

# Good Government

A JOURNAL OF POLITICAL, SOCIAL  
AND ECONOMIC  
COMMENT

Circulating in Australia, New Zealand and Overseas



AUGUST 1984 — No. 853

## ***IS GEORGISM PRACTICAL?***

Time for Action  
Assessments of Site Values

6900)

# *PRINCIPLES OF GOOD GOVERNMENT*

## **GOOD GOVERNMENT RESTS ON THESE FOUNDATIONS**

1. The true function of government is to maintain peace and justice. This does not include interfering in national or international trade or commerce, or in the private transactions of its electors save only as these threaten peace and justice.
2. A democratically controlled and just revenue is available to governments by the collection of all site rents as their sole and proper revenue, at the same time abolishing all taxes, tariffs and unjust privileges of every description.
3. A democratic system of representation by the adoption of proportional representation in multi-seat electorates and simplified provision for the referendum, initiative and recall.
4. A continuous programme of education in the economic facts of life to enlighten the electorate.

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IF YOU AGREE WITH the Principles of Good Government as set out above you are invited to support our work in one of the following ways:

- (i) Write an article or a letter to the editor, expressing your views in agreement or disagreement.
- (ii) Attend our meetings at our rooms at 143 Lawson Street, Redfern, or other functions as advertised from time to time.

# GOOD GOVERNMENT

(Incorporating "The Standard",  
published since 1905)

THE PROPER REVENUE OF A NATION IS  
THE SITE RENT OF ITS LAND

No. 853

AUGUST, 1984

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## VIEWPOINT

### Welfare and the Wealthy

Nearly everyone in Australia receives a housing subsidy but, like those who lived at *Animal Farm*, there are those who are more equal than others. In a paper delivered at the recent ANZAAS Congress in Canberra (May 14-18, 1984), Professor Ross Williams of the University of Melbourne argues that 'low wealth households do rather badly compared with high wealth households'. This is because, as he shows, 'Large subsidies are given to owner-occupiers and public tenants; private tenants receive very little'.

Professor Williams estimates that owner-occupiers get around \$750 as an annual subsidy. As about 70% of the 5 million or so dwellings in Australia are owner-occupied, the total amount of this subsidy is clearly enormous. The main components of the subsidy are, first, subsidised mortgage interest rates (\$415m. in a year), second, artificially low rates of interest on home loans (assuming the subsidy to be one per cent, this is \$330m. per year) and, third, imputed rent\* from owner-occupied dwellings (which, if taxed at 30% would amount to

close to \$2000m. in a year). Since the ability to obtain a loan as well as the size of the loan depends upon the ability to repay, it is the wealthy who derive the most benefit from the subsidy.

Public tenants obtain even more than \$750 per household if one considers both rent rebates and below market rents which public tenants pay. These subsidies apply to those houses, one in every twenty, that are government-owned. Following the findings of the Commission of Inquiry into Poverty (1975), the rent rebate component is increasingly becoming means-tested while the rents on public housing are gradually rising to market values (since 1978).

On the other hand, private renters who make up 23% of households get only \$150 in subsidies annually. As Professor Williams says, 'the group most disadvantaged by Australian housing policies are low-income households who rent privately'. These households include a majority of pensioners and the unemployed.

In summary, Professor Williams would seem to be arguing that, according to the criteria of the Welfare State, private renters are disadvantaged, while owner-occupiers are considerably over-advantaged by our housing policy. Williams argues that there is little or no reason to encourage owner-occupation. For one thing the high transaction costs of moving, he says, hampers 'labour mobility'. To correct the imbalance Williams suggests an annual tax on imputed rent. Such a tax, he says, would 'promote a more efficient use of housing stock' by ending the encouragement which present taxation policies give to owners to leave houses vacant, and cause more middle-aged couples whose children have left home to move into smaller dwellings.

When one studies Professor Williams' analysis and his proposal the one thing which a Georgist is inclined to notice is his failure to discriminate between private and public property. This failure has two effects. On the one hand he appears to be satisfied with the identification of inequity with a difference in income. For example, he says, 'Intergenerational inequities can be reduced by continually revising subsidies based on current annual income or wealth'. Here the source of the difference in incomes is totally ignored. On the other hand Professor Williams is satisfied to place an annual tax upon imputed rent without discriminating between that part of imputed rent which comes from land and that which comes from improvements.

Professor Williams is curious about two things. First, he wonders why owner-occupation should be so much encouraged

in Australia. Second, he wonders why there should be so much 'political distaste for the owners of private rented dwellings: THE LANDLORD'. He points out that there are a great diversity of landlords. But of course the traditional suspicion about deriving an income from land that is being occupied by someone else is the basic reason why owner-occupation is encouraged and landlordism is discouraged. This perception goes far back into Australia's short history.

He acknowledges that Supplementary Assistance to a private renter tends to go to his landlord. (Because public housing is concentrated on large estates, increasing public dwellings will have little effect on this.) But where do subsidies to owner-occupiers go? A staggering 150,000 loans (mortgages) were outstanding in 1982, and the estimated value of such outstanding loans in 1981 was \$33 billion! Does not this sum also go to landlords or at least landowners?

In other words, equity must be founded upon the discrimination between public and private property. The rent of land, as Henry George showed, (and he only showed the obvious), is public property, and economic rent ought to be the source of revenue. Should governments ever turn to this reform they will have little need through Australian housing policy to commit the grave injustice of handing out so much each year to owner-occupiers while giving private renters so little.

\* *Imputed rent*: what an owner-occupied dwelling would bring on an annual basis were it let.

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## Tax rip-off here again

It is now time again to put in our income tax returns, and television and radio buzz with advertisements for tax agents. One puts its case by presenting a series of ordinary persons who say something like 'I didn't know I could claim for ...' To which the tax agent replies, 'We do'. But of course the Taxation Department knows it too. The plain fact is that the Income Tax Act is so immense that the general public knows little about it—and, of course, the Taxation Department provides no assistance. The taxation office as the assessor ought to be legally compelled to help the ordinary person in filling out his tax return in the same way as tax agents do now. While tax assessors do not,

bottom-of-the-harbour schemes pale into insignificance beside what the taxation office perpetrates each year on the public.

