PROGRESS

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POLICY 1. COLLECTION OF LAND VALUES OR GROUND RENT AS PUBLIC REVENUE.
2. THE ABOLITION OF TAXES NOW IMPOSED UPON LABOR AND LABOR PRODUCTS.
3. PROPORTIONAL REPRESENTATION FOR ALL ELECTIONS.

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Editors: A. R. Hutchinson, B.Sc., M.I.E. Aust.; G. A. Forster, B.A., B.Sl.; H. B. Every, Dip.E.E.

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SOME FUNDAMENTAL ECONOMICS

By HARRY POLLARD

From time to time, we have been dealing with Murray Rothbard's critiques of Henry George's analysis. Rothbard's remarks are significant because to a large extent they have been accepted as the given word on the subject of the "singletax", even though Rothbard shows clearly that he hasn't so much missed the boat — as missed the ocean. Whenever he has taken up the cudgels against Georgist theory, he has swung mightily at the wrong target.

Landlords and Tenants

To summarise earlier analysis, Rothbard accepts a land ownership mechanism that rests on the first claimer, even though such a contention would turn the first generation into landlords, and we who come after, into tenants. Nevertheless, when the value of land is low, and the settling is hard, such a crude allocation might be usefully expedient.

However, with increasing population and its accompanying increase of land-value, the first-comers and their heirs become joyful beneficiaries of Mill's "unearned increment". Custom, reinforced by the power of the State, establishes the privilege of levying a "tax" on the producers.

Ayn Rand's more attractive fantasy of honest and industrious farmers tending the soil with fierce independence must give way to sober reality. Most cultivators are renters paying as much as two-thirds of their crop to someone who inherited from the "first-comer". "Inherit" obscures the truth, for between first tiller and latest tenant is a sorry tale of fraud, violence and murder — with always a solicitous State ready to traditionalise the crime and confirm the legal ownership of the swag.

Land does not behave in the market place as do other things. Henry George recognised this — not an arduous exercise — and offered his elegant solution, characterised by the Austrian School's von Mises as "utterly incompatible with the preservation of the market economy"! In counterpoint, George's remarks about Austrian theory included the words "grotesque confusions"!

At the other end of the spectrum, Karl Marx, described by George as "the prince of muddleheads", gloomily warned that "Progress and Poverty" was the "capitalists' last ditch".

Contemporary Georgists would content that without solution to the land problem, the market economy of the Austrians is not compatible with individual freedom. Further, they would assert that failure by defenders of the free market to address themselves to this question is directly responsible for the word-wide slide into socialism. Virtually every legislative "remedy" of the western world is directed to an effect of the land problem. Of course, they never work.

Privilege — The Coercive Value

Value can be created in three ways and one of them is coercive. The most important "values" are created by production of wealth. They can also be created by "obligation". If I sign a paper obliging myself to pay you $1,000 in the future, that paper has an exchange value. The act of accepting the obligation creates value — but, unlike production, it does not add to total wealth.

A third way to create value is to establish a privilege, or private law ("privi"-"lege"). A privilege benefits one person at the expense of another. It's a "one-way-exchange" and is the child of coercion. The right to take from another without payment is saleable. With a private law, backed by force, value has been created without the production of wealth.

Price Measures Progress

One would expect that normal progress in the arts of production would reduce the amount of exertion "paid" for things and that prices would tend continually to reduce. The effort to maintain "stable prices" is essentially a political ploy without economic meaning. The price of goods to the consumer, over the long haul, will decline. Declining prices are a measure of advance of a civilisation.

Once produced and in the hands of the consumers, products tend to diminish in value as they are used. They wear out. So, prices suffer two declines — the downward trend that accompanies progress and, on transfer to the consumer, the lessening of value that accompanies normal usage.

"Price" may conveniently be regarded as the result of two influences. First, is the effect of alternatives. One may buy one thing, or one may buy something else. The "something else" may be another version of the same good, or it may be something very different, which still takes the form of an alternative.*

Caddies and Chevies

In an imaginary static market, goods relate to each other according to their cost of production (exertion). Before you scream that this is "Marxist Labor theory of value", think for a moment. If the manufacture of a Cadillac costs you twice as much exertion as you would spend making a Chevrolet, but you can get only 50 per cent more for the Caddie in the market, how long will you continue to make Caddies? Presumably, you will transfer to Chevy manufacture and the Caddies will begin to disappear from the market — even as the Chevies increase.

