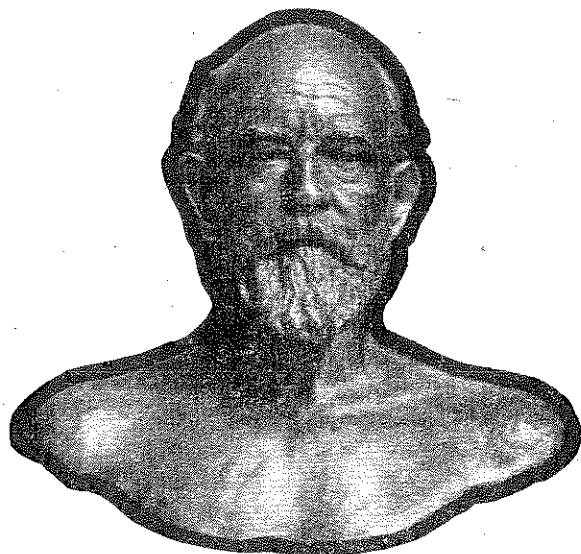


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GEORGIST QUARTERLY



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THE GEORGIST QUARTERLY

December, 1982.
Vol. I, No. 4.

A forum for discussion of Georgist policy
and theory.

Editor: Richard Giles.

OUR OBJECT:

"We would simply take for the community what
belongs to the community - the value that
attaches to land by the growth of the
community, leave sacredly to the individual
all that belongs to the individual".

Henry George (1839-1897)

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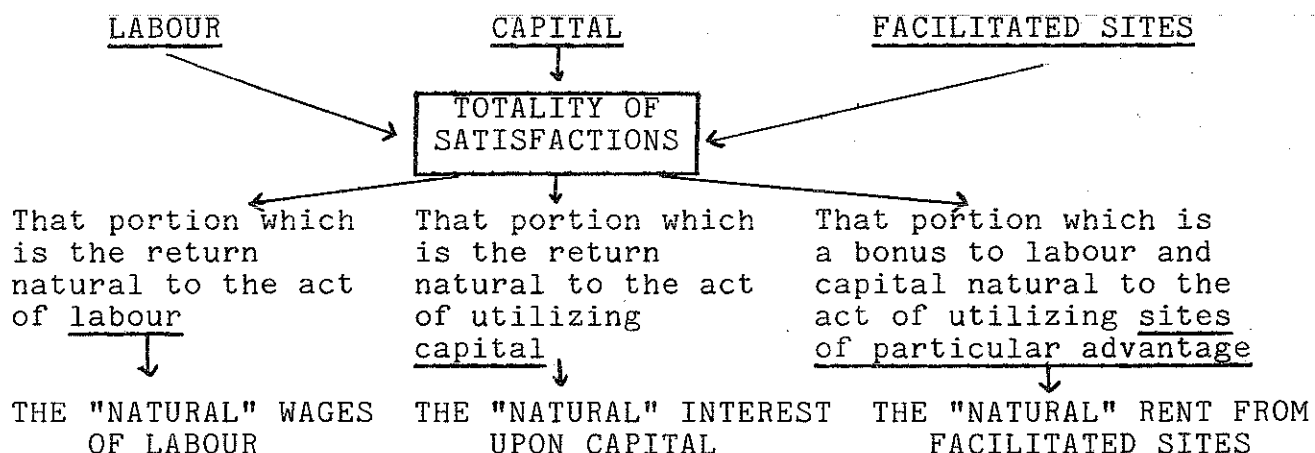
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Please confine articles to a maximum of
400-600 words. Typed manuscript with
headings is preferred if possible. (Ed.).

Association for Good Government,
143 Lawson Street, Redfern, 2016.

THE GOSPEL OF GEORGERent Given or Received?

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 Georgism. 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 and 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 rental is 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.

Rent Given a Source of Abundance

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 (i.e., 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. Wigmore'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. GRIGG.

* * * * *

"LAND-PRICE" AND "RENTAL"

The arguing in September's Quarterly (Messrs. Boorman, Gilchrist & Giles) sounds overly familiar. Two changes might prevent a repetition.