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# SEMINAR NIGHTS

The annual meeting of the Association has approved five Seminars for 1984-5 — in September, November, March, May, and July. Each Seminar will be advertised in the preceding month in *Good Government*. Each will occur on the second Tuesday of the month between 7 and 8.30 p.m., and consist of a short talk followed by formal discussion then tea or coffee. The subjects chosen will encourage discussion, and be attractive to inquiring readers of *Good Government*. These public seminars are without charge.

**Tuesday, 11 September 7 p.m.**

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## HOW APPROPRIATE IS RESOURCES RENT TAX TO THE OIL INDUSTRY?

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**Speaker:** Margaret Waugh of The Australian Petroleum Exploration Association.

**Outline:** The origin of the RRT; the concept; and its application to oil exploration.

**Location:** Association rooms 143 Lawson St., Redfern (100 metres from Redfern Station).

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**For more details ring Richard Giles 74 8815 (after 6 p.m.).**



# Progress and Poverty

## Book IV, Chs. I, II

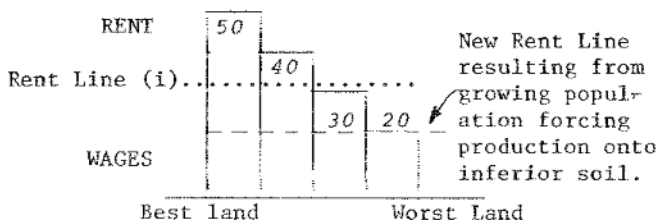
### Ch. I THE DYNAMICS OF THE PROBLEM YET TO SEEK

In Book III Henry George identified economic rent as, overwhelmingly, the receiver of the increased production which characterised the nineteenth century. In doing this, and this is at the crux of his teaching, he linked the so-called Social Question of progress and poverty to classical economics—something no other, including Karl Marx, had successfully done. In Book IV he takes this inquiry one step further by asking what leads economic rent to advance as it does as a proportion of production.

At this point the explanation had been that rent advances because growing population forces production onto lands of inferior fertility. To put this view into perspective George asks what are the components of material progress? He identifies three: increase in population, improvements in techniques of production and exchange, and improvements in knowledge, government, or morals, insofar as these increase the power to produce wealth. It is really only the first two that George considers in Book IV.

### Ch. II THE EFFECT OF INCREASE OF POPULATION UPON THE DISTRIBUTION OF WEALTH

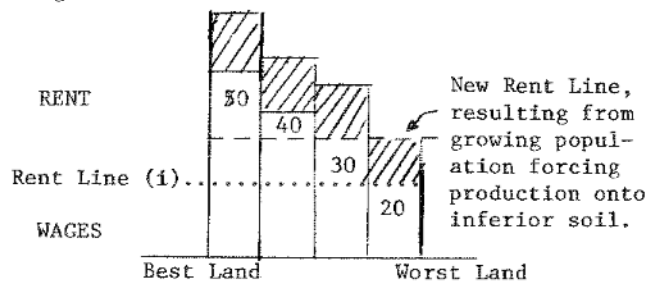
George here investigates the first component of material progress: increase of population. (In Book II George had shown that Malthusian predictions are at odds with what can be deduced from classical economics.) This time in detail George takes up the reasoning that growing population forces production onto inferior land, with its corollary that growing population leads to falling *per capita* production. This is summarised by *Diagram I*:



### PARTIAL REFUTATION

The closest anyone had so far come to showing this conclusion to be unsound had been J.S. Mill, who cited agricultural improvements. George, instead advances the paradoxical view that 'increased population, of itself, and without any advance in the arts, implies an increase in the productive power of labour'. By division of labour and allowing greater economies 1000 men will be much more productive than one hundred. This greater effectiveness is to be considered both as in quality and in quantity. This fact about growth of population had been ignored by economists despite their perception of specialisation. George's amended conclusions may be summarised in the following *DIAGRAM II*:

Diagram II



(In this illustration George shows that wages may remain the same, but see George's findings about wages below.)

George's findings, illustrated by the diagram are founded on the principle that, when increasing numbers of people work together, the production of each will contribute in a way they often do not appreciate to the production of others *i.e.* to wealth generally. It is because of this that the production on better sites increases. And this means that an increase of population does not have to mean that production is forced onto inferior land.

About the effects of increasing population upon rent George states his findings in two forms: once in economic terms and once as a parable. The effects are threefold:

1. rent increases as a proportion and wages are correspondingly reduced as a proportion;
2. wages may or may not be reduced as a quantity; and
3. the average wage (productivity) overall will increase—the contrary being highly improbable.

This third conclusion is borne out by the constantly diminishing proportion

following agriculture and fishing in countries advancing in population—at the moment only 6.5% in Australia, and even in New Zealand only 11.2 per cent. Population acts in the same way in relation to labour on some land as does fertility, giving it added power.

#### THE SAVANNAH STORY

Perhaps to underline the economic power given to the *brotherhood* of man, George concludes by telling the parable-like 'Savannah Story', which will be reproduced in part in the next issue.

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## IS ECONOMICS A BRANCH OF ETHICS?

By John Young

According to Murray Rothbard, the economist should realise 'that economics can establish *no* ethical principles by itself—that it can only furnish existential laws to the ethicist or citizen as data' (*Power and Market*, p.101).

I think many people, including many Georgists, would agree with him. But I think they are mistaken; and because the question is of some importance I would like to analyse it here.

My view is that economics in the sense in which Georgists understand the term is itself a part of ethics or moral philosophy: it is a branch of social ethics. Ethics is concerned with how we ought to act; it is about human acts which are related to moral obligation, the acts concerning which our conscience is operative. It is concerned, for instance, with justice—with the moral obligation to give to each person what is due to them.

### SOCIAL ETHICS

Social ethics looks at human beings as constituting a community; and it examines the nature of the community to discover the social rights and obligations of the members. It goes deeper than the customary mores and legal rules of particular social groups; its aim is to ascertain the moral norms that should be operative in civil society, wherever this society may be. It is concerned with the unchanging moral principles that should govern human persons in their social relations with each other.

