRIST

Henry George in his book "Progress and Poverty" makes it clear what he means by economic rent (site rent), and his definition is also generally accepted by all classical economists and most more modern "economists".

Economic rent is the *market price* for the opportunity to use a site for a given time say a month or a year, but not for ever. George makes it clear that this excludes any payment for the improvements on the site. This rent is of course the current rent *under the existing general conditions*. George goes on to indicate that since the holding of a site stems from the issue of a licence or title by government, then the rent is the market price for this continuing government granted privilege.

Rents Change

Now rents, like all prices, are not fixed intrinsically for ever. They change as the amenities and opportunities on the site change, and as the various people interested make their differing judgements. The opportunities are affected by many things, changes in technology and population, finding and exhaustion of minerals, changes in laws which affect use such as zoning, quotas, tariffs, licences, and subsidies, and of course the changes in public services such as roads, bridges, schools, police, dams, and so on. And again the degree of confiscatory taxation affects rent. And lastly the proportion of rent which government collects directly affects the relative rents of sites and the total rent.

It is impossible to estimate how the market prices would change as government collected more and more revenue by site taxation, and reduced confiscatory taxation accordingly. The direction in which things would move can be stated, but not the amounts in monetary terms. It is sufficient if we move steadily in the correct direction.

There seems a tendency for curious people to suggest various types of rent, but there seems no advantage in dividing up into such subsections. It is sufficient for any analysis of the economy to know that rent is the current

market price of the privilege under existing conditions, and that current rents and also land prices can be reasonably accurately determined as a tax base.

Types of Rent

Even Henry George talked of "speculative" rent, but he never suggested it could be quantified or used separately. Marx discussed primary, secondary and even tertiary rent. Others talk of differential rent, contract rent, monopoly rent, spurious rent, product rent, and surplus product. One can imagine other possibilities: agricultural rents, commercial rents, residential rents, and these could be divided further according to zoning categories. But none of these sub-divisions has any application in a good revenue system.

And now readers of 'Progress' are asked to consider further ill-defined imaginary sub-divisions as "diverted" rent, "dormant" rent, and "visible" rent. These concepts appear to have no means of being measured, and cannot be identified as prices in the market. They are useless as a practical means of estimating rent for revenue. All the practical and administrative means of steadily increasing the amount of rent collected for revenue are available in site valuation and site taxation systems. All that is needed is to steadily increase the rate.

It seems there is an urge to estimate what would be the revenue if the full "true" site were collected, but this cannot be done unless one knows how the market will change as site tax is increased and other taxes removed. That is why it is impossible, as some advocate, for "all the rent to be collected as from tomorrow"; because it can't be calculated. But we can move in the right direction by steadily increasing site taxation to reduce the other taxes; and the market would adjust steadily. This would of course result in prosperity and full employment opportunities. Is not that what we want?

SITE RENT

Readers of "Progress" will recognize Mr. S. S. Gilchrist's article "SITE RENT — IT IS NOT THAT COMPLICATED" (Progress, Feb. 82) as being a criticism of my analysis of site rent which appeared in the three preceeding issues.

There is nothing new in the ideas I have presented — George said it all in "Progress and Poverty", and he was not the first. The relationship between site rent and taxation was recognized by John Locke some three hundred years ago.

Surely wages and interest exacted in the guise of site rent is "SPURIOUS SITE RENT".

Surely that part of production exacted by the tax gatherer and the monopolist before it can be proffered as rent is "DIVERTED SITE RENT".

Surely the site rent which will arise under the stimulus of our proposals is "DORMANT SITE RENT".

Surely the site rent evidenced by site price can be described as VISIBLE SITE RENT as can such site rent as is already being collected by Society.

Surely if the site rent evidenced by site price includes wages and interest we must qualify the term when we wish to exclude wages and interest — I use the term "TRUE SITE RENT".

My contribution has been merely to name the subdivisions into which, under present circumstances, site rent naturally divides and to bring them together in the site rent equation:

TRUE = VISIBLE + DIVERTED + DORMANT — SPURIOUS — a simple uncomplicated algebraic equation which sums up many, many pages of "Progress and Poverty".

One of the delights of pursuing basic theory is that one never knows where it will lead — whether it will prove to be just an interesting mental exercise or whether some great practical truths will be confirmed or even discovered.

The site rent equation confirms that our proposals:

- (a) will provide Society with revenue many times greater than those suggested by land price.
- (b) will give labour and capital increased rewards at the expense of site rent.
- (c) should be implemented before we waste our limited resources in expensive campaigns for abolition of trade and other monopolies — under present circumstances the benefits would flow to landowners.
- (d) cannot be implemented in full overnight but only as the benefit of the abolition of taxation and monopolies reveals itself in increased site rent.

