Value: The Soul of Economics

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As with the other sciences, the problems are in the definitions. I hope that the ones I use, even if they are not the traditional ones, will have a commercial and practical ring.

About commerce, William Cowper's lines say it best: "And, if a bounteous plenty be the robe, Then trade is the golden girdle of the globe."

Economics is the science concerning the way we get our livings. Today, we are no longer hunter gatherers and our livings come in a myriad of ways that of course are all quite needlessly restricted. However, the restrictions would vanish immediately, if, in lieu of taxes, the natural site rental for each and every piece of land is taken for government revenue.

On the key word “value”, I thoroughly agree with Henry George's statement that it is the amount of labour that possession of anything will enable the possessor to avoid. However, there is also John Ruskin's careful work that distinguishes it from cost and price:

"Value is the life giving power of anything; cost, the quantity of labour required to produce it; price, the amount of labour its possessor will take in exchange for it."

Every exchange is a swapping of value for value—with each party satisfied that it brings an acceptable satisfaction. Each and every transaction is between two individuals. Even the deals between corporations or governments get sealed by the handshake or nod of the two top negotiators. In the Balkans today no deal is currently possible because there are three parties attempting to negotiate.

Ruskin’s phrasing is particularly valuable for it lets us avoid the cumbersome phrases that Adam Smith developed and Henry George extended. "Value from production" and "value from obligation" are concepts about as difficult as if they were terms in a foreign language.

Next is Site Rental, an explicit commercial term ready to drop straight into workable legislation. The man in the street, the public servant, the legislator, and the academics, all know precisely what it is. Therein it differs from the traditional terms such as Land Value Taxation and the Single Tax.

Every site rent is the nexus for the multitude of individual evaluations that relate to the prospective saving or avoidance of effort inherent in the location. There is the further nuance that each bidder automatically makes a guess as to what his competitors might offer. Would anyone willingly offer too much or take too little? Under the natural conditions of freedom, the market processes decide the figure quite peacefully, quite easily, and to the advantage of both individual and community.

David Ricardo, and then Henry George, missed two very important points when saying that the rent of any piece of land is the excess of its productivity over the yield that a similar application of labor would produce upon the poorest land in use. Reflection shows that this formula leaves no incentive for the tenant. Spotting this, Alexander Birnie wrote a savage Marxist criticism of them both.

What they all missed was that today's rent has two components—only one of which is evil. For that, I blame the imperfections in the terminology that all three adopted from the earlier writers. But perhaps the most glaring of imperfections was Mill's "Unearned Increment." Increment it certainly is; but unearned it most certainly is not. They, and we, should all call it loot.

Another imprecise term is "land value". This appears dozens of times in Progress and Poverty, with George almost invariable using it to mean the selling price. Only occasionally does he mean ground rent. Now, almost a century or more of bitter experience, we Georgists, flattering ourselves as being more logical than most, should be more precise than we mostly are.

Transactions for the renting of bare ground, of space at various levels, of sectors in the electronic medium and so on, are vastly more numerous than those that involve outright sale. But it is the sale price rather than the site rental that is "The Glittering Prize." Not only is it the target for the speculator tycoons; it is also a major terminological minefield that land-reformers must avoid.

In today's monopolistic and restrictive conditions, this site rental has two components, one evil, one good. Although they combine to form the substantive base for today's capitalised or speculative price, their different origins are clear and simple to see.

The major component is the worth at each location of the facilities that government makes available. This varies for each individual, but the marketplace brings consensus. The minor component is the extortive addition given to the landholders by their monopolistic power.

While the two components combine to form the basis for land price, they separate out again on analysis as to the effect of taxation. As we all know, each and every tax diminishes some one's spending power. And since the whole wage structure bases upon the maximum that will be accepted without revolt, any tax automatically lowers what the landholders can get. This explains the fundamental, subtle, but hidden objection by the landlord class to the governmental services and hence to the amount of taxation. As Omar Khayyam says, "Think this. If today thou nothing art, tomorrow thou can't scarce be less." A standard of living that is already minimal cannot be reduced. So the tax can only lessen what passes as rent. The Establishment knows it well.

It was for the continuance of the landlordly power and the rentals they took, that Rome's landholding families had the Gracchi brothers assassinated.