A true social ethics will, for instance, condemn slavery as a violation of the rights of the person, and as a perversion of what a human community should be. Likewise, in regard to the lesser violation of human rights involved in taking another person's property away from him against his reasonable will, social ethics has the task of showing the justice of private property and the

ways in which injustice can occur in this sphere.

So social ethics is the study of the order that must exist in human society to constitute it a just society. To the extent that a society lacks this order, it is unethical and unjust.

Now let us focus our attention on that part of the civil community which is economic society, or the body economic. The study of the nature of this reality is political economy. But this is an examination of the order that *should* exist in the production and distribution of wealth. In political economy (or economics) we study the just order of production and distribution, and point out the injustices, the violation of human rights which are inseparable from the perversion of the natural order.

The crucial thing to see is that the order studied by true economic science is an ethical order: that is, it is an order which human beings should implement in their social production and distribution of wealth, an order pertaining to justice. It is not an arrangement we are forced to follow, like ants performing their tasks without the free will to deviate from them. Human society has an ethical obligation to follow the natural economic order, but we have free will, and so can violate this order.

Hence the economist is a moral philosopher. He studies the just order which human society is morally bound to follow in the production and distribution of wealth. Political economy, therefore, is rightly classified as a branch of ethics.

### AN OBJECTION CONSIDERED

'I must dispute your conclusion,' an objector may say. 'I can't agree with you that political economy is a part of ethics. My basic objection is that economics studies natural laws. But these laws are real. So it studies what *is*. Ethics, on the contrary, studies what *ought to be*.'

In reply, I fully agree that economics studies natural laws; if it did not it wouldn't really be a science, and it wouldn't have the beauty and stability we find in it. But natural laws are of two kinds, and it is crucial to this question to see the difference between them.

There are natural physical laws and natural moral laws. As Henry George observes, 'Natural law is not all comprehended in what we call physical law' (*The Science of Political Economy*, London, 1932, p.339). And he goes on to speak of 'the moral law of nature'.

The law of gravitation is an example of a natural physical law, while the commandment, 'Thou shalt not steal' expresses a natural moral law. When the astronomer observes the orderly motions of the stars and planets, he is in the presence of physical laws— laws without which the science of astronomy would be impossible. When the political economist studies the economic laws of society, he too is in the presence of natural laws, and his science, similarly, would be impossible without them.

But there is this difference: the concept of a physical law is of what actually exists, whereas that of a moral law, although rooted in what actually exists, is essentially about what ought to be.

If I say, 'Water boils at ten degrees centigrade', and you reply in surprise, 'But it doesn't!' I can't answer you by retorting, 'Well, it should'. However, if I quote the commandment, 'Thou shalt not steal' and you say, 'But stealing is going on all the time', I can rightly respond, 'Well, it shouldn't be'.

In the first case we are dealing with a physical law, in the second with a moral law.

There is a natural economic order, but it is natural in the sense that it harmonises with, and indeed is demanded by, the social nature of man. It is a blueprint for healthy economic life. So it is constituted by nature. But it has to be instituted or implemented by the members of society.

When we look around us we find, sadly, that the implementation of the natural order is so inadequate that existential conditions often resemble chaos more than order. And this fact shows we are not dealing with a science of what *is*, but with a science of what *ought to be*. In other words, it is a moral science, not a physical science.

At this point the objector to my thesis may insist that economic science does deal with what is. 'I agree,' he may say, 'it differs from sciences like physics and astronomy, because it is about human behaviour. But it studies what actually exists.'

'Take its basic principle: that all men seek to satisfy their desires with the least effort. This is not something people should do; it is something they inescapably do. Or take the law of rent; "The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use". This is an existential fact, not an ethical injunction.'

Taking the truth that all seek to satisfy their desires with the least effort, we find that, as thus stated, it is not a specifically economic principle. It is a psychological principle which applies in all areas of human behaviour, not just the economic. The specifically economic principle is a contraction of this general principle, and can be formulated: In exchange men seek to satisfy their desires with the least effort.

But examining the words *in exchange* we see that what healthy economics expounds is true competition, not the manipulation of the market in order to get what we want at the expense of others and with least effort to ourselves. The true economist does not hold that anything goes provided one endeavours to satisfy his desires with the least effort. No, he is interested in the rational and just way of saving effort in the natural exchange economy. And this is an ethical consideration, not a statement of 'what is'.

Regarding the law of rent, Georgism is concerned primarily not with how rent is measured, but with the nature of rent and hence with the justice of its distribution to the State as revenue. Clearly, this primary concern is not a statement of what is, but of what ought to be.

#### IMPORTANCE OF SEEING THE ETHICAL NATURE OF ECONOMIC SCIENCE

If we fail to appreciate that true political economy is primarily about an order to be implemented by free human beings— about an order that ought to be, not about what actually is— our judgement of the meaning of *laissez faire* will be accordingly affected.

Too often the *laissez faire* position is seen as simply letting things happen, with the Government intervening in no way whatever. Just as the astronomer makes no attempt to change the movements of the stars, for these movements are natural and he cannot change them, so the *laissez faire* economy is seen as something natural and therefore requiring no Government supervision.

Now it is quite true that economic laws under *laissez faire* conditions would operate without hindrance. But because those laws would need to be

implemented by human beings who, in many cases, would want to distort them to their own individual advantage, it would be necessary for the Government to exercise a very strict supervision of the economy. This would be to prevent anyone from interfering with the natural order.

We are all familiar with the misrepresentation of the free economy as a return to the jungle, with the strong becoming rich by enslaving the weak. We are painted lurid mental pictures of the worst conditions in the factories and mines of the nineteenth century, and told that this is what *laissez faire* means.

I think the misunderstanding is due in some measure to a failure to distinguish, whether by the opponents of *laissez faire* or by its advocates, between laws whose functioning we cannot influence and the natural moral laws of political economy. If we think of the latter as if they were equivalent to the former, we will not see the need for close Government supervision to ensure justice. And this will leave us open to charges of callousness, or at least of naivety.

A second reason for the importance of seeing economic science as a branch of ethics lies in the position the Churches

should adopt regarding economics. Georgists sometimes feel frustrated that theologians and Church agencies for the most part take no interest in their standpoint.

I realise there are various reasons for this aloofness, but interest could more easily be aroused if moral theologians and philosophers saw that true economic science is really a part of their own province, namely, ethics.