In my opinion anyone of the above make the exercise worthwhile. The more widespread the understanding of our basic Georgist theory, the greater our chances of success. If the body of economic thought in the eighteenth century had recognized that taxation on labour and labour products is "diverted site rent" Wyndham might have been successful in defeating Walpole's reductions in the land tax and his imposition of excise and other taxes. The history of Britain and possibly the world could have been very different!

Action based on unsound theory is heading for disaster. Action based on sound theory has hope of success.

No doubt others will challenge Mr. S. S. Gilchrist's approval of land price as a tax base for the collection of true site rent. I suggest he read John Orr's "Taxation of Land Values".

Noel Wigmore, Murrumbidgee, Vic. 3163.

54 Wattle Valley Rd.,
Canterbury, 3126.

2/9/82

Dear Noel,

I have been reading through your SITE RENT - WHAT IS IT? PART C in PROGRESS Jan 1982, and am increasingly uncomfortably aware that George succeeded in sabotaging his own magnificent efforts. And I find that you actually eulogize that sabotage! Perhaps I had better hasten to explain!

For, where George affirms that economic rent IN NO WISE represents any help or advantage given to production, and does not arise from the productiveness or utility of land, he wholly surrenders the richness of his argument for a mess of pottage. He throws his hand containing an ace, king, queen and jack IN, and settles for the joker!

For what, primarily IS economic rent? Graham Hart himself portrays it in the same issue, bottom p8 - 9: "Men are created so that each can complement the rest to improve the lot of all."

This is the "good news", the story of the mechanism of generation of the common facilitation which men afford to each other according to where they are. This is the common wealth - RENT.

What a miserable, piddling, off-target thing it is to build up this magnificent concept, only to then completely miss the point by concluding that rent is what goes to a landowner because he's got a monopoly!

The matter is, however, completely resolvable by recognition of the need to spell out TWO STAGES.

The first is the stage of building up the concept leading to Rent A in the terminology of my June article in PROGRESS. Contrary to what George says, this is THE, NATURAL, economic rent. I refer you back to Graham Hart, who has expressed the essence of it in a sentence.

I refer you also to the chapter in my THE PSEUDO-AFFLUENT SOCIETY where I laboriously (on a par in this regard with your dissections of the various elements in RENT, but an exercise which is quite inescapable) discuss the inter-relationships between RENT, SITE RENTAL and LAND PRICE. Quite plainly, in that, RENT is most definitely related to productivity, the facilitation from advantages in location.

We do, however, come back to common ground with George when we agree that in order to obtain the tangible benefits which constitute the rent-fraction of total production, we have to possess the site through which those advantages are to be enjoyed. So, in the competition of the market, rent-yielding sites fetch a correlative rental value.

But again, I reiterate that to say, first up, that site rentals (RENT B) are the price of monopoly, is to go off half-cocked and to throw away the most powerful card in the pack.

Assuredly, exclusive possession of a site IS a monopoly, intrinsic to its use (and again I draw attention to my detailed outworking in THE P-A S) and, granted, site rental IS the price of this monopoly. In this both George and yourself are quite right. BUT THAT IS NOT THE POINT TO BE PRIMARILY MADE! The real point is that the rental value of a site (your true site rent, my site rental or RENT B) is primarily the market value of the opportunity to take unto oneself the common facilitation, the common good, the common wealth brought into being through those economies in effort, released from site to site, whereby men complement each other. RENT comes from cooperation, and not from any aberrations in competition!

Surely it is THAT which is the good news which George sensed and which he meant to convey, but which in the event he muffed by slewing off target. So Georgeists have, largely, also missed the point ever since - and the world has not "got the message". If George wrote as you quote, then all I can say is that

it is high time that this portion of George was rewritten.

I am not being unduly critical of George writing in the year of 1879. I AM being critical of us, one hundred years later having not further advanced in our own thinking. Each of us makes his own approximation to the truth, each constructs his own model - that is the way that it goes. George made his - and like everyone else, he straddled the target with his shots. It is by perceiving where he undershot or overshot or skewed, it is by perceiving where, in our own postulations, we do the same, that, slowly, laboriously, all of our fire will eventually come on target.

