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## Back to Basics

The relative wealth held by the rich and the poor is difficult to quantify unlike their life expectancy. For our purposes, however, this is not required, but for the discussion of the creation and distribution of wealth that follows it is necessary to define our terms - the need for which is explained in *The Corruption of Economics* in this series. Wealth comprises all natural resources secured and modified by productive labour for the gratification of human desires. As such, it does not include mediums to facilitate its exchange, such as money. The three elements in the production of wealth always have been and always will be land, labour and capital. Land encompasses all opportunities for wealth-creation provided by nature, and excludes any improvements to land through the application of labour and capital. Such improvements are themselves capital when applied to the production in wealth. Labour is the application of human exertion, mental and physical, to land for the creation of wealth. Capital is wealth set aside to assist labour in the creation of further wealth.

The exchange of capital for real property causes an elementary failure in the minds of many to distinguish clearly between land and capital. In this exchange, part of the capital is exchanged for buildings, services and other improvements, the value of which depreciates over time without further investment. The remainder of the capital exchanged is for the site value of the land, which is independent of the improvements. It is the site value, and not the improvements, which increases during a 'house'-price 'boom' for example. Use of the term 'real property', without recognising its two mutually exclusive elements, land and capital, impedes progress in economic thought in a way as fundamental as would speaking of 'water', if its elemental constituents, hydrogen and oxygen, were ignored in chemistry.

The forces governing site values are fundamental to any discussion of inequality in wealth, and are considered below.

No matter how complicated the economy becomes, no matter how fine the division of labour, how numerous the exchanges in the conversion of raw material to the finished product, how many the inventions, or how great the variety of finished products that constitute wealth, the elements upon which the economy is built remain land, labour and capital. Material advancement, both per capita and in aggregate, depends upon growth of the working population, improvements in the means of production and exchange, and certain features of social organisation that are conducive to wealth creation (eg, good government). In a free economy where laws and regulations do not create biases such as restrictions, privilege or monopoly, there will be no hindrance to gainful employment, a gradual increase in per capita wealth and with it general improvements in health. The question arises as to what happens to the distribution of this wealth with material progress, for it is the distribution of wealth that is of concern here.

#### **The distribution of wealth**

Land, labour and capital share in the wealth that they combine to produce. That proportion going to land is (economic) rent, that to labour is wages and that to capital is interest. The meaning of these terms differ somewhat from common usage. Rent is that part of wealth going to land in return for the use of natural opportunities, wages that part going to labour as the reward for human exertion, and interest that part returned to capital for its use. Rent as defined is not to be confused with commercial rent, which like other forms of 'profit', is a mixture of economic rent, interest and wages. Of course, an individual can receive income from any combination of these sources, but when thinking of economy in society we must collect all rent, all wages and all interest into three separate aggregates in order to understand what is happening.

Land, labour and capital each seek to maximise their proportion of total wealth. Production requires the exertion of labour on land, but there is a minimum return for exertion on marginal land of low productivity below which labour will find itself losing rather than benefiting. What this minimum wage is we do not need to consider here, but it is evidently a function of the general level of prosperity and is much higher now than in

the 19th century. This basic wage constitutes the margin of productivity. Labour on marginal land receives only a minimum wage, but what it creates it keeps as there is no excess that can be taken in rent. Since marginal land produces no rent, it has no site value (for site value is only rent capitalised), but more productive land will generate more wealth for the same application, and this excess can be taken in rent. Thus as the productivity of labour and capital increases, whether the result of increasing population, invention or improved organisation, an increasing proportion of the wealth created goes to rent, and though wages and interest may increase absolutely, they decline as a proportion of total wealth. This is a fundamental economic principle called Ricardo's law of rent, which states:

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

One illustration of this phenomenon is supplied by a comparison of average wages and average house prices. With increasing national wealth over the long-term, the ratio of house prices to wages gradually increases.

### **The inequitable treatment of rent**

So far, this account of economic phenomena seems natural enough and no problem has been identified. In the case of Britain and similar economies, however, we now begin to perceive the fundamental flaw in the existing system which acts as a sink, extracting wealth from labour and capital as material prosperity rises, thereby distorting its equitable distribution. This sink is created by legal and fiscal institutions which permit the appropriation of rent by landowning interests rather than its return to society as a whole. The fundamental principles that no return is due without exertion, and that living on the labour of others is immoral, evidently do not apply to those who hold title to land. The more effective labour and capital become, the greater the proportion of the income that is taken by the landholder in rent. Part of this maldistribution has become obscured by the ensuing redistribution policies that were ostensibly designed to compensate for the socio-economic friction to which it has given rise. Nevertheless, those classes of citizen having nothing but their labour, by and large the lower socio-economic groups (the bottom 50% in Britain's table of wealth own less than 1% of

all land),<sup>50</sup> remain seriously handicapped; for the more productive is their exertion the less is the proportionate return to them owing to increases both in rent and tax. The fact that wages may have risen absolutely can soothe, even beguile, for while labour may be aware of increases in taxation which reduce the purchasing power of wages, it fails to notice the increasing inequalities in the distribution of wealth.