As things are most of them regard political economy as outside the proper area of their study. We know that some clergymen are attracted to Marxist type solutions to social problems; however, many others not only reject such solutions but keep clear of involvement in economic science on the grounds that it is an area which should be left to lay people and that the Churches, as such, have no competence there.

My contention that natural law economics belongs to ethics puts this science right within the province of the moral philosopher and the moral theologian, for they should see it as an integral part of God's plan of the way he wants human beings to act in their social life.

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## THE INSUFFICIENCY OF CO-OPERATION

By Henry George

It is now, and has been for some time, the fashion to preach co-operation as the sovereign remedy for the grievances of the working classes. But, unfortunately for the efficacy of co-operation as a remedy for social evils, these evils, as we have seen, do not arise from any conflict between labour and capital; and if co-operation were universal, it could not raise wages or relieve poverty. This is readily seen.

Co-operation is of two kinds—co-operation in supply and co-operation in production. Now, co-operation in supply, let it go as far as it may in excluding middlemen, only reduces the cost of exchanges. It is simply a device to save labour and eliminate risk, and its effect upon distribution can be only that of the improvements and inventions which have in modern times so wonderfully cheapened and facilitated exchanges—viz., to increase rent. And co-operation in production is simply a reversion to that form of wages which still prevails in the whaling service, and is there termed a 'lay'. It is the substitution

of proportionate wages for fixed wages—a substitution of which there are occasional instances in almost all employments; or, if the management is left to the workmen, and the capitalist but takes his proportion of the net produce, it is simply the system that has prevailed to a large extent in European agriculture since the days of the Roman Empire—the colonial or metayer system. All that is claimed for co-operation in production is, that it makes the workman more active and industrious—in other words, that it increases the efficiency of labour. Thus its effect is in the same direction as the steam engine, the cotton gin, the reaping machine—in short, all the things in which material progress consists, and it can produce only the same result—viz., the increase of rent.

It is a striking proof of how first principles are ignored in dealing with social problems, that in current economic and semi-economic literature so much importance is attached to co-operation as a means for increasing wages and relieving poverty. That it can have no

such general tendency is apparent.

Waiving all the difficulties that under present conditions beset co-operation either of supply or of production, and supposing it so extended as to supplant present methods—that co-operative stores made the connection between producer and consumer with the minimum of expense, and co-operative workshops, factories, farms, and mines, abolished the employing capitalist who pays fixed wages, and greatly increased the efficiency of labour—what then? Why, simply that it would become possible to produce the same amount of wealth with less labour, and consequently that the owners of land, the source of all wealth, should command a greater amount of wealth for the use of their land. This is not a matter of mere theory; it is proved by experience and by existing facts. Improved methods and improved machinery have the same effect that co-operation aims at—of reducing the cost of bringing commodities to the consumer and increasing the efficiency of labour, and it is in these respects that the older countries have the advantage of new settlements. But, as experience has amply shown, improvements in the methods and machinery of production and exchange have no tendency to improve the condition of the lowest class, and wages are lower and poverty deeper where exchange goes on at the minimum of cost and production has the benefit of the best machinery. The advantage but adds to rent.

.....

But suppose co-operation between producers and landowners? That would simply amount to the payment of rent in kind—the same system under which much land is rented in California and the Southern States where the landowner gets a share of the crop. Save as a matter of computation it in no wise differs from the system which prevails in England of a fixed money rent. Call it co-operation, if you choose, the terms of the co-operation would still be fixed by the laws which determine rent, and wherever land was monopolised, increase in productive power would simply give the owners of the land the power to demand a larger share.

That co-operation is by so many believed to be the solution of the 'labour question' arises from the fact that, where it has been tried, it has in many instances improved perceptibly the condition of those immediately engaged in it. But this is due simply to the fact that these cases are isolated. Just as industry, economy, or skill may improve the condition of the workmen who possess them in superior degree, but cease to

have this effect when improvement in these respects becomes general, so a special advantage in procuring supplies or a special efficiency given to some labour, may secure advantages which would be lost as soon as these improvements became so general as to affect the general relations of distribution. And the truth is, that, save possibly in educational effects, co-operation can produce no general results that competition will not produce. Just as the cheap-for-cash stores have a similar effect upon prices as the co-operative supply associations, so does competition in production lead to a similar adjustment of forces and division of proceeds as would co-operative production. That increasing productive power does not add to the reward of labour, is not because of competition, but because competition is one-sided. Land, without which there can be no production, is monopolised, and the competition of producers for its use forces wages to a minimum and gives all the advantage of increasing productive power to landowners, in higher rents and increased land values. Destroy this monopoly, and competition could exist only to accomplish the end which co-operation aims at—to give to each what he fairly earns. Destroy this monopoly, and industry must become the co-operation of equals.

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## First Henry George Memorial Lecture

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To be held mid-October, 1984  
Macquarie University