Another classical instance of this process has, of course, been the discussion in recent years about taxation being at the expense of rent - an aspect raised by George yet long lost sight of until the sterling work of Graham and yourself. And even in that debate, Bruce Every has very usefully and cogently drawn attention to where part of the approximation has not been adequate. So, as we go, we gradually take all of the points into account. One day we shall have arrived at the "complete" statement. For the moment, we are all still grasping towards it. None of us has completely mastered it - not even George. So, no canonizations for anyone. What we owe George is not so much gratitude for his accuracy as gratitude for his vision and the line of investigation and mental and moral attitudes that he pointed towards. It has been our common responsibility to build upon it - and I feel that we are now starting to get our act together.

However, to continue with the argumentation: Having shown that the rental value (RENT B) of land is the market value of the ability to acquire the community bonus (that value being understood to be a distributive portion of total prices obtained in the market, to be contrasted with natural rent being a distributive portion of total wealth physically produced), we can THEN proceed to show how

- a) if privately appropriated through monopoly in land title it leads to
 - i) unnatural and unfair advantage
 - ii) capitalization into the hurdle of land price, land withholding, etc.
- and b) if socialized, it leads to common enrichment from all social and technological advances, with equalization in opportunities.

See the thrust of Hart's article, and how I have traced this process through in my chapter in The Pseudo-Affluent Society, and in Taiwan-H.K. papers.

All your work is valid, but the point at which it becomes relevant is at the level of site rental, RENT B.

I conclude by reiterating that all discussion of RENT B must be secondary in time and logic to discussion of the derivation/origin/generation of RENT A.

It is RENT A that is the core of the good news. It is RENT A that we all need to share. It is RENT A that is the tangible increase in standards of livelihood. It is RENT A that is generated through men complementing each other. It is RENT A that men receive when they compensate Society by outlaying RENT B for the privilege. It is through the reception of RENT B that Society meets the communal needs. Quid pro quo and service for service! The significance of RENT B, rental, lies in the fact that this is the mechanism, indeed the only practical way, whereby to achieve the equal distribution of the common good.

Thus portrayed, the economic processes of a healthy society can be seen in their proper, sequential context. George made a very creditable attempt, but he nevertheless left it still partly jumbled. I hope that we shall have between us helped, in our own times, to further get it straightened out.

CONCEPTS OF RENT

There appear to be TWO concepts of RENT which should concern Georgist thinkers.

A) RENT is a distributive portion of production. It is that portion which comes as a **bonus** to whomsoever is able to utilize land that is endowed with relevant advantages in its location. Such advantages are engendered by natural and/or community factors which operate over and above the productive efforts of individuals.

Hence the total production of wealth within the community is distributed into **wages + interest + rent**. RENT, in this concept, is a "function of abundance", of harmonious co-operation within Society. It is the "common wealth" of the Commonwealth, an out-working of natural law whereby as the community grows, a fund is generated from which to supply the common needs of the community.

B) RENT is that sum which must be periodically paid to the owner of land in order to secure the privilege of exclusive possession of those advantages whereby the community-engendered bonus in production may be privately appropriated.

I strongly affirm that these concepts describe two quite separate and distinct entities. In the former, RENT comes as a **bonus**. In the latter, RENT is a **sum to be paid**.

In the sequence of events in human relationships, the former antecedes the latter. Indeed, the question immediately arising from B) as to why anyone should pay anyone else a RENT for land, requires an explanation in terms of A) — otherwise there is no sense in doing so.

For this reason I would suggest that the entity of RENT should be defined in terms of A) and THAT WHICH MUST BE PAID in order to be able to acquire the potential for RENT is most appropriately described in the gerundive form, RENTAL B).

It follows that the owner-occupier who enjoys the income-bonus of RENT is to be construed as paying the RENTAL to himself. The two entities remain distinct.

Hopeless confusion arises if this matter is not sorted out. Why, even Henry George in his famous "wide savannah" section in "Progress and Poverty", messed it up. He gave a lucid description of the generation of rent as a healthy process — the community bonus from the growth of the city — and then, instead of homing in on the target by climaxing on this theme of community enrichment, he went off wild and wide by remarking on how much landowners can command without working.

In short, he gives a beautiful description of A) and then confuses the issue by defining it as B). He thus portrays the health of the organism of human society in terms of its

social pathology in that circumstance under which land RENTALS are, by legislative default allowed to be privately appropriated.

One hundred years later, to be effectual, we ourselves have got to escape from this non-sequitur. It has rendered the power of the positive message of George impotent for generations.

For RENT A) is indeed **Good news**. It means that the more there are of us, the harder we work, and the greater our skills, then the wealthier we shall all be in terms of the common rent fund. And THAT is the good news of the gospel of George. It is only after that message is well and truly established in the minds of men that we should proceed to discuss what has gone wrong.

