

# Vital Living Economy

by KENNETH N. GRIGG

**M**OST Georgists would agree that because public activities raise land values, land values should be publicly collected. In Australia such an assertion seems valid because so many of the utilities and services are publicly owned.

But what of countries like the U.S. where even the services offering communication and power are privately owned? Are not their roles identical with that of the state as an entrepreneur? Do not private bus lines contribute to "locality desirability" in the same manner as state railway lines? Is there any essential difference between public and private airlines as community services?

I am trying to illustrate that a corresponding statement, "because private activities raise land values, land values should be privately collected," can be equally valid. The issue raises an important question as to whether the one type of service should be subsidized (out of the proceedings of land value charges) whereas the other should not.

Are we working from a wrong premise? I think that we could be, and perhaps we need to re-examine Henry George's central theme — the saving of effort — and rediscover its significance. Let us suppose that the total number of people in the community is X, and that the average productive capacity of each person is Y. Then the total productivity of the community is not X multiplied by Y, but X x Y plus Z.

The Z component in the gross national product is the extra productivity (over and above the summation of individual capacities X x Y) brought about by those economies in effort which the organism of society insensibly makes possible. Each person unconsciously contributes to the efficiencies

of community life and so finds widened opportunities, increased enjoyment, added convenience and economies of effort which could not have existed outside of organized society.

Neither individuals nor the community "create" this ability to save effort. It is people, unconsciously cooperating as they compete, who bring about the possibility of extra income. Dr. H. G. Pearce of Sydney calls it "profit of association," not privately created (by individuals in their private capacities), not publicly-created (by state entrepreneurship), but *people*-created.

This bonus of wealth, this community dividend, this large tributary to the stream of production, this amorphous creation of everyone in general — belongs to everyone in general and to no one in particular. And whether the stream is large or small, this "income from association" remains a substantial, integral and quite unavoidable part of the whole.

This particular contribution of Georgists to economic thought is first, to plead that the Z factor be recognized as a concrete entity and that its significance be appreciated; second, to demonstrate that this extra income through saving of effort is channeled through the differential advantages of location; and finally that the extra income is identical with the rental value of land. Competition within community for these advantages creates the value, because the value of anything is the amount of human effort it can command; and the potential for extra income springing from the advantages of location sets the general limit to which the rental value will rise.

So land rental, no matter what function the state assumes in a free society, has a purely social origin — that is why the state, as the trustee for

community interests, must collect it. As Georgists, we advocate that this huge annual income should be used to meet the legitimate costs of government.

Since it is impossible to separate individual efficiencies and capacities from the element of the social factor of economy, any estimate of the size of the Z component in the gross national product must be imprecise. Theoretically, however, one may say that when land price has disappeared the community revenue being collected at that point from land rentals is equal to economic rent.

Essentially we should not differentiate between economic rent arising from public or private activities. "Economy of effort" gives rise to a social value which should be socially utilized. Where the state fails in its duty, the social income related to advantages of location attaches by default to the ownership of land titles as a private income. Capitalized, it then appears as land price — the prime factor leading to monopoly.

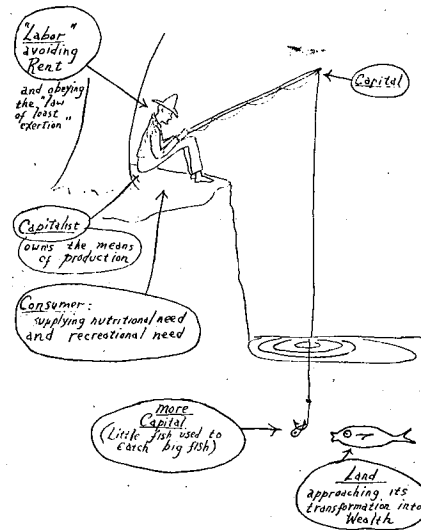
The Georgist emphasis on freedom to trade harmonizes with the above approach. Trade is an invention whereby economies in production may be ex-

changed, so that the gross national product will show a net increase, i.e., the Z component grows larger. Free exchange makes it possible for advantages in locations all over the world to be shared. As economic rent increases there is more cake for the cutting.

Wherever economic rent can be privately appropriated the advantages of free trade will be capitalized into land price, as outlined by Henry George in *Protection or Free Trade*. By the same token, protection leads to (localized and artificial) pockets of productivity, and it is easy to see that protection first contracts the over-all economies which might be realized, and then causes a redistribution and localized concentration in the level of land rentals — so ultimately the land speculator is the gainer.

Briefly stated, where community exists, land rent co-exists; where land rent exists, land titles acquire a rental value; where land rentals exist, there lies the source for community revenue; and so the wheel goes full circle.

Economy of effort is vital to living. Because this central premise is so dynamic, let us concern ourselves with its responsible interpretation and use.



This sketch was sent as a "pictorial summary of Lesson II," by Ken Swanson, a correspondence student in Tacoma, Washington.

An increasing number of correspondence students in various parts of the world are profiting from their study of *Fundamental Economics* by mail. Their approach is often creative and original.