### **Equitable forms of wealth distribution**

There is a justifiable distribution of wages about the average. Individuals who are particularly productive because of innate ability, special skills or knowledge, a creative application to work, or successful risk-taking earn a commensurate increase in their return for exertion which is generally acknowledged as fair. On the other hand, there are individuals who through misfortune such as illness, accident, or natural disaster are ineffective creators of wealth (at worst, totally dependent). Here is the rightful place for health and social care services, insurance, and charitable works, the marks of civilised society. This differential in productivity between individuals explains the distribution of wages within occupations and across society (for it partly explains social mobility). However, when labour is generally successful and the average level of wealth creation increases, then the proportion of wealth going to rent rises. Thus whereas the distributive effects of individual effort are equitable, this is not the case once the existing tax and tenure arrangements affect the distribution of income that flows from a general increase in productivity. The private appropriation of the additional rent that has been generated is a basic injustice. It is a remedy for this inequitable component that is needed if significant inroads are to be made in redressing socio-economic differences that give rise to inequalities in health.

Charity and welfare services applied to alleviate deprivation arising from the inequitable component of wealth distribution are currently necessary, but while relieving acute distress they also serve to deflect attention from root causes. These reactive approaches also assume, probably simplistically, that the problem is entirely one of material poverty. There may well be additional psycho-social dimensions to subhealth, morbidity and mortality having origins in the same system responsible for the inequitable distribution of wealth, dimensions which the 'welfare' approach

may unwittingly entrench.

### **A remedy**

Corrective action must start with the acknowledgement that, under the present tax-and-tenure arrangements, labour and capital are vulnerable to the systemic increase in rent. For those with little or no entitlement to rent (a characteristic of the lower socio-economic classes) this distortion matters a great deal. Of the many political economists to consider this problem, perhaps the most incisive was Henry George.<sup>33</sup> He proposed that rent be collected for central government revenue, to ease the burden of taxation on wages and interest and return to the community what the community has created.

To say as some opponents of this fiscal policy argue, that the separation of the site value from the value of the improvements (a necessary step before collecting rent for the community) is too difficult is an affront to intelligence. Every day, derelict land is valued in the urban sprawl, the values of sites are assessed after destructive fires and so on.

What is proposed calls not for any massive and 'reactive' increase in expenditure. Neither does it seek to bolster the income of the materially deprived by taxing the wages of the more successful among labour (to the possible detriment to the health of the latter it has even been claimed). Rather, the remedy is to remove taxes from all labour and capital by shifting the tax base onto the rent of land. Income gained inequitably, even if good for your health, cannot morally be held at the expense of the health of others!

### **Some mechanisms that link land policy and health**

#### **a) Housing**

On his installation to Glasgow University in 1883, John Bright referred to the 1881 census, noting with dismay that about 30% of families in Scotland lived in one room, and 40% in two rooms. With the generation of wealth since that time, the Victorian slums are no more, and by 1981 only 1% of Scotland's households were overcrowded according to the legal definition of the term.<sup>51</sup> Nevertheless, serious deficiencies in housing have endured, a sizeable proportion of the housing stock remaining below a tolerable standard.<sup>52</sup> In Scotland for example, 21% of houses are affected by damp, condensation or mould (many will be cold and draughty).<sup>53</sup> In selected areas

of our major cities almost half of all families live in rooms affected by mould.<sup>54</sup>

Adults unable to escape poor housing suffer excessively from nausea, vomiting, nasal obstruction, dyspnoea, backache, fainting and 'bad nerves'; their children from wheezing, sore throat, headache, fever, cough and nasal discharge, even after allowance for income, cigarette smoking, unemployment and overcrowding.<sup>54</sup> Effects of such conditions on mental health are difficult to disentangle from those of other factors commonly endured by those in bad housing, such as low status, feelings of alienation and neglect, and financial anxieties, but few would seriously doubt that poor housing can contribute to anxiety - depression. So what prevents the nation, and in particular its building industry, from responding effectively to the need for better housing? The fundamental reason is the treatment of land.