Thus will Chevies and Caddies reach the market in proportion to demands that will recover their costs of production. In other words, prices will reflect the differing efforts that must be put into their manufacture. A market may be viewed as a counter laden with goods priced according to their cost to the producer.

The Price Mechanism

However, markets are not static, and a second influence makes itself felt. Although goods will "take station" according to their costs, varying inputs occur as people bring their production for sale. Changing supply will affect prices, just as the converse is true — changing prices will stimulate changes in supply.

This process, whereby demand is constantly fed by changing supply, we call the "price-mechanism". If Cadillacs take station in the market $1,000 above the Chevolet price, but the price difference opens up to $1,100, Chevies will become more attractive to some buyers. Fewer sales of Cadillacs along with increasing sales of Chevies will close the gap and again the cars will take station $1,000 apart.

In this fashion, thousands of goods find their "equilibrium price" position in the market and the price-mechanism will keep them hovering around it.

The Mona Lisa

At least this is true of the overwhelming business of the market which deals with similar and interchangeable goods. It doesn't happen with a far less significant activity where goods are priced for their specific, unique, or limited characteristics.

Thus, when you shop for Mona Lisa, you cannot pick between possibilities, nor raise or lower your sights. You have no alternative. If you want to buy Mona Lisa there is but one and there will be no more (but see below).

How the Free Market Works

The market value of a general trade good is profoundly affected by the "price-mechanism" — the process which opens and closes the supply spigot. Yet the price-mechanism works properly only when two conditions are met: when there is no restriction on the production of alternative goods; and when there is no restriction on movement of the goods to market — free production and free trade.

When goods cannot come to market, the action of the price-mechanism continues, but fails to establish a clearing price (when supply just satisfies demand). When production is aborted, or when existing supplies are kept from market, the price-mechanism process still seeks to force input by raising prices higher.

Thus, when an increasing price fails to produce another Mona Lisa, it continues to rise apparently with no end to the increase (the word is "priceless"). The price-mechanism struggles to draw to market the non-existent alternatives, but does no more than provide incentive for theft and forgery.*

* Six "original" versions of the Mona Lisa have been authenticated!

Churchill's Comment

Said Winston Churchill, speaking to this point: "Pictures do not get in anybody's way. They do not lay a toll on anybody's labour; they do not touch enterprise and production at any point; they do not affect any of the creative processes upon which the material wellbeing of millions depends . . .".

Churchill was comparing "collectibles" with that most essential basis of all production — land. Why the comparison? Because land, like collectibles, in the market place is not governed by price-mechanism action. And there's the rub, for land "collection" does get in everybody's way.

Just like other things, land takes its station in the market. Unlike other things, market separation of locations is not related to production costs. Land requires no production. It was there before we were — and it will be there when we are gone.

Land takes station according to its value as an aid to production. This value to production is known as *Economic Rent.** Simply put, land renting for $2,000 a year may be expected to add $1,000 more to production than land renting for $1,000.

Community Created Value

Rent is directly related to the activities of the community as a whole. It is called a "socially created value" because it is. The value of a location would exist without the landholder qua landholder, but not without a surrounding community of individuals. Essentially, all that a landholder does — for a price — is to allow a producer to use a value provided by others.

It can be seen that a landholder's return is pure privilege. He does nothing, *as a landholder*, for his rent. Private law, reinforced by power of the State, ensures continuance of the "one-way exchange".

The first influence on land price in the market place is, like other things, the available alternative. But the alternative is always other land. There is no similar thing that may be substituted.

The second influence is, of course, the price-mechanism, but in crippled cast. For those necessary conditions of a free market — unrestricted production and mobility, are absent from the land market. Demand for land shown by rising prices, cannot stimulate production of more land, nor can it draw land in from elsewhere. Market response to rising prices — the arrival of fresh supply — is impossible. The mechanism that effects a "clearing price" for other goods waxes impotent in the land market.—From *"The Good Society"*, August-September, 1981.

* Rent may be defined as the sum of advantages, less disadvantages, that attach to a location. Technically, it's the difference in value between a location and the best land that can be had for nothing.