

ECONOMIC STUDY ASSOCIATION RESEARCH GROUP

Ronald Burgess

PROJECT: A Physiocratic Model of Political Economy

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Introduction

Written up as draft paper "Henry George an American Physiocrat"

The Natural Order

Within the universe the human power to modify and be modified results in a modified whole - or man made world. Human beings have no property rights to the universe as such - either collectively or distributively. Some part of the modified universe accrues to human beings distributively as a consequence of their personal exercise of the human power to modify and be modified - personal property. Some part of the modified universe accrues to human beings collectively as a consequence of their cooperative exercise of the power to modify and be modified - public property. Personal property is the basis of personal income. Public property is the basis of public income. This is the natural order which must be recognised by positive law if a just society is to be attained - or even to sustain 'Full Employment in a Free Society'.

The Firm

In a given period of time the activities of a firm will result in a quantity of marketable goods and services - its output. Output may be expressed in terms of an appropriate national currency-lira, dollar, etc, its turnover. Turnover is a measure of the results of the interaction between the non-labour inputs purchased by a firm and a given amount of labour provided by the firm's employees at a particular location. Some part of a firm's turnover has to meet the costs of its inputs - costs of production. On aggregation costs of production cancel out - one firm's inputs are other firms' outputs. If aggregation is taken far enough there are no costs of production. For example: North Sea oil as such is freely given - it does not have to be paid for. What has to be paid for is all the labour and capital assistance at various locations - needed to discover it - to move it from its place in the natural universe to where it is wanted - to transform it from its natural state into usable products. Output less inputs equals a firm's product which may be aggregated. Turnover less costs of production equals a firm's proceeds which may be aggregated also. Proceeds may be considered as general claims to the aggregate product.

The System of National Accounting

The system of national accounting agreed by the United Nations and adopted by all OECD members divides aggregate proceeds between labour income and property income.

The share of the aggregate proceeds which is considered as accruing to those who contribute their labour is called labour income - in established theory the factor cost of labour.

The share represented by the aggregation of proceeds less labour income is called property income - in established theory factor costs (other than labour) plus profits.

For the single firm:

Costs of production + labour income + property income = turnover.

On aggregation for the economy as a whole:

Labour income + property income = aggregate proceeds.

Meeting Public Expenses

Since labour income is defined as the return to labour then property income must be the return to location and capital assistance.

Where location and capital is the subject of private property there is no apparent source of public income.

In these conditions public expenses have to be met from tax revenue - an arbitrary levy imposed by force or the threat of force upon turnover in general - effectively for the economy as a whole an appropriation of some part of the aggregate proceeds. Thus in a modern developed economy the proceeds in practice are divided:

Take-home-pay of labour + disposable property income + general government tax revenue = aggregate proceeds.

Preliminary Conclusions

Costs of production vary with location - natural differences magnified by taxation - regional problems intensified.

Taxation restricts locations at which particular economic activities may be conducted - restricts production and impoverishes the community as a whole.

As a share of aggregate proceeds general government tax revenues and disposable property incomes are inversely related.

Higher taxes mean less for investment and profits - productivity and employment are restricted - the whole community impoverished.

Taxation on employment increases employers' labour cost.

Employers' labour cost operates as if it were a price - at a given level of take-home-pay the higher the price (i.e. the tax) the lower the volume of employment - employees are impoverished.

Professor Friedman's stages should begin with 'progress and poverty', then 'inflation', then 'stagflation', then 'slumpflation': Progression within an imperfect order.

The primal cause of inflation is the attempt to mitigate poverty by profligate public expenditure - ends by adding inflation to poverty and halting progress. The western world has moved to stages well beyond what could be envisaged a hundred years ago - the root cause remains the same - the simple truth is unchanging.

THE ESSENCE, THE FUNCTIONING, AND THE DESTINATION OF LAND VALUES

Siebe Sevenster

As Georgists we feel that scientists don't take pains in analyzing the theories of previous century's socialists, except those of Marx. But have we ourselves done our utmost to further elaborate the theory of George and others and interpret it in terms of contemporary concepts?

Or are we just floating along on the waves of past glory?

This issue demands a more detailed working-out.

Henry George has pointed out in the second chapter of PROGRESS AND POVERTY that land becomes valuable when people settle on it. He demonstrates this with the example of the settler and those who come after him.

Previously Ricardo had already explained the reason why this value, as a result of a difference in fertility, is variable. We then see, that those variable values come into being mainly as a consequence of factors related to the region in which the land is situated.

For Georgists the above-mentioned three points are self-evident.

In discussions concerning the matter in question, as well as in writings dealing with the actual principle, it is necessary to draw attention to more important issues.