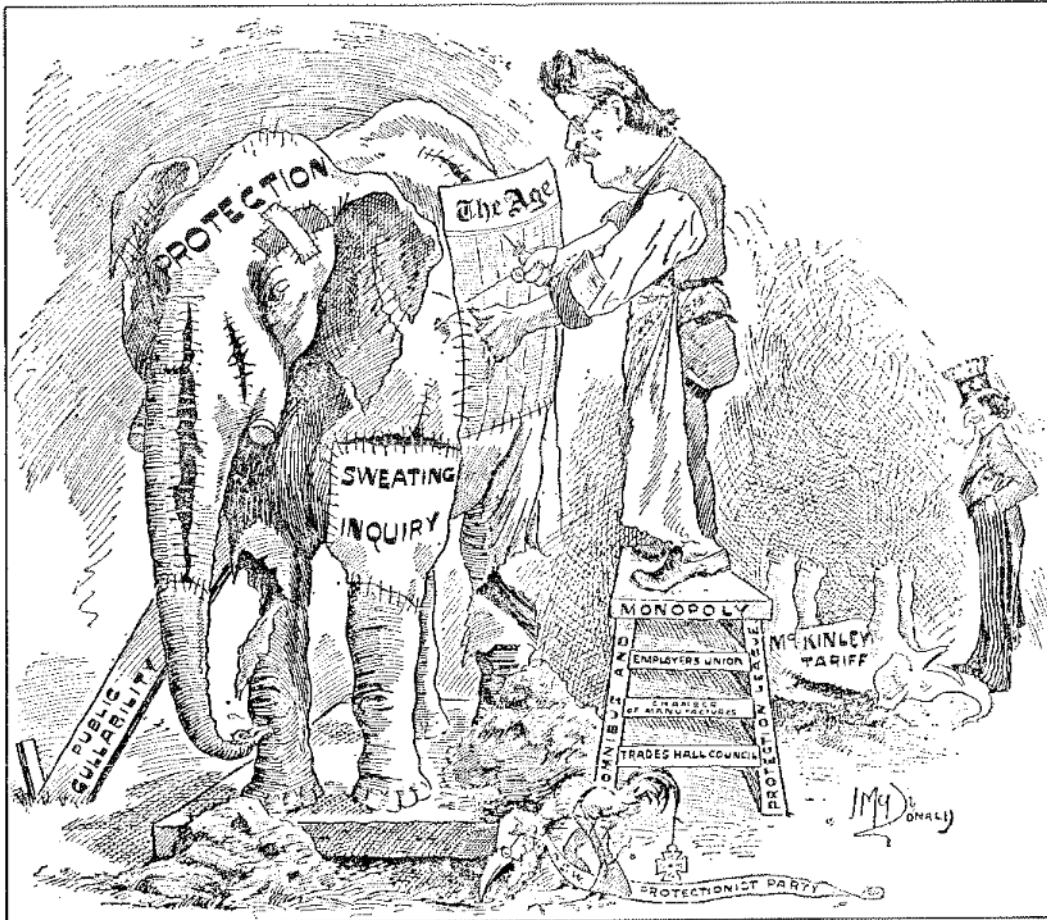
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Under the Walsh Bequest.

*Details in the October issue  
of Good Government.*

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# IS GEORGISM PRACTICAL?



## THE ALTERNATIVE

COBBLER (Sol): "I did think the old sham would have lasted our time, but I fear too much stuffing has already been knocked out of him."

Reprinted from THE BEACON, September 1st 1893

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## NOTE ON AUTHORS

*Dr. Keith Suter is President of the United Nations Association of Australia and Coordinator of Studies at Wesley College at Sydney University.*

*Douglas Herps. Concluding sections of a talk given Tuesday, 29 May, 1984 at the Masonic Centre, Sydney. Douglas Herps retired from the NSW Valuer General's Department having reached the position of Deputy Valuer General.*



# IS GEORGISM PRACTICAL?

## INTRODUCTION

Are the ideas of Henry George practical politics? Can his proposal for annual land value taxation succeed in Australia of the 1980s? Here both Dr Suter and Douglas Herps offer messages of hope. Mr Herps' article shows that Georgism can be given a simple legislative form, and can be competently applied by trained valuers.

George sometimes replied to American critics by asking whether they themselves could offer any reform which was more practical for the condition he termed progress and poverty. No remedy was ever offered.

In California, where George's ideas originated, the so-called property tax was never popular; it was always under-assessed, and now it has been completely repealed (coincidentally with the centenary of *Progress and Poverty*).

*The Economist* (May, 1984) reported on the progress of California without property tax. There is of course no doubting its progress. Its 26m. people produce as much as Britain's 56m. Yet, tucked away among the statistics of progress, the writer (who clearly has not heard of Henry George) includes the following observations:

Americans are peeking into their future when they look at California's economy.

Is it a future that works? Given California's success, the question seems absurd. But California's quickness to change, which is one of its greatest strengths, can also swiftly produce problems. At about the same time that Silicon Valley was unexpectedly propelling California's success in the mid-1970s, the state began visibly suffering from a variety of setbacks.

The worst (and least predicted) problem was a sudden jump in house prices. In 1974 the median price of an existing home in California was only about 7%

higher than that of a home elsewhere in the United States. Beginning in 1975, and going on almost continuously for the following seven years, house prices rose twice twice as fast in California as in America at large. In 1983 the median price of a Californian home was \$113,000 - almost \$40,000 higher than the price of a home elsewhere in America. In California's coastal cities, house prices are now running 60% to 80% higher than the American average.

It is hard to overstate the punishment this has meted out to California's economy. It was a disaster for the State's construction industry, which in the past had outpaced America's and had usually helped lead California out of recessions. It interfered with the migration from other parts of America that California's growth has always fed on. Most observers now accept that high house prices have put a brake on California's economic growth.

House prices were not the only thing to go awry in the late 1970s. The voters' passage of proposition 13, the property-tax cutting initiative, made a mess of State and local government finances. Long neglect of education started showing up in examination scores that made California's schoolchildren seem even more illiterate and innumerate than other young Americans.

Thus, in California as in the time of Henry George land is still rapidly growing in value, and those who own the land are still charging those who want to work it heavily for the 'privilege'. Appropriating economic rent in California is clearly the most practical way to make lots of money with the minimum of effort. All that those who have the interest of the community at heart have to realise is that it is also the most practical way in the world of raising revenue.

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## TIME FOR ACTION

ADDRESS TO THE 1983 PUBLIC CONFERENCE OF  
THE AUSTRALIAN SCHOOL OF SOCIAL SCIENCE  
By DR KEITH SUTER



Dr. Keith Suter

I was invited to speak on 'Equal Land Rights For All' but in doing preparation for the address, I thought it would be more interesting for the conference to focus its attention on why the views of Henry George had not become more popular in Australia. Discussing land rights at such a gathering would be largely a matter of preaching to the converted. I prefer to look instead at what should be done in order to encourage still more people to be converted to the views of Henry George.

### FIVE OBSTACLES

Henry George's ideas are very good. When first proposed they attracted a good deal of support and some of his views have been incorporated in legislation. However, it is worth asking why have not these views attracted still more attention. After all, the economic problems which confronted Henry George about a century ago are still with us in both scale and magnitude. I suggest there are five main reasons.

First, there are vested interests which would prefer to maintain the status quo. Such interests are well known to members of the Henry George Society and need not be elaborated in this context.