Firstly, they could dodge the term "land value" and talk instead of land-price which is what I'm pretty sure they mostly mean and which the rest of the world understands.

Likewise, "rental" is a pretty common commercial term for the titleholder's take and can hardly be confused with the economic rent about which we seem so unsure.

When I reworded the contributions accordingly I found a nice agreement. If our contributors won't adopt the practice, I suggest that our readers do!

W. H. PITT.

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F O R U M

1. "WORKERS" IN A GEORGIST SOCIETY (Keith Thomas)

What immediate advantages will there be for wage-earners from the main Georgist reforms?

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- (i) GEORGISM IN TRANSITION - by E. P. Middleton
 - (ii) A PRACTICAL EXAMPLE - by W. H. Pitt
 - (iii) OTHER CONSIDERATIONS - by R. Giles

(i) GEORGISM IN TRANSITION

In response to Keith Thomas's request for thoughts on the probable (possible) course of the transition from the existing politico-economic chaos to a Georgist Society, I offer a few points.

I suggest that the paramount impact of the change will be the effect of raising the purchasing power of production-based incomes, by the reduction of taxation on such incomes as the source of public revenue is transferred to the collection of the surplus product.

If, as I assume to be essential, this transfer of revenue source is accompanied by the other reforms named by W. H. Pitt - fiscal, electoral and monetary - the speed of the transition will be increased, as will the tendency to a reduction of whatever hardship is caused by the change to (witting or unwitting) beneficiaries of the present exploitative system - those in unproductive occupations or none.

When one reflects on the appallingly wasteful cost of present government systems, including the amount of time wasted in parliamentary debate of spurious issues and on party-political infighting, at all three levels of government, one can visualise fairly accurately the general benefits that will accrue from its elimination to hasten the downward progress of its cost (through taxation) to personal incomes.

On the specific issue of the effect in the sphere of entrepreneurial enterprise, I suggest that the greatest stimulus will come from the gradual reduction of cost of the basic capital requirement of a suitable site, the benefits of which will be felt in every level of cost of production.

(For too long the accent throughout the Georgist movement has been on the benefits of access to land which, as Thomas suggests, is practically meaningless to the average citizen (except in respect of a home-site). It is vital to a wider acceptance of the Georgist economic philosophy that the accent be on the benefits of a tax-free economy and freedom from exploitation by power-hungry politicians).

Incidentally, my own conclusion on the subject of at what level the surplus product is collected (a point also raised by Mr. Pitt), is that the most appropriate would be the State level. Although local government is closer to the 'grassroots', I see its function a diminishing one as the bulk of its present expenditure related to purposes of the Welfare State is gradually reduced. At the State level the machinery exists in the office of the Valuer General for the assessment of the true rent. Furthermore, the principle of Federation will become a viable proposition by the States retaining their present powers and responsibilities while controlling federal government expenditure through a convention which allocates the proportion of public revenue to be handed on to a federal government whose powers are limited to its proper functions as guardian of public

justice (through parliament and the High Court), as the proper representative of national status vis a vis the rest of the world (the diplomatic service) and defence.

E. P. MIDDLETON.

(ii) A PRACTICAL EXAMPLE

Keith Thomas (Sept. 1982) asks how can we really say that access to land would, immediately and directly, help the workforce.

Well, here in Victoria and similarly elsewhere, suppose that the Maroondah Highway were extended east to Gabo and west to Adelaide, with all the homes, shops, factories and farms then moved from its north to the currently idle sites on the south.

With the same workforce and unemployed as now competing madly for work and low wages in the south, we all would then see a forest of signs "For Sale or To Lease" on the north.

The subtle injustice of to-day's widespread withholding of land would be immediately plain and the remedy obvious - for public revenues: put a holding charge on each site (north and south) precisely equal to its rentability!

Our population then would spread again on the north, but this time peacefully, for neither north nor south could any favourably located site be withheld from use!

That would remedy to-day's undue competition for land and land prices and rentals would fall accordingly. But, being then all on the best available sites, productivity would rise.

The benefits of this would flow immediately and directly to the work force, for those who profit from it to-day would have lost their power to hold land idle.

Keith, is not all this implicit in my (Sept. 1982) "Manifesto for Individual yet Communal Liberty"?