Housebuilding is the most immediately vulnerable of all industries to land speculation; investment in this sector is more unstable than in the manufacturing sector,<sup>55</sup> as illustrated by events in the 1970's and 1980's.<sup>56</sup> Between 1956 and 1974, the average price of a new building on mortgage increased by more than 400%, while basic weekly wages in manufacturing rose by only 215% and gross company trading profits by 236%. Since home price increases outstripped building costs, building site values increased by much more than 400%. Between 1970 and 1973, the average price of a plot soared from £907 to £2676, and the ratio of house prices to earnings increased from 3.3 to 4.8. The effect was to reduce the spending power of wages after mortgages were financed. The resultant decline in demand for articles from the manufacturing sector forced reductions in stock and the workforce.

In a free market economy, the high cost of building land in 1973 could be put down simply to supply and demand; no more than the difference between building costs and what buyers were freely willing to pay for title. But there is not a free market in land. The rapid acceleration in house prices represented no more than a spate of speculation, throwing the economy out of tune. Those monopolising the land were effectively forcing prices up by restraining the supply to the market. Predictably, prices collapsed in 1974, and by 1976 the ratio of house prices to earnings was back to 3.51. In 1977, building was still depressed but land prices started to escalate once more.

Builders could not obtain land and make a realistic return, given the disposable income of households at that time. Responding to complaints, the Housing Minister declared, 'The message for the building industry .... is that competition is both the key to success and the only guarantee of survival.'<sup>57</sup> Forced to compete for land at speculative prices, builders were the major casualties in the 20% increase in bankruptcies heard in the London High Court during 1981. The state of the industry since that time is common knowledge.

At the extreme, high rents and lack of affordable housing culminate in homelessness (2 million in Britain today) with its own deleterious effects on health.<sup>58</sup> Yet the building industry is more than up to the task of revitalising the housing stock, and there is no shortage of land. Indeed, the Civic Trust found in 1977 that 137,000 acres of England and Wales were officially derelict. An additional 250,000 acres stood 'dormant' (undamaged but idle) - an area larger than Birmingham, Glasgow, Liverpool and Manchester combined.<sup>59</sup> What happened in the 1970's and the 1980's, as on many earlier occasions, was a forcing of rent by the creation of an artificial scarcity. Sir Peter Trench, a leading expert in UK housing, concluded that, 'By the end of the 1980's, the need for new housing would continue well in advance of supply. Supply, because of land, will be in a thorough mess!'<sup>60</sup>

#### **b) Employment**

An inability to find gainful employment has many adverse consequences for both worker and dependents, and employment is affected by the land policy in several ways. In Britain in the late 1970's, construction directly employed 1.25 million and represented 11% of the gross national product. In addition, hundreds of thousands were employed in dependent industries. Thus, the consequences of land speculation for employment in the building and related industries are readily appreciated. In 1981, over 300,000 of the unemployed were construction workers. Speculation in land reduces capital available for productive purposes, and the lack of such funds forces businesses to reduce stock and cut back on the workforce. Many small businesses rent their premises, and when new leases are negotiated, the increases can be seriously disruptive.

The exclusion of rent from taxation has its own detrimental effects on employment. The displacement of tax onto labour and capital for central

government revenue combines to create high labour costs with reduced purchasing power of wages. The worker is unemployable if deemed incapable of producing goods and services to the costs of the labour plus taxes (income tax, value-added tax, national insurance). This is the 'tax wedge' between labour and employment. Attempts to encourage employment by lowering taxes on capital fail in large measure because of the land policy, as illustrated by the history of 'enterprise' zones. The 'tax breaks' offered to entrepreneurs willing to move to such zones were immediately swallowed in increased rent. Thus when government created such zones in 1981, rents rose by up to 50% as compared with those for sites just beyond their boundaries. What was meant for capital and labour was largely seized by land.<sup>61</sup> The investment attracted was not capital or labour intensive - warehousing was the favoured means of extracting the increased land-rent.

