

SKEPTICISM

By Harry Pollard, Tujunga, CA

If liberty means anything at all, it means the right to tell people what they do not want to hear." George Orwell

My one hour speech at the Newport Beach (*Council of Georgist Organizations*) conference on being skeptical was stopped abruptly at less than 40 minutes. This was necessary to bring the program back on time, but it stopped me from delivering my final skepticism - my views on Henry George's analysis. I argue that beginning with Henry George himself and continuing up to the present, we have lost sight of the real meaning of economic rent.

My credentials, such as they may be, are that I've been teaching George since my first miserable three student class in Hammersmith, London, in 1948. Over the years I've made a number of changes to the Georgist curriculum including its latest manifestation as a full semester credit course in economics for high school students. (About 1,000 seniors a year graduate from our schools and we are fortunate to have first-class public school teachers running the program.)

You will probably think that I am describing things that don't exist in reality, but bear with me. Why they don't exist will become clear.

I shall use the classical division of three Functions of Production - Land, Labor, and Capital along with their returns - Economic Rent, Wages, and Interest.

However, for this discussion I shall concentrate on land and labor. It is normal for labor to use capital for it multiplies his production at small cost. The use of capital increases wages. This is true whether it is a smithy working at his forge or an assembly line worker at General Motors. So, we will be discussing economic rent and wages.

Our venue will be the city, where the most important economic rents are to be found. The amount of economic rent will depend on the size of the community and its economic well-being. Improvements such as infrastructure are sometimes said to create economic rent, but it is probable that they only move it from one place to another. The subway line that takes people downtown may direct rent from the suburbs to the downtown. It doesn't create economic rent.

It's also suggested that erecting buildings produces economic rent, but they don't. Buildings follow rent. When economic rent is sufficient, buildings may be erected to take advantage of it, but they don't create it. Gentrification also takes advantage of economic rent increase rather than creating it.

Economic rent is a value that attaches to a land location with an address. We say that production takes place on land. That's too broad to be useful. It takes place on a location. Yet, a location needs to be specific. It needs an address. Oil isn't drilled on land, or even on a land location. It is drilled (say) 300 yards south-east of the

intersection of Interstate 80 and State Road 44.

Further, for a given community size and well-being, the amount of economic rent remains constant. I first heard this contention from those excellent Georgists - the Farmer Brothers - in Toronto. I remember discussing this with Mason Gaffney many years ago and we agreed that this is not so. We were both wrong. Economic rent may move around, increasing in one place even as he decreases in another, but it remains the same (until changes in population or economic conditions occur).

However, this is a minor point compared with the major error of modern Georgism. We have confused the meaning of economic rent.

There are (at least) two kinds of rent - Economic Rent and Contract Rent. Economic rent is the target of Georgists. It is a value that attaches to a location (with an address) and is the consequential effect of the gathering community. Contract rent is what is paid by one to another. Property assessors measure contract rent and so do modern land-value taxers when they arrive at the enormous sums to be collected by their tax.

In fact, contemporary land-value taxers and Georgists spend their time discussing contract rent rather than economic rent. But, are they not the same? Well, not really!

Economic rent, the value that attaches to a land location, is determined in a free market. The free market will detect changes in population and economic well-being and alter the values accordingly. However, the land location market is not free.

Two requirements are necessary for a completely effective free market. There should be no restriction on production, and there should be no restriction on movement to market. This optimum is seldom attained but with land locations the free market cannot work at all.

Land locations cannot be produced and they cannot be moved to market. (A given location may be divided but this is simply the same location with two addresses.)

It is pretty obvious that nothing can be done without land. Humanity must have a location to produce, must have a location on which to live, needs a location just to stand. The demand for land locations is continuous and even desperate. This combination of an intense need for a land location combined with limited opportunities for fulfillment raises the contract rent of locations. This contract rent will keep rising stimulated by the actions of those who hold land locations. We should look at the psychology of land holding.

If you are producing goods in a factory you want throughput. You want to clear your shelves so that you can fill them again with new production. (continued on page 14)

SKEPTICISM (from page 6)

If you hold a land location, you have no inducement to sell. You have a rising market and once you've disposed of the land you are no longer a landholder. There is a certain cachet to being a landholder. It's a mark of superior status that that has endured throughout history.

So, you become a collector and your land becomes a collectible! A collector has little interest in present market value but thinks only of anticipated value - the expected future value of his collectible. Some collectibles do change hands and it is likely to be at the anticipated price.

Other collectors are professional land speculators who hold land not to use but to enjoy the increase in value that comes with an advancing economy. A favorite example of mine concerns "developers" who bought the 13 hectare derelict Battersea power Station in London for £10 million in 1993, did nothing until they sold it at the end of 2006 for £400 million.

Such land speculators are now dubbed property investors.

Intense demand combined with a reluctance to supply raises contract rents to high levels. We know that these contract rents are much higher than economic rents (the value caused by the presence and access of the community). So, from where does this extra payment come?

There is any only one source - wages.

If labor pays economic rent for a location, nothing is taken from his wages. He pays (say) \$100 a week for a location. He gets back from the location a value of \$100 a week. He keeps his full wage. If he must pay (say) \$500 a week contract rent for that location, the other \$400 comes from his wages.

As contract rents rise, wages diminish which leads to a natural ceiling of contract rents. When any further increase would stop production, the ceiling is reached. This occurs when labor with the poorest productivity cannot survive on lower wages.

As Henry George said grimly, any further exaction would lead to "a cessation of life".

I call this contract rent ceiling rack-rent, an old term which is appropriate. When modern land-value taxers calculate total rent that could be collected they are not referring to economic rent but to rack-rents. Actual economic rent is much less than these calculations. I suspect that the total economic rent for a city would be sufficient to run the city and not much else. (there may be a natural relationship here). Property assessors measure rack-rent which helps to explain why some of our friends calculate extraordinary returns from their expected land-value taxes.

It has been argued that all taxes come from economic rent (I argued that myself). It just isn't so. They are paid from rack-rent, as are the rewards of privilege (private laws benefiting some at the expense of others.).

Also, we should note that a modern land-value tax is actually taking wages - albeit at secondhand. Rack-rent takes the wages and the land-value tax collects some of it. Rack-rent is why poverty is always with us in spite of LBJ's "War on Poverty". It provides the answer to Henry George's famous question (sic) "Why in spite of the enormous increase in the power to produce is it so hard to make a living?"

So, are we advocates of a better tax system, or are we fighting poverty, unemployment, and theft?

(Harry Pollard received several email feedbacks which were forwarded to your GroundSwell editor, but there is not enough print space to publish them. Harry may be emailed at

harrypollard@gmail.com) <<

=====