BILL PITT.

(iii) OTHER CONSIDERATIONS

Points covered by Bill Pitt and Peter Middleton include reduction of taxation upon incomes, greater access to land, and more productivity. One other point is that the levying of the full economic rent upon better sites will allow marginal sites (now relatively free of both ordinary forms of taxation and site rent) to survive the competition of better sites. Complementing this will be a change in the way "workers" see themselves, i.e. "Workforce" is labour minus the entrepreneurial element. Increasingly, by returning economic freedom, this "workforce" mentality will dissolve.

R. GILES.

P.S. Keith or someone else may like to summarise this discussion for presentation later in G.G.

2. ECONOMIC RENT AND USE OF BETTER SITES (F. J. AULD)

- (i) Is Economic Rent Tax like a 100% income tax beyond a certain point?

Answer: Economic rent tax is a 100% tax on income from landownership - not labour or capital. Rent tax is a 100% income tax before a certain point. Everything you do to your land after that is all yours! How is such rent tax collected? By public auction of Crown land, as in Hong Kong, but for shorter leases than in Hong Kong - coupled with a 100% land value gains tax on any lease sold privately before the expiry of such a lease.

C.S.R. MILL.

(ii) FURTHER CONSIDERATIONS

Two other thoughts come to mind in connection with this question. The first is that even at present with combined rent and taxation often at or close to the full economic rent large concerns do not avoid the better sites. Related to this is the possibility of the more intensive and longer operation of better sites. The second thought is that if some businesses do move away from better sites the rent offered must drop allowing their competitors to take them up on very favourable terms.

R. GILES.

3. DETERMINING THE RENT OF A MINE (F. J. AULD)

How is the rent of a mine determined?

Answer: By application of the same principle of public mining right auctions - but for shorter leases than applicable for urban and rural land, provided the mine tenant is offered first option to renew lease by meeting highest competitive bids. However miners may still make a "windfall profit". The Queensland Government has solved this one without any of the coercive paraphernalia of a "resources royalty tax". All Uncle Joh does is make the miners pay the economic price for the use of the state infrastructure of railways, roads, docks, etc. Both sides benefit because both sides need each other - yet each side has a "hold" over the other. This ensures that agreement is reached quickly, voluntarily and, consequently, equitably.

C. S. R. STANTON.

4. DETERMINING THE RENT OF AGRICULTURAL LAND

How will farmers know how much to bid for land subject to the vicissitudes of nature?

Answer: How does a farmer know how much to bid for a cow or a pig at an auction? Let us use our common sense! No farmer knows exactly, of course. He takes a CALCULATED RISK. This requires courage and experience. All Georgists are trying to do is to bring the same laws to bear on land ownership that the community has learned to respect (more or less) in the ownership of labour and capital.

5. THE EFFECT OF SITE RENTALS UPON MORTGAGES (F. J. AULD)

(i) The consequences caused by the collection of the economic rent on existing mortgages has concerned me for a long time. We know how far-reaching are the consequences when the end of property booms destroy the security value and the rental income of real estate. The financial losses go beyond the speculator, the owner of a "bad investment", "over-extended" business, farm and household. The whole community of shareholders, depositors, beneficiaries of superannuation funds are affected to an unpredictable extent.

To estimate the amounts involved, I have attempted to gain information on the total amount of mortgages given, or outstanding over real estate. The Australian Bureau of Statistics collects information in some States on the amount of mortgages registered yearly. But this fragmentary information cannot be related to the total amounts outstanding.

I have then correlated fragmentary data from various sources (Reserve Bank Bulletin and various ABS. Financial Publications) for the 1978/80 period. My results show that out of \$M 81,883 Loans outstanding, \$M 34,909 was owing on Real Estate.

We would want to know how much of these loans are secured by land (whose value will drop in response to the collection of the economic rent), and how much relates to the improvements. During the preparation of the 1977 Site value estimates, I found that Capital Improved Valuations were 2.1 times greater than Site values. On that basis somewhat less than half of the value of outstanding property loans (\$M 16,623) will be affected. The interest payments involved at a median rate of 12% p.a. amounted to \$M 1,995 or app. 2% of the GDP.