The fact is, of course, that wherever land does have a locational advantage, then market competition is going to create a **rental value** in relation to it. The cardinal issue then becomes: Insofar as rental will inevitably have to be paid, WHO SHOULD RECEIVE IT? The Georgist answer is "THE COMMUNITY". It is to be further noted that the private enjoyment of RENT is **not** to be attacked. Indeed it is part and parcel of the normal operation of Society wherever the advantages of landholding occur. The point is, however, that it is a privilege that must be paid for — and the diversion of the RENTAL VALUE OF LOCATION to the community is the other mandatory requirement within healthy Society whereby unnatural advantage is prevented and the equalization of land rights is effectively established.

It is the **private appropriation of RENTAL** that is pathological. Where RENT can be privately appropriated without the payment of the RENTAL (which evaluates the privilege in the market), then the unearned windfall accruing to landholders is able to be capitalized into LAND PRICE. And this is why the phenomenon of LAND PRICE is part of the pathology of Society. It is the capitalization of an unencumbered privilege — the privilege of appropriating the community-generated bonus without paying the due RENTAL for it.

In summary, the genius in George, as opposed to Marx, was that his vision was of social harmony and not of class conflict. If we persist in thinking of RENT as something that must be paid to landowners, then we are approaching the problem from the wrong end. As Georgists we do **not** seek to promote a class war against landowners. The Marxists have already caused enough misery by so doing. Then let us get our concepts clear. When we do so, we shall champion, for all the world to see, the Great Harmony that has been ordained for human society under Heaven.

K. N. Grigg.

Land Owners Benefit

The Almighty created man with an inventive brain intended to be used to lighten the burden of labour, improve living standards and to enable more time to indulge the cultural and spiritual pursuits. Unless rent is taken for revenue, because of the superior bargaining power of land owners, the increased productivity due to the use of technology, will benefit only the land owners, increasing the power of their monopoly, to demand yet higher tribute from labour and so worsen the problem of unemployment.

Under the natural order, technological advance will increase the rewards of labour and the use of capital. If technology is a cause of unemployment then the use of adding machines, typewriters, mechanical excavators, electric motors, etc., should be restricted, together with a lot of modern labour-saving inventions.

When the scientific basis of employment is known, then to blame technology for unemployment is as absurd as to blame The Almighty who created the human brain and the wonders of the physical world. All this has been known and suppressed for a hundred years, since Henry George wrote the world's greatest seller, second only to the Bible, "Progress and Poverty", which might well have been subtitled "Practical Christianity".

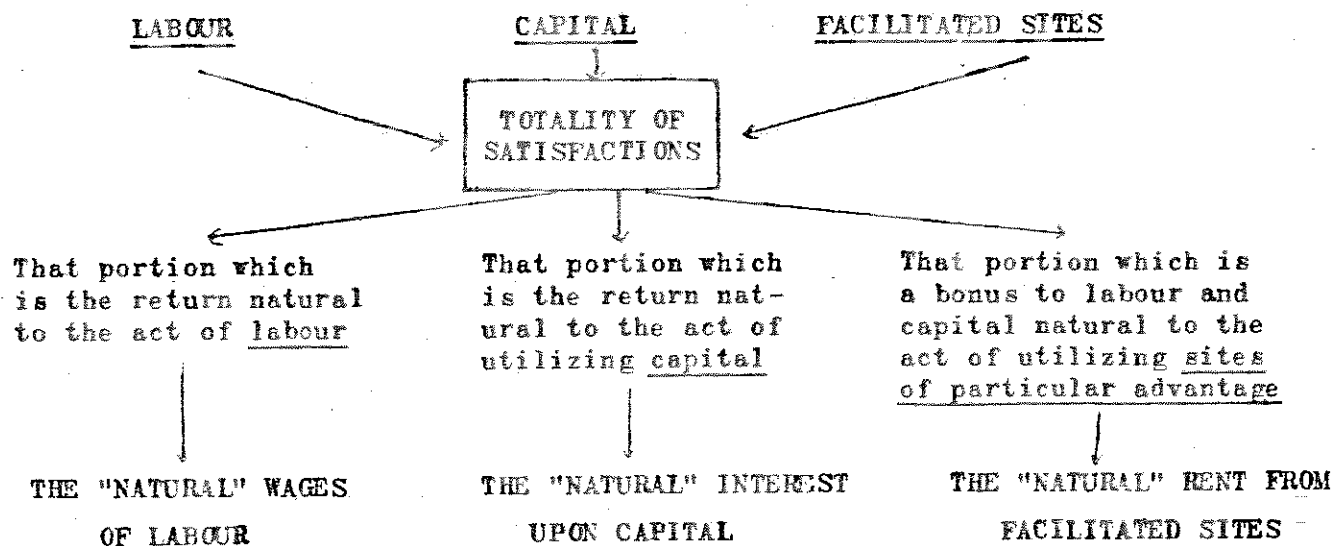
Such is the power of vested interests; to silence the media, the economists, the politicians, the institutions of learning — yea, even the custodians of morality — for a hundred years is no mean achievement. How many millions have died in vain? How many millions more have never known the justice which alone will enable them to develop to the fullness of manhood and womanhood their Maker intended, just to support the diabolical institution of land monopoly?

