

Mr. W. A. Dowe, B.A., LL.B., Director of the Australian School of Social Science, Sydney, Australia, being half way round the world from this office, receives his copy of The Henry George News somewhat later than American readers. In December, 1948, he replied as follows to an article by Gilbert M. Tucker, some months earlier: "Although the points at issue are not suitable for discussion by beginners in economic science, they are definitely suitable for investigation and discussion by graduates who have the cause of liberty, equality and freedom at heart. Land-value is the essence and measure of inequality." Mr. Dowe's comments on "The Philosophy of Land Values" follow:

### Land Value

Both Gilbert M. Tucker and The Henry George News are to be congratulated on opening up, in the June 1948 number, a subject of far greater importance than is generally recognised or conceded.

A correct view of land value is, of course, basic to everyone who wishes to understand the social problem, and particularly to one who has been enlightened by the brilliance and the ethical soundness of *Progress and Poverty*. Unfortunately there are in Georgian circles two inconsistent and conflicting slogans or objectives relating to land-value. These are "Rent for Revenue" and "Tax Land Values." The movement as a whole has not yet perceived the inconsistency and conflict, so it is not surprising that even "Henry George News" is at times guilty of supporting both objectives at the same time.

### Philosophy of Land Value

What is land value, and how does it arise? As this article cannot set out the whole theory of value I assume that the reader is familiar with Henry George's masterly treatment of the subject in *The Science of Political Economy* and in *Progress and Poverty* (Book 1, Chapter 11).

It is, of course, important to note that the word "value" in economic science always excludes utility and refers only to exchange-value (commonly called "selling-value" or "selling-price"). The use-value, or utility, of land will not be affected by appropriating rent as public revenue, but the exchange-value of land will be virtually destroyed by that measure. "Land-value" in this article, and in George's words, means exchange-value.

Land-value is essentially a value arising from obligation. It is enjoyed by the landowner as owner only, not as producer. The legal "ownership" of land is a legal status or privilege conferred by kings or parliaments, and from this privilege the "owner" collects rent which is produced by the community as a whole and which ethically belongs to the community as a whole. Rent in the pocket of any individual is therefore an unearned income.

Now unearned incomes, in contrast to earned incomes, can be *capitalised*, i.e. they can be sold on the market for a lump sum. This lump sum depends inversely on the current rate of interest, being high when the rate of interest is low and vice versa. By dividing 100 by the rate per

cent we get the purchasing figure, commonly called 20 years' purchase, or 25 years' purchase, and so on. Thus, if the rate of interest is 4 per cent the unearned income can be sold out for 25 times its annual sum. If a piece of land brings in a rent of £50 per annum, and the whole of the rent is privately appropriated, and the rate of interest is 4 per cent, the land can be "sold" for 25 years' purchase, and the price on the

market will be £1250. If the rent is £50 per annum, and the whole of the rent is privately appropriated, and the rate of interest is 2 per cent, the land can be "sold" for £2500. And so on.

It will thus be seen that land-value is the capitalised selling-value of *unearned* private rent. It is not capitalised rent, as is so frequently asserted by Georgists, but capitalised private rent. If rent is publicly appropriated it is no longer unearned income, because rent is earned by society. When the unearned income of private rent is abolished the power of selling the rent on the market will disappear and the selling-value of the land will also disappear. Thus the land-value (exchange-value) will disappear.

For a complete understanding of rent and land-value, and an understanding of society and economic science generally, the theory and facts just set out are essential. Land-value (not the utility of land) is essentially anti-social, being the product of the greatest legal robbery the world has ever seen. It is morbid, not normal. It is political, not economic. It is the antithesis of rent. Rent is a social product, and when it is privately appropriated by virtue of misgovernment, the results are as one should expect — anti-ethical. Land-value is the product of the private appropriation of rent. Therefore when the private appropriation of rent is abolished land-value will disappear.

The most important practical implication of this is in the field of legislation. In all legislation aimed at restoring land-rent to the people, who ethically own it, the correct term "rent" should be exclusively used and the terms "land-value" and "capital-value" should be avoided at all costs. By doing so the dilemma referred to by Gilbert M. Tucker in the opening paragraph of his article will be avoided. As he correctly says, if we always use "rent" as the basis of our calculations we shall avoid the whole trouble that arises from "taxing land-value", i.e. the dilemma that as we appropriate rent for the people by "taxing land-values" the land value immediately either wholly or partly disappears. The rent does not disappear. If we use "land-value" terminology we shall fail, partly at least, to appropriate the rent, but if we speak boldly and correctly of collecting rent we shall avoid any such difficulty.

The reason Henry George at times confused rent with land-value is that he had not given adequate consideration to this point, the far-reaching importance of which had not occurred to him. It is not a crime to make a mistake, otherwise we should all be criminals. George made a noble and imperishable contribution to the thought and knowledge of the race by

demonstrating that land-rent ethically belongs to the whole of the people, that to allow it to go to individuals as unearned income is a crime, and that it is easy and practicable for governments to avoid that crime by taking the rent for the community. Unfortunately he misled his followers by frequently identifying land-value with rent, as a result of which in many countries they procured legislation, based on that error, for levying taxes and rates on land-values (selling-value).

A good example is the New South Wales "Valuation of Land Act 1916" (Section 6),

which defines the unimproved value of land as follows: "The unimproved value of land is the capital sum which the fee-simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona-fide seller would require, assuming that the improvements, if any, thereon had not been made." Such errors may prove very difficult to rectify, but they must be rectified, and the first step is to clarify the point in our own minds. Gilbert M. Tucker has usefully opened up the subject, and I hope that this article will open it up further. Reading *maketh* a full man, and *discussion* maketh a ready man, and *writing* maketh an exact man, and I trust that a great deal of reading, discussion and writing on this point will be done before we are much older. I only ask that all the writing be done without prejudice and without emotion, in Bacon's "dry light".

—W. A. DOWE