I must say, that I cannot evaluate from these data at this time, what the consequences of the collection of the economic rent would be. It is obvious that we must introduce any changes gradually, to avoid serious and sudden shocks to the economy before it settles down to a just distribution of incomes.

DR. GEORGE HARDY.

(ii) A RELATED ISSUE: CREDIT UNDER GEORGISM

The reference by Banjo Paterson to this same difficulty that the imposition of 'the single tax' will impede credit shows that new questions are hard to find. Some might remember that G.B.Shaw raised this same question in a different form (G.G. His argument was that if the fortunes which the wealthy have to lend ("industrial capital") is really accumulated unpaid economic rent where does credit come from in a Georgist society? A.G.Huie argued then that 'ploughing-back' of profits was the source of investment. But this then left the question that, if this unpaid economic rent did not manifest as "industrial capital" where did it go to?

R. GILES.

6. WHAT IS THE UNIMPROVED VALUE OF AUSTRALIAN LAND?

(BILL MASON)

(i) UNCOLLECTED NATURAL RESOURCE RENTAL ON LAND
(Not including other resources).

As we know, the price of land increases in response to increased demand created by population growth, increased production, transport, communication and improved living standards. Inflation and relative taxation advantages create additional, speculative demand for property as a "tax shelter" and as a form of security which does not lose its value.

Land represents an even better form of "savings" against the depreciation of money than buildings and other improvements, because with time and use those will inevitably become depreciated. On the other hand, increasing population automatically increases the demand for land, assuring the increase in its future value.

These value increases which occur without any productive effort contributed by the exclusive user (owner) of any natural resource represent the capitalised 'use-' or 'rental-value', created by the existence of the community and which truly belongs to the community.

In justice, any citizen who holds a licence from the community to use the benefits of the community's natural resources,

would be required to pay a rental. We charge fishermen for the licence to fish, loggers for taking timber from forests, miners for winning minerals etc. But we leave uncollected vast amounts of similar community income chargeable for the use of land (TAX FOREGONE), and the government allows these fortunes to be transferred into the pockets of lucky privileged citizens!

The re-distribution of this income takes two forms. The most apparent form of income from land is what we call "windfall profits". This is most noticeable when various conditions combine to suddenly increase landvalues, such as when land is "re-zoned" to a more valuable use category, and when economic conditions create a "land boom".

The following figures document the vast re-distribution of incomes from the community to lucky landholders or clever speculators:

The minimum "unimproved value" of rateable (not 'exempt') landholdings in Australia was:

in 1964/5	\$M	11,910
1973/4		37,167
and in 1976/7		67,359

(Ref. "Site Values of Australia: 1st July 1977" by G. Hardy.
-PROGRESS- AUG. 1977)

The increases vary from an average 23% to 27% yearly, which is significantly higher even than the rate of the then prevalent hyperinflation and the average increase of incomes or the GDP.

The magnitude of these "windfall profits" which increased the incomes of lucky landholders by transferring or re-distributing the wealth of buyers of farms, houses, factories etc. is most significant!

The price of unimproved land alone (excluding improvements, buildings or crops) increased yearly by \$M 10,000 between 1973/4 and 1976/7.

Although this is a vast amount for incomes re-distributed, and taxes foregone under one single item, this is by far not the full extent of the amounts lost to justified government revenue as a result of non-collected site-value rentals.

Since net interest on longterm investments - (= fee for the use of capital) has historically fluctuated around 5% p.a., it is reasonable to expect a similar rate of rental tax (= fee for the use of land) to be charged on the unimproved value of land.

On the basis of the most conservative valuations (see above), such a rental-tax would have amounted to \$M 3,368 in 1977. For 1978/9 it is estimated to have been \$M 5,000.

As a result of not having collected a land rental tax, some \$M 10,000 have been re-distributed as un-earned profits and an additional \$M 5,000 has been re-distributed to lucky and privileged landholders as a natural resource (land) rental tax "foregone".

As we see, collection of a natural resources rental-tax on unimproved site values alone, would have nearly replaced the whole income tax!

EXTRACT FROM: "THE COMING CHAOS" DR.G.HARDY