Second, the mass media have not expressed much interest recently in the views of Henry George. It is not difficult to work out why the media has been so unhelpful. The mass media are our window on the world. Sometimes that window is cracked, dirty, or just plain opaque. We are very poorly served by the mass media. No doubt the editors and producers would reply that they are simply serving the needs of the general public and that anything which is too much of an intellectual burden for the reader or viewer will be ignored and this ultimately will be reflected in circulation figures or viewing figures. We are consequently on a downward spiral in an ever-descending drift towards the mediocre and the bland.

Third, the general public have taken very little interest in economic matters.



This has not always been the case, for example, political debates at the turn of the century in the UK often focused upon the question of free trade and contemporary observers noted that audiences would sit for hours with figures being hurled back and forth embroidering various arguments and somehow these audiences were able to concentrate for so long on so much detail. Perhaps the decline of interest in economic matters is due to the overall decline in public literacy, as is reflected in the current mass media. It may also be due to the way in which, during the 1950s, '60s and most of the 1970s, economists were able to give the impression that they were in control of national economies and the world was set for ever-increasing wealth. Economists were the alchemists of the mid 20th century; everything they touched seemed to turn to gold. However, in recent years it has become quite clear that economists no longer have all the answers to the questions, but it is still taking a while for the general public to realise this fact. The world is moving into a period of profound economic problems. But for the moment anyway the average person in the street does not realise this.

Fourth, there is complacency among the general public caused by the existence of big governmental bureaucracies. The welfare state was a wonderful innovation during the 1940s and the principle should not be criticised. However, it has grown rapidly and has encouraged people to believe that they need no longer take control over their own destiny and that instead such matters can be settled by the civil service. Individuals are left with such decisions as what television programmes to watch, what horses to gamble on and what cars they should purchase. Larger decisions over their work, recreation and life style have been taken out of their hands and instead the all-knowing civil service has acquired considerable powers over the individual from birth to death. In such an environment, it is clearly difficult to get the average person to believe that they should still take a role in politics.

Finally, there is a fear of the future. Great progress has been made in improving the material standard of living for many, though not all, people throughout Australia. However, in recent years, the economy has moved into an ominous phase and people prefer to cling to comfortable notions from the past rather than to grasp new opportunities and new ideas. Although the ideas of Henry George are fairly straightforward, they do repre-

sent major changes to the present economic structure of Australia and so have had little impact on the current economic debate within Australia.

These, then, are the five major obstacles which have made it difficult to gain additional support for the views of Henry George. However, I am inclined to suggest that perhaps there is a sixth obstacle which lies within the Henry George Society rather than out of it, namely, the reluctance of the Henry George Society aggressively to propound the views of Henry George. I suggest there is need for immediate and considerable attention to be given to the ways in which the views of Henry George can be made more significant to the Australian community as a whole. Before looking at some practical suggestions, I would like to comment upon the new environment which I believe will provide more fertile ground for the ideas of Henry George to be planted.

#### NEW ENVIRONMENT

The world is clearly undergoing a major economic crisis. Having been able, for some 30 years, to avoid the traditional debate over trade cycles, there is a new fashion among economists in examining the way in which economies seem to move from boom to bust, such as the Kondratieff cycle. As in past economic depressions, we can never be sure at this juncture whether we are simply going through a traditional trade cycle pattern, which will lead to an even larger boom in the 1990s, or whether there is a profound structural change underway whose importance can only be compared with the two previous economic revolutions.

Alvin Toffler, who did so much to popularise the phrase 'Future Shock', has identified a 'Third Wave'. The first wave occurred a few thousand years ago, when people stopped hunting animals and instead decided to embark upon agricultural methods of production and to cultivate land and animals. The second wave occurred about 300 years ago in the context of the Industrial Revolution, particularly that in the UK. The Industrial Revolution has given us the standard characteristics of standardisation, centralisation and synchronisation. Toffler believes that we are moving into a third Industrial Revolution and that we are currently passing through a period of turbulence which is to be expected as we move from one era to another. In the first wave, the standard method of production was the farm; in the second was the factory; in the third will be the 'electronic cottage'. According to Toffler, therefore, the major industries of

the next revolution will consist of electronics, exploitation of the sea and seabed, exploitation of the moon, and genetic engineering. It is not the purpose of this presentation to review the details of Mr Toffler's analysis. However, I think the analysis is worth noting in this context as an illustration of the way in which we may well be moving into completely new and uncharted waters.

Obviously an organisation like the Henry George Society which has a coherent programme of economic reform, should find itself—providing it is willing to make the effort—in the forefront of the new debate over economics. Rarely, for the past century has the Henry George Society been given such a promising opportunity for publicising its views as it now has.

An additional factor in the new environment concerns the role of non-governmental organisations. Non-governmental organisations are all those organisations which exist outside of the government, civil service, armed forces and semi-governmental bodies like Qantas. There are about 29,000 non-governmental organisations in Australia alone. They represent a third force in Australian public life, adjacent to the government and large financial interests (corporations and trade unions). Environmental campaigns plus the recently reacted disarmament movement are examples of the way in which non-governmental organisations can play a significant role in helping shape the political climate of a country. The Henry George Society is a non-governmental organisation and so should be in a position to work alongside these other organisations in helping to shape the coming debate over the need for economic reform in Australia.

#### THE CHALLENGE

The new Australian political environment provides two challenges for supporters of Henry George.

First, there is the challenge of making Henry George's ideas constantly relevant to today's particular issues, for example, how the implementation of Henry George's ideas would help to reduce the current high and increasing level of unemployment.

Second, there is the challenge for the Henry George Society to go onto the offensive. It needs to explain why Henry George has new ideas to fit the new times into which we are heading. I realise that this may represent a departure from the methods of the Henry George Society over recent decades in which the

Society has not played a high profile role within the Australian community. However, I would respectfully suggest that it is time for the Henry George Society to play a more active role in publicising its work, in gaining new members, and in obtaining political support for its ideas.