Speaking of Britain during the 1970's, Margaret Thatcher said, 'We got an artificial boom, and do you know where the money went? It did not go into investment or expansion; it went into the biggest property boom we've ever seen and I don't wish to see the like of it ever again. It did the Conservative Party immense harm, it not only went into these enormous increases in property, the boom eventually collapsed, and in the meantime inflation rose and rose and eventually unemployment rose again .....'.<sup>62</sup> The consequences of unemployment for health are well recognised. Children of the unemployed show deficits in growth and development compared with those of the employed within each social class.<sup>63,64</sup> Men who were seeking work in the week preceding the 1981 Census were found to have a significantly excessive mortality in 1983 due predominantly to lung cancer, coronary heart disease, accidents and violence. Their excess death rate was not explained by their pre-existing health or their socio-economic status before unemployment.<sup>65</sup> Others have reported an association between unemployment and an increased mortality from coronary heart disease.<sup>66</sup>

The anxiety and depression going with the threat of unemployment, or its realisation, are only too readily understood.<sup>67</sup> One of the tools of research into psychological health is known as the general health questionnaire, which contains questions on loss of sleep, lack of concentration, feelings of depression, sense of self-worth, and worry. With this measure the unemployed score far worse than the employed.<sup>68</sup> Follow-up studies have shown that unemployment leads to a deterioration in mental health and re-employment



to improvement, regardless of sex, ethnic group or educational qualifications.<sup>69</sup>

In another approach, the American sociologist Harvey Brenner sought correlations between economic activity and admission rates to mental hospitals in New York State between 1841 and 1971.<sup>70</sup> Brenner found that instabilities in the national economy were the single most important source of fluctuation in admission rates to these hospitals. Brenner is at pains to stress that this pattern may not be confined to the unemployed - recessions may take their toll even among those who are not made redundant. His methods have been disputed, but the overall evidence leads to the not so surprising conclusion that loss of earnings and insecurity through unemployment is bad for mental health. Arguments about how the association with poor health arises, whether through loss of work per se, or loss of income, are of interest but of no relevance for our present purposes.

### **Time for Action**

Speaking in Burlington, Iowa in 1885, Henry George stated that, 'The peculiar characteristic of this modern poverty of ours is that it is deepest where wealth is most abundant'; and elsewhere in the same speech, 'Poverty is worse than cholera; poverty kills more people than pestilence, even in the best of times. Look at the death statistics of our cities: see where the deaths come quickest.....'.<sup>71</sup> Compare these remarks with those of Lord Kilmarnock to the House of Lords in 1987; 'Just as the gap between the richest and poorest has increased with an overall increased national income and the plight of the homeless has become worse within an overall pattern of increased home-ownership, so health inequalities have increased ..... It is all part of the same pattern'.<sup>72</sup> Such similar sentiments expressed by informed men one century apart, albeit in different style, are eloquent testimony to the failure of society to come to grips with the inequitable element in the distribution of its wealth and its consequences for health. The 'reactive' policies have evidently failed to achieve anything like the improvements in the health of the nation that are needed. The problem facing the pre-emptive approach proposed, however, is not one of lack of intellectual support,<sup>73-80</sup> but rather the lack of a 'critical mass' of political will.

The 'Black' Report has called among other measures for a fairer

distribution of resources to raise the living standards of the disadvantaged and thereby improve their standard of health.<sup>7</sup> There will always be an unequal but nevertheless equitable distribution of wages according to an individual's productive capacity. Far more important, however, is the persistent inequitable component to the distribution of wealth that has its roots in the institutionalised appropriation of rent. Site values and rent originate not from the exertion of the landowner, but from the productivity of labour and capital when applied to land. The ever increasing share of wealth going in rent to the landowner as labour and capital increase productivity deprives the latter of an equitable access to the products of their exertion. This arrangement is obsolescent.

Britain's political economy is based upon a pre-industrial system of land tenure onto which has been grafted an industrial application of labour and capital. The failure of this hybrid to sustain full vigour arises primarily not so much from any serious deficiencies in the graft, but from the inadequacy of its rootstock. It is the latter which is mainly responsible for the recurrent depressions, protracted bouts of high unemployment and the inequalities in the distribution of wealth that in diverse ways undermine the health and wealth of the nation. The remedy is to restructure fiscal policy on the basis that people should pay for the benefits they receive. The occupation of land provides access to services provided by the community; these services are, in fact, what gives land its value. Therefore, occupiers should pay rent to defray the cost of those services. This revenue would then permit a reduction in the general level of taxation.

Apart from the equity and efficiency benefits of this approach to public finance, other benefits would follow. These would be discouragement of speculation in land, improvement in prospects of employment, and increases in net wages and personal status. On the evidence to persist with the present system of capitalist welfare offers little real prospect of a remedy. The fear is that, with increasing disillusionment, society may slip back into its old ways reminiscent of 50 years ago. This would be disastrous for health. As Richard Wilkinson has put it, 'In Britain, as in many other countries, the scale of the excess mortality associated with lower social status dwarfs almost every other health problem'.<sup>81</sup> The latest study from Northern England shows that this problem has increased further between 1981 and 1991.<sup>82</sup> In the next round of reforms, unlike in 1911, it is imperative that

society is not forced once again up the wrong path.

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