Men are not created equal but with wonderful variations so that under conditions of equal opportunity each can complement the rest to improve the lot of all.

The late Bishop Gore said, "The Church has been too long engaged in picking up the wounded in the battle of life, in applying medicines and staunching wounds when it ought to have been thundering at the gates of tyranny."

Christians should learn the Divinely ordained laws of political science and atune these to the laws of physics, chemistry and electronics. The spectre of involuntary unemployment, poverty and death from starvation in a world so marvellously stocked with the necessities of life, would then be impossible.

Graham Hart



These are all portions of total wealth. And the natural rent is the "common wealth." The concept is that of abundance, and in my view is the central positive emphasis in Georgeism. And in this first step in the process, "rent" is to be conceived as a bonus, within the total of goods and services generated, to the application of labour and capital. It is something which is received, enjoyed because locational advantages endow labour and capital with greater effectiveness, an effectiveness which is not of their own doing in isolation.

But of course the potential for bonuses put a premium upon the sites that can yield them. And so these "natural" entities come to have their correlates in the market where they are competitively evaluated. This is the second step in the process - and we must not make the mistake of jumping straight to it, bypassing the first; for if we do, then the concept of the abundant society will be missed. For it is at the point of this second step that the concept of scarcity enters, so that at a balance point between abundance and scarcity, natural wages, interest and rent acquire a monetarized value expressed in price. So a price will be paid for labour. A price will be paid for capital. A price will be paid for rent-yielding sites. This monetary value can be termed "contract" wages, "contract" interest and "contract" rent, respectively. I use the term "contract" to recognize that a "price" involves a reached agreement between contracting parties. And note that whereas in the first step natural rent was something received, a bonus with which to be endowed, in the second step, by contrast, contract rent is something which has to be paid in order to acquire a rent-bonus-yielding site. So when we, or Henry George, or whomsoever, talk of "rent" as being that share of production which goes to the landowner by virtue of his fact of ownership, we are talking of a share of production which, in cash or in kind, is required to be paid to him. And it is talk of the kind which relates NOT to the economics of a bonus of common wealth for common sharing, a bonus which stems naturally from the use of advantaged sites. It is talk which stems from the operation of monopoly and violence, in the final analysis.

"Contract" rent can alternatively be described as "rental" (the Latin 'gerundive' form implying 'that which must be paid') and hence the rental value of a site. Insofar as labour and capital must lie at the mercy of obtaining sites, then the relative abundance/scarcity of sites suited to particular purposes will determine the level of site rentals. This having been extracted by land owners from the total value of production, the remainder is left for division between labour and capital. (An owner-occupier can, of course, be construed as paying the rental to himself for the privilege of receiving the rent bonus.)

I repeat at this point the distinction and contrast between the concept of rent as being that which goes to the owner by virtue of being owner of a site, and that which goes to the user of a site by virtue of using it. Or perhaps I should say that which comes to the user by way of a bonus because of the particular locational advantages pertaining to the site.

A further word on the difference between "natural" wages & "contract" wages: A friend up at Sylvan recently had a whole orchard full of lemons. The lemons were his "natural" wages. But, in fact, he literally couldn't give them away. So his "contract" wages - his return when his natural wages were evaluated in the market - were NIL. And that is the nitty gritty. In like manner, the nitty gritty of rent is the level of land rentals as determined in the market - the premium that the community puts upon its own organized existence. So land rentals are the only practical economic entity. But as Georgeists, our task is NOT to relate land rentals to what any landowner can command. What WE have to do is to relate them to the market value of the common wealth, to the market value of the natural rent bonus.

Rentals as a price to be paid, take on the concept of scarcity: where advantaged sites are scarce, then rentals will be high. But if rentals, no matter what their level, are socialized (ie., through the taxation system) then the value of the common wealth will still be COMMON - and surely THAT is precisely what George was seeking to get at in his advocacy of the mechanism of the single tax. Thus it is accomplished that socialized land rentals as scarcity values still serve the cause of abundance in which all may share. Indeed, the value of the common wealth expressed in socialized land rentals may well rise, with social progress, both as an absolute and as a relative amount within total wealth production.