#### NEW METHODS

Before making some specific suggestions for the Henry George Society, it is worth recalling the success of recent campaigns. It is very easy to succumb to the belief that political change in Australia is impossible, Australians are too lazy or dumb to want to change, and that we might as well simply concentrate on the good things in life while we still have them. On the contrary, the campaign to save the whale, the campaign to ban the bomb, and even more recently the campaign to stop the Tasmanian dam, are all proof that it is still possible to institute reforms and to bring about significant political changes. The Henry George Society should, therefore, ignore all negative comments that it stands no chance of winning acceptance of its views—the facts regarding other campaigns suggest otherwise.

First, there is a need for the Henry George Society constantly to monitor changes in public attitude, to find ways in which a current concern could benefit by the injection of some of Henry George's views into the debate

For example, there is now a great deal of interest in 'land rights'. This would be a good coatpeg on which to publicise the views of Henry George—as indeed I note some attempt has been made to do this by the Australian School of Social Science. Another example concerns the notion of the common heritage. The common heritage concept means that an area of land is set aside for international control and exploitation. No individual nation can make a claim to it. All revenues flowing from the exploitation are to be distributed according to a formula which will provide some benefit to the world's poorer nations. Additionally, the internationalisation could be directed at preventing any exploitation of the area at all since it could be decided that the area should be preserved for its environmental importance. The United Nations has applied the concept of the common heritage to the deep seabed and to the moon. Australia has recently signed the new UN Law of the Sea Treaty and the exploitation of the seabed by the international community will soon be getting under way as a major economic activity. What are the views of the Henry George Society on the common heritage concept?

In a more general sense, the UN has recognised that land reform is a basic matter for the UN and it has already convened one international conference on this subject. The UN has recognised that without some radical changes to the present land ownership system, development in Third World countries will not progress as quickly as many would like. The proposed land reform has not been set out on Henry George principles but there is no reason why these principles could not be injected into the UN's discussions.

Second, it is necessary for the Henry George Society to become far more aligned to other non-governmental organisations. For example, I would suggest that the international grouping of Henry George Societies examine ways of acquiring consultative status at the United Nations. Henry George Societies throughout the world should be encouraged to develop national networks with like-minded organisations.

Third, within Australia, the Henry George Society should appoint press officers who will monitor constantly stories within the press and will endeavour to get the views of Henry George expressed in the media. I realise that this has been done in the past on an ad hoc basis. What I am recommending now is far more of a planned coherent approach, which should include visiting editors of newspapers and producers of programmes to familiarise them with the views of

Henry George. There is a flourishing FM radio network in this country and this, too, could be used, such as Radio 2SER. Public television channels of the same type are currently going through a trial basis and within a short period there will be similar community television programmes. These, too, should be used to publicise Henry George's work.

Fourth, there is a need for the views of Henry George, particularly his book *Progress and Poverty*, to be boiled down into a short, readable publication (say, around 112 pages). This book could be made available, if necessary, at a subsidised rate to attract people who wish to read far more about Henry George's views. Linked with this popularised publication should be an attractive brochure which could be inserted in the mail-outs of organisations with newsletters, as well as distributed at public meetings.

There are various other proposals which I could make, but I hope I have given at least some idea of methods to be followed. The name of the game is publicity. It is time for the Henry George society to move out of its cosy corner and to break into the current Australian political debate, particularly over Australia's economic future. The time is ripe for new economic ideas. The challenge for the Henry George Society is how to make the most of this current opportunity.

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## ASSESSMENTS OF SITE VALUES OR GROUND RENTS FOR RATING AND TAXING PURPOSES

By Mr D. HERPS Dip Law (BAB) F.A.I.V., F.R.E.I.

### THE BASIS OF REVENUE VALUATIONS — LAND ALONE OR LAND AND IMPROVEMENTS

There are really only two possible bases for producing revenue from land values. The first is the value of the land alone which has come to be known popularly as site value and officially in New South Wales and Tasmania as 'land value'. The alternative basis is the value of land and improvements taken together. This concept is called variously 'improved value', 'improved capital value' or simply 'capital value'. In favouring the site value basis I find I can do so purely on technical grounds leaving the economic arguments in its favour to be put by those whose knowledge of economics is better than mine. I fav-

our the land or site value basis because my experience has taught me that it can be made speedily, economically and accurately. It is an excellent example of 'small government'. I am aware that the advent of environmental planning has interfered with the free play of market forces and made the rating valuer's task harder than it should be. But so long as one keeps an eye on the most economic development *legally* possible and does not consider redevelopment other than what is permitted by the environmental plan as it stands, most of the difficulties disappear. Nor should there be any problem over 'existing use' rights; if the actual use produces a higher value than the permitted use it should be

deemed a permitted use and that higher value adopted. This principle is now written into the New South Wales law — see Section 6(2) *Valuation of Land Act* as amended — and if it is properly understood and consistently applied no real difficulty will be found in valuing 95 per cent of sites.

The reason for the speed, economy and accuracy of site value valuation is that it is unnecessary to inspect and value improvements. These vary greatly from site to site and if they are to be included one must also keep abreast of a never-ending stream of additions and alterations to existing improvements. Every additional room, every kitchen remodelling, every renewed shop front and awning, every factory extension must be brought to account for all these improvements affect capital and rental values. Not only is this an expensive and time consuming operation, it is regarded by many people as an unwarranted invasion of privacy which should not be countenanced if there is a satisfactory alternative.

Another advantage of site value valuation is the relative ease with which the valuer can exercise a form of quality control over his work. Early in the process he establishes units of value for different classes of land, for example whole block values for residential sites, rates per metre frontage for retail shop sites and rates per square metre or per hectare for commercial, industrial and rural sites. By plotting these unit values on his cadastral maps the valuer is able to make ready comparisons between adjacent blocks and streets and so attain consistency and fairness. Relative fairness is the hallmark of a good valuation for revenue purposes. Although the values written should be closely related to market transactions it does not matter if the absolute values are somewhat conservative. Consistency and fairness are what counts and these objectives can be obtained more readily in a valuation of sites alone than in one which includes both site and improvements.

Yet another advantage of site valuation and one with which I have been professionally concerned is that it is possible to derive an estimate of the aggregate site values of a local government area, a city or even an entire State without going through the lengthy process of a deliberate valuation. The National Census, the Bureau of Agricultural Economics and other sources now provide sufficient data which together with a broad study of land prices enable this to be done quickly and with sufficient accuracy to enable a local or central government to know what revenue it could expect to

raise if it were to adopt a site value rate or tax. Such a procedure would not be feasible if the revenue base were to include both land and improvements.