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Almost certainly it is what Jesus of Galilee had in mind when a hundred and sixty years later he declared that what was Caesar’s should go unto Cae- sar. The cash was not to go to Tiberius Claudius Nero personally but to him in his capacity as a chief executive with public servants and public contractors to pay. Combined with the first Ser- mon in the Synagogue, it was enough to ensure an early and unpleasant demise for anyone interested in economic justice!

Ancient that, it is interesting that archaeologists and linguists seem to have identified the cuneiform symbols for land—price with the symbols for the Beal whom the Canaanites worshipped. Thus there was good solid logic behind the Mosaic injunction that the Israelites were to “Possess the land in the name of the Lord.” They were to deal justly with the inhabitants and the outright sale of land was prohibited. Thus there would be little chance of anyone becoming a monopolist and rackrenting his neighbours. There seems to have been a deal of “value” in that little skirmish.

Today, our job as economists is to disentangle the words that for far too long have been messy — a mess almost certainly encouraged by the authorities. Look at Thorold Rogers at Oxford. Quite soon after they had created the Chair of Economics specially for him, they sacked him because of his reformist zeal. But then he made himself a greater nuisance by becoming a Member of Parliament. When eventually they re-appointed him, he produced his most powerful work of all - The Economic Interpretation of History. Those of you who have not yet done so will thoroughly enjoy reading it.

In it, Rogers tells of being convinced, beyond all possible doubt, that from 1535 onwards there was a continued and deliberate conspiracy “to defraud and to render destitute the English workman.” Interestingly, the very first Georgist conference, that of 1883, seems to have been overtly influ-

trated so as to render the movement innocuous. The newspapers tell of Henry George disconsolately “tailing the Noes as they crossed the floor to vote against” proposals for the name “Single Tax” and for action to start at the municipal level. The Establishment must have smiled its satisfied relief! Shearman, a corporation lawyer, may have been genuine in his proposals, but it is obvious today that they got “Georgism” nowhere. George’s unease was well warranted.

Any professional strategist would advise that it is obvious that “The Establishment” automatically keeps all reformers under surveillance. Not to guard against infiltration, is to be a starry eyed innocent!

Some folk take the quite misguided view that the site rentals result at least in part from the presence and activity of the general community that surrounds the site. They claim that this segment thus belongs to the general community and should be distributed as a national dividend. However, they don’t put their supporting argument, whatever it be, into writing, so their claim loses credence.

As I’ve already said, my view is that the natural site rent originates solely from the worth or value of the facilities provided by government and thus, through government, is the natural wages fund for the public service as a whole.

But what about the values that do arise from those surrounding facilities? Well, although available to us all, they can be utilized only through individual labour. Thus it seems that the additional production cannot be other than what Georgists call Wages. Viewed this way, the analysis provides a certainty, with every jolly thing being traceable to its origin in the labour of individuals, and with its value therefore being their wages.

The additional production certainly goes to today’s landlords but in reality it is really a pseudo rent, a loot extracted from Wages. If for argument’s sake you treat it as real rent and then check your logic again, you instantly hit the problems of entitlement. Being no longer to be regarded as individual property, it must then be treated as community property and distributed as a national dividend, but questions then come as to whether a baby should get the same dividend as a parent and whether the entitlement commences at conception or only when the baby can handle a gun! Instead of logic, you have an endless maze.

The similarity to the natural site rent is only because the landlord currently pockets it. By contrast, the natural site rent represents the worth of services that are supplied by the public servants and exchanged for the services of others.

Thus I reiterate that the natural site rental arises solely from value created by the exertions of those in the government employ. It does not and cannot include the extortionate loot that currently looks like rent. Restating this as a positive, the additional productivity which results from the background specialization is a return that under conditions of freedom would add to everyone’s wages—those in the government service just as much as those in private enterprise. To view it any other way goes against logic.

As a final reiteration, through trading in the market, every jolly thing gets evaluated.

Quite clearly, “Value Is The Soul of Economics.” Therefore, precision demands that we all should practice ourselves in so using “Value” as to distinguish it from either “cost” or “price”. The three terms are closely related but in mature discussion each has its specific meaning. Were that not so, they long ago would have coalesced into one.

Value, I say, is the soul of economics and should be treated as such.

American Georgists who attended the 1989 International Georgist conference in Philadelphia would have met Bill Pitt. Your editor met him when he made a tour of the United States and attended the 1984 C.G.O. conference at Pawling, NY.