Henry George in THE CONDITION OF LABOUR:

"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 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."

This passage is surely a "turn up for the books", is it not? Indeed, in this passage George makes sense out of education and skills and automation, and more than gives Karl Marx a run for his money. This is THE GOOD NEWS of the Gospel of George. Primarily it has NOTHING to do with anything that goes to any landowner. Primarily it has EVERYTHING to do with what the common wealth amounts to. And THAT is what I believe that Georgeists should be talking about. It is only those who do not comprehend the natural bonus of rent who are frightened of automation and of education and of increased skills and of international trade!

To conclude, the "true" site rent, as I interpret Mr. Wignmore's terminology, is the value of the natural site rent, and will only finally be arrived at when all unnatural privileges/ monopolies have been abolished, and when all natural monopolies have been socialized.

However I would prefer to call it the true site rental insofar as it is that which the market dictates must be paid periodically for a site in order to be able to utilize the advantages of that site. To make my first point my last, "rent" is not "paid"; it is "received" by way of a bonus as a distributive portion of production. But it is a theoretical concept which nevertheless must never be lost sight of because it enshrines Henry George's good news of the abundance that should accrue to mankind through the enrichment that comes from their civilized community existence. And it is rental which must be "paid", the point being that it is only in the guise of rental that the common wealth can be evaluated and actualized.

K. N. Gigg 4/8/82

EXTRACT FROM "SUN YAT SEN - CITIZEN OF THE WORLD"

George perceived that in the cooperative phenomena of society, there was a bonus, a dividend, that came to mankind by way of increased material and spiritual prosperity, and that elevated his way of life above that of the crudities of isolated existence. It was a bonus that revealed itself in the enhanced usefulness and desirability of land from location to location, dependent not only on its "on site" fertility, but upon many other factors, eg., variety of concentration in population. In economic terms, it was to be expressed in the RENT of land.....

George dwelt on the fundamental importance to Society of the concept of Economic Rent. He perceived that trade and cooperation meant social life and civilization, and that trade engendered rent. He gave the example of the pioneer who settles on a boundless plain of fertile soil. Life for him is primitive; yet, by dint of labour his living is guaranteed. Then along comes another pioneer, then others. Where do they settle? Why, on similar land, but close to the first. By their very act of human association, these people afforded to each other, in countless unfolding ways, mutual services that yielded enormous savings, ECONOMIES, in effort. Thus human association endows land with a greater and greater role in productivity wherever association occurs.

Thus, where, formerly, on one acre of land a farmer might grow, say, ten bags of grain, now, on one acre upon which factories are built, a thousand men, working together, produce the equivalent of many bags, in the technical marvels of modernization... And just as it is the rationality of association that brings men together into centres of civilization, so also it is that selfsame rationality that causes men to choose good agricultural land over what is seen to be marginal. This bonus from human association and cooperation attaches to land of superior location and is termed "economic rent".

So George perceived that economic rent, expressed in the differential productivity of land as utilized by men from site to site, was the measure of that social saving in effort, that ECONOMY, which arises when men have access to utilize land, and when, in so doing, they are able to utilize it to its greatest advantage.

By allowing free competition to measure the rental value, or potential value, of each piece of land, and by channelling this by means of an annual levy on land rent(al), George portrayed how economic rent - the social dividend - the social bonus that springs from those economies to which the community gives rise through the very fact of its existence - could be gathered for community needs. This, then, was the true Socialism, the common benefit that free men afford to each other in the very act of their social interrelationships.

George visualized... that if economic rent were to be socialized, then the relationships between men would be harmonious; but if economic rent could become the private property of some men who thereby saved themselves effort at the expense of all other men, then dire poverty would be the fate of many, despite all social and scientific progress; indeed, as such progress continued - thereby making land all the more valuable - the process of misappropriation of economic rent would all the more intensify. And so in his scheme for the socialization of land rent through site value "taxing" or "rating", he looked for a radical yet liberal and non-violent solution to Society's ills.

- from paper delivered in Taipei,
August, 1981, at Conference
on the History of the
Republic of China.