This article deals with three of them, i.e.:

THE ESSENCE, THE FUNCTIONING, AND THE DESTINATION OF LAND VALUES.

The ESSENCE of land values is that the people produce them. They need land to live on and to work on; hence the land has value for them. The people together take care of the opening-up of the land, they make it accessible, and in doing so render the situation livable. If such common commitment is lacking, then the land derives no value. Properties of the land, like fertility and situation, influence the level of its value.

The areas in which people settle are predestined by natural circumstances. A port town is built near a river-mouth, a village on a hill. Also taken into consideration is the climate, which, like man himself, is an outside factor. For mere living, the quality of the soil is of less significance: the predominant factors here are the locality and the available space for the construction of a house or a factory.

The coming into being of the land value is the result of a concerted interplay of many factors, of which man is the decisive one. The land would have no value at all, if there were no people on earth. Land value could also be described as "human value" or "experiential/instructive value". The human value of land also contains a cultural value, wherein is involved the totality of social life, which transcends the effects of reading rooms and schools of music.

People are dependent on and thus adjusted to the society, the "socio", and due to such amassing of economic and cultural forces, its values adhere to the land. The perception and acknowledgement of this connection gives rise to the awareness that the private collection of land value is inadmissible. One then understands that this value, as social value, belongs as such to the socio, to the society in its entirety.

The FUNCTIONING of the land values becomes evident through the utilization of the land by the people. Through it a variable value attaches itself to the land. The function of the variability is, a.o., the offering of equal opportunities to labour, to the efforts of the people. Ricardo clarified this with his thesis that by equal exertion the value of the fertile land attaches itself to it as surplus value. That surplus value is equally, like every production, the result of labour. In the compromise with his fellow-being who cultivates less fertile land, the man on fertile land, who is dependent on his fellow human beings in order to live together in peace, knows how to form a socio in such a fashion that the surplus yield connected with the fertile land is the outcome of the pressure of the population. By means of this pressure less fertile soil must be cultivated too.

One could call the attachment of this value to the land "the functioning of a natural law", "providence", or "ordinance", as a natural or social reality, by which pieces of land (which nature has provided freely and for nothing), derive value through the utilization by people. This is the story of the settler and those who come after him, in which less fruitful soil gets utilized and value attaches itself to the good soil.

This is an obsolete picture, but the essence is still the same. A more modern picture is offered by a town with land values that are greater towards the center. At the periphery those values are marginal for shops, i.e. the land is not more valuable for commercial premises than for living quarters. The shopkeeper in that area needs the output of his business as a reward for his labour. In more favourably situated spots, the soil, because of more customers and a larger turnover, has indeed a surplus value.

It is again the population, it is the people, who as customers cause this surplus value. Again, there exists among the shopkeepers the compromise, through which they as entrepreneurs are being offered equal opportunities.

When the value of the land is skimmed, and, as desired, benefits the community, it appears that the profits of the entrepreneurs involved vary exclusively with their exertion and inventivity.

What is the importance of the DESTINATION of land values? The essence of the land values as well as their functioning are connected with the social structure and the functioning of the society as a whole. The values attaching themselves in the process to the land, constitute a social fund, increasing with the population growth and the intensity of the life and the culture. To make this unfolding possible, still larger contributions are being asked from the citizens, who hand over to the tax-collector part of their wages. This actually is a cycle: in the measure that the community makes more provisions so increases the land value in the same measure.

So, in summary, it appears that: both the essence of the land value, which accrues from the social structure of the society, and the functioning of these values in the social life, by which through the compromise between the entrepreneurs, the value of the surplus yield attaches itself to the land, together with the proceeds of the efforts of the community as such, with a resultant increase of the value of the land, make clear that this value as a social value belongs indeed to the socio, the community in its entirety. It also appears that this value inside the community, be it large or small, functions instead of a fiscal system, as the natural social income of the community.

In the system of privately collected land value the citizen who himself doesn't own land, pays both for the use of land (which he does much more than is superficially perceptible), and he pays tax. So he pays twice. When the community receives the land value, people only pay for the privilege of using the land. The right circulation is such that the citizen pays the community for the use of the land, if he uses land; so he needn't let the fiscus rob him of part of his wages on top of it.

Thus the society gets, by letting the community share the value of the land, a totally new structure. People everywhere complain about a wrong structure, inflation, unemployment and tax-dodging. Taxes are a reduction on the wages and for many people this loss has as a consequence that Welfare has to come to their aid.

From the research in three areas, it appears that the value of a part of the production, i.e. the part transcending the margin, accrues as value to the land. This natural law process is in its totality interwoven with the functioning of the society, social as well as economic, in which is indicated also the destination of this value.

Researchers who want to point out a direction towards a "new economic order" cannot get around the necessity to include the destiny of the land value.