K.N. GRIGG

HOW TO IMPLEMENT THE STATE TAX SYSTEM

AND BRING DOWN INTEREST RATES

We have to start from first principles:

HUMAN ACTIVITIES

domestic agricultural
commercial professional
industrial recreational

involving LABOUR, CAPITAL, RAW MATERIALS
carried out upon

SITES

that have

VARYING LOCATIONAL ADVANTAGES

yield end products

i.e. "SATISFACTIONS"

For a given input of labour and capital there will be a certain output of satisfactions. But this output will vary according to the relative advantages, the "facilitation", afforded by the location or site at which the labour and capital are applied: In the agricultural context, sites vary in fertility, rainfall and access to markets. Commerce and industry depend upon infrastructure — transport, communications. Residence is enhanced by the environment and local amenities. Moreover, locational advantages, for example population density, may actually increase the degree of application of labour and capital that a particular site warrants. Thus prime commercial locations enable multi-storey buildings to greatly amplify the nett return from the concentration of the employment of labour in a given area. This *variable bonus* in the outpouring of satisfactions, dependent purely upon the locational advantages which facilitate human activity, is termed economic RENT.

So, the returns to human activity may be distributed amongst the three factors involved:

LABOUR.....	WAGES
CAPITAL.....	INTEREST
LOCATIONAL ADVANTAGE.....	RENT

But Mankind is earth-dependent: to enjoy the *rent* you first got to command the *location*. The premium payable at the dictates of market competition for rent — yielding locations, is, in turn, called *rental* — in practical terms, the *annual rental value of land*.

Now imagine that the whole of the landed estate of Australia had been bought up by Arab and Asian investors (who are well on the way to doing it!) who then rented it back to us, the local peasants, to live and work on. What would their rent roll amount to? It would come to tens of thousands of millions of dollars annually. That is to say, the *annual rental value* of the landed estate of Australia currently amounts to tens of thousands of millions of dollars.

Political and Moral

Now comes a highly political and moral question upon which the whole discussion hinges. Are the advantages in the location of a tract of land something which the private owner of that land has, through his own efforts, brought into being, or are those advantages generated by the very presence and interactions of the people, comprising the community as a whole? Manifestly, it is the latter. It surely follows then that the land rentals of the nation should be regarded as the common wealth of the Commonwealth.

In a word, *the rent of the land is the property of the people*.

In an ideal society, therefore, the output from human activity is to be distributed into the three categories of Wages, Interest and Rent, with the Rent going to the community. Let us assume that the market is an entirely "free" one in which competitive interplay causes a dynamic equilibrium to be established between the shares that are distributed to the providers of labour, to the providers of capital, and to the community as the provider of what we might call the "common facilitation".

There is intense competition to capture the "common facilitation". Hence the level of land rentals will be set by what labour and capital are ultimately prepared to proffer. Then, of course, labour and capital will receive as wages and interest whatever is left over.

If the rent of the land, in this ideal society, is truly treated as the property of the people, i.e., if the land rentals are fully charged against possession of title across the length and breadth of the Commonwealth, then the economic benefits of the common facilitation become the common property of us all.

Growing Fund

Herein lies a fund, running into tens of thousands of millions of dollars annually, to our common enrichment in the defraying of all of the expenses of Government, of national development, and of necessary social welfare. And whilst land would fetch in many areas a high annual *rental*, it would fetch *less price*, because no one could make a profit out of buying or selling land as a mere investment. The return to land ownership could then come only from its productive use rather than from its speculative retention. What is more, its productive use in terms of the distributive share going to labour and capital would be untaxed. — So much for the ideal society. Now let's look at what we've actually let happen.

Land has been treated as private property in an absolute sense. That is to say, when freehold title has been gained, the owner has said, "The rent of this land is *mine*, and any increase in its rent or in its rent potential is *mine*."

So it has come about that this private retention of rental advantage has been *capitalized* into an asking *price* for land. And unless this ransom of land price is met, then labour and capital will be denied its use. In other words, there will be massive unemployment — and we do not need to look beyond this process for its cause.

This unemployment is indeed the inevitable result of the speculative land boom of the sixties and early seventies from which we have yet to recover. The catch is, though, that at the slightest sign of recovery, *up* will go the speculative price of land yet further. In the meantime, the economy stagnates and chronic unemployment persists simply because people are holding on to property under the attitude that high land price means that they are wealthy. "Wealthy" because other must pay *them*!

Interest Rates

Now consider the effect on interest rates. And here we are using the term "interest" in the sense of the price of borrowing money. "First secure the land" remains the name

Site RENT/Site RENTAL

W. H. Pitt

Very nicely differentiated in June's "Progress", the workings of a Georgist economy can be displayed if commonplace yet correct terminology is used.

However, since for the whole social structure, Site RENT (the benefit in economic terms) is the keystone, the cornerstone, and the general building block, while Site RENTAL (in economists' terminology, the cost) is the price that has to be paid, the commercial processes whereby each originates require comprehension. These hinge entirely upon economy of effort.

Henry George's famous and beautiful depicting of the initial settlement of America's "boundless savannah" recognised all that even if, in Dr. Grigg's words, he then went off "wild and wide". George's "second settler" could have selected any one of thousands of equally fertile locations, yet he chose to settle alongside the first. Why? Because of economy of effort!

Neither of them paid rent, but later comers, even their sons, undoubtedly did. Why? Because of economy of effort!

Now The Metropolis

Today, in lieu of the frontier village, there now is a great metropolis. At its centre, the erstwhile slab hut is now a skyscraper with thousands of occupiers all shelling out to the landlord every week — yet, all profiting. Why? Because of economy of effort! How?

The skyscraper probably carries the name of the major tenant, and he would be the one who first saw that the locality would be more profitable for retailing than the site he had been on before. After doing his sums, he would have proffered a RENTAL that would have been just fractionally higher than what he felt any competitor might proffer. No way would that figure have equated with the net economic benefit. (Dr. Grigg's site RENT) that he foresaw from the new location. He was in business to benefit himself, was he not?

So he took the lease, put his retailing operation on the ground floor and on some above, then subletting the remainder of the space. There were prospective subtenants galore, each spurred by the self-same profit motive. In every sublease, the rental would be substantially lesser than what the subtenant reckoned the space would be worth to him. Otherwise none would have moved from his previous location! Those who were wrong in their judgement would soon move back!

With the doors of the retailer and his subtenants opening, each of their countless clients and customers would recognise that, there at the hub, services and material items of better quality and greater range could then more easily be obtained. Increased economy of effort then lay behind every transaction. Site Rent — the benefit in the economists terminology — vastly exceeded the Site Rentals that, in hard commercial cash, were outlaid.

A Fraction

Only a fraction of the total benefit, adhering to the location, was garnered by the landlord. Far more was enjoyed by the tenant occupiers — and their customers. The part of the tenants' outlays that related to the cost of the building's construction and maintenance were of course a mere recoupment to the developer for his outlays, a covering for his risks, and a "wage" for his exertions. It was

neither site rent nor site rental.

Of course, there was a seemingly glittering reward for the developer in his securing of the site and in his envisioning of its eventual use. But it was — or is — small potatoes compared with the total benefit that his astute activity brings to the community as a whole. The landholder as such, plays very little active part in it all, his only function being to select the tenant who will develop the site to optimal degree, or to do it himself—whereupon he assumes the mantle also of the developer and thus earns his reward.

Locational Economy

Right through, the commercial processes show up the part that Site Rent plays in the life of society. In the form of the Site Rentals, it monetarises the locational economy of effort and, when taken by the Crown as trustee for the people, ensures that land is not held back from productive use. But, whenever the people allow the Crown to neglect that duty, Site Rentals become the plaything of profligates and profiteers, and the people are then oppressed not only by the arrogant withholding of land but also by taxes until, coming to their senses, they insist upon correct action.

If any reader doubts the accuracy with which the commercial processes are here depicted they may enquire of the customers, the tenant occupiers, the developers and even the absentee holders of the land title for the Capitol Theatre building opposite Melbourne's Town Hall. That building was constructed — and later reconstructed — under building leases!

That economists and reformers have in the past failed to use — or to use correctly — terminology that for centuries has been commonplace amongst commercially minded people is a matter of regret. But it is not a matter for recrimination unless, from now onwards, we ourselves join them in such slipshod practice.

The Georgist reform can be achieved only if first we accustom ourselves to using — it is quite easy — the terms, such as Site Rentals, that accord with ordinary commercial practice and then insist upon that terminology in all subsequent discussions. That way, our argument will be sound and our propaganda campaigns will be upon grounds that are firm and of our own choosing.

We cannot win if we are not correct!

RESULTS OF LAND VALUE TAXATION

I have read the article by K. N. Grigg in February issue, and find his statements very clear.

But I think I should tell about the conclusion we — three Georgists in Denmark — have arrived at about price development after LVT has been put in action. We agree that land speculation will stop, but we are not sure that land in use or land which is being bought for actual use will decrease in price.

We mustn't forget that the burden of paying LVT will be less than the burden of paying income tax, thus creating more activity.

And maybe it is not very wise promising people cheap land if we cannot fulfil it. Also those who have the land do not like the idea, even though they might be positive for justice.

So if you want to get voters for LVT, you mustn't frighten away that group of them who own land. Inflation will stop and land speculation will stop, as no new surplus money will occur and it is the surplus money which causes the inflation. You are right that the rate of interest will fall because land speculation ceases — but land sales will never stop.

Knud Tholstrup, Denmark.