If the rate or tax base is to include the value of improvements as well as land the valuation problem is a daunting one. Indeed at the present time it would be almost an impossible one unless aided by the computer technology which I referred to earlier. Even with that aid the valuing authority would need a small army of people to collect the necessary data regarding improvements. The building area, age, material construction, architectural style, number of rooms and the state of repair at least of every building on every site would need to be known in addition to the characteristics of the site itself. In England and Wales where this system operates a former Minister for Local Government claimed that one valuation in four was bad and unsafe as a basis for the local authority rate.

Not all valuers agree with me on the merits of the site value valuation system, claiming that improvements in computer technology will eventually solve all the problems of valuing multifarious improvements.

#### THE SITE VALUE DEFINITION

I readily concede that difficulties have arisen over the legal definition of site value, difficulties which have led to much expensive litigation. These stem from two sources. The first is, as I have already noted, that land under English law includes both the site and the improvements on it. The other source of difficulty is that our early legislators failed to distinguish properly between the physical improvements on the land such as buildings and other structures which are transitory and improvements to the land such as clearing of primeval vegetation, reclamation and filling which are permanent and eventually merge with and become an indistinguishable part of the land itself. The former improvements which may be described as actual or physical improvements, are clearly identifiable whereas the latter which we refer to as land or site improvements, soon pass from memory of men now living. Without doing violence to strict principle site improvements may be treated as part of the site. The distinction between these two classes of improvements was brilliantly explained in the dissenting judgement of Mr Justice Isaacs in the notable case *McGeoch v. Federal Commissioner of Land Tax* — 43 CLR 277.

These difficulties are now mostly behind us. The adoption of the concept of site value overcomes the one problem and a slight change in the words of the present legal definition would overcome the other. In the words of an English authority all that the valuer should be asked to do is 'to assume that all adjoining sites and all other factors affecting the value of land are in their existing condition, but that on each particular site as he comes to it there are no improvements in existence'— see *Land Value Rating* by F.C.R. Douglas p.42.

#### SHOULD A VALUATION BE OF THE CAPITAL OR ANNUAL SITE VALUE?

In our community land is held under freehold title and is dealt with in the market as a commodity. It is bought and sold for a lump sum or capital price— hence the term 'capital value of land'. Assuming without argument that the rating of site values is the collection of at least a part of the economic rent of land it can be seen that the capital value or selling price of a site is in reality the *capitalised* value of its economic rent. The important question then arises whether the revenue base should be the capital or, more correctly, the capitalised value of the economic rent of the site.

In Australia and countries such as Denmark where some rates and taxes have long been based on site values the valuation has always been of the capital value on the grounds that this is the accepted basis on which land is sold in the market and that this value takes into account the potential value of the site as distinct from its present use value. If, as I assume, the site value rate is the collection by government of part of the economic rent of land its imposition tends to reduce the capital selling price of the site by the amount of the rate capitalised at the current rate of interest for such an investment. Every valuer, if not every citizen, knows that no-one will pay as much for a site burdened with a rent charge or a land value rate as he would for one not so burdened.

Should not the site valuation therefore be of the economic rent or annual value of land? Opponents of the idea say it is impracticable in this country because there is no direct evidence of the economic rent. I must dispute this because there is direct evidence of economic rent if one cares to look for it apart from the indirect evidence of capital selling prices. Long leases of commercial and industrial sites are com-

mon. Car sale yards and parking areas are often leased for shorter terms. Crown lands are leased every day on a variety of tenures under the Crown Lands legislation. Apart from commercial premises which are more often let to tenants than occupied by owners, one in four dwellings is presently let to a tenant who pays a rent in which a substantial component relates to the rental value of the site. The report on a pilot survey in 1963 at Whitstable, England, in which annual site values were determined for a town of 20,000 people leaves one in no doubt that such a valuation is feasible— see *Rating of Site Values* published in 1964 by the Rating and Valuation Association (England). I therefore refuse to believe that today's valuers who have access to much better professional education than their predecessors would have any great difficulty in determining annual rental values of sites if called upon to do so.

A real advantage of a valuation of annual site values would, in my opinion, be its relative stability. I do not think it would be nearly as prone to rapid escalation in value as we have seen lately with the NSW Valuer-General's valuations based directly on capital site values. Moreover I think they would tend to reflect more closely the existing use of land.

#### A POSSIBLE DEFINITION OF ANNUAL SITE VALUE FOR REVENUE PURPOSES

Although referred to as 'annual site value' I will describe this basis in the definition as 'annual land value' so preserving as far as possible the language of the present Valuation of Land Act. The definition I suggest is as follows:-

The annual land value of land is the fair average annual rental which the land might be expected to yield if leased with vacant possession at the valuation date by a bona fide lessor upon a perpetually renewable tenure assuming that the improvements, if any, on the land or appertaining to it were not upon it.

For the purpose of this definition 'improvements' in relation to land shall not include land improvements.

It may be that the parliamentary draftsman would want to tidy up this definition and he is welcome to do so provided its substance is retained.



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# THE CONDITION OF LABOUR

Reviewed by BETTY NOBLE

Most people know only that Henry George advocated the taxation of land values and may, perhaps, have heard of *Progress and Poverty*. But few read that or any other of George's writings so it is understandable that he is dismissed as a mere out of date peddler of an economic nostrum.

This is gross misrepresentation of George's thought and nothing short of a calamity for modern man for he is a great thinker, a lover of truth and a lover of humanity. He shows that involuntary poverty, mass unemployment, inflation and slumps are not facts of life we must endure but are the results of bad economic policies resulting from a lack of understanding of the natural laws governing societies. He does not deal only with economics but probes deeply into the nature of society and expounds a social philosophy firmly based on reality. A man of immense breadth of vision, of penetrating mind and of complete intellectual honesty he pursues truth persistently and is indifferent to the conclusions he may reach. George was, above all, motivated by a burning desire to find what justice consists in and to free human beings so that they can live their lives in peace and in the pursuit of what each one sees as best for himself or herself without interfering with the equal rights of others. He is intensely concerned with ethics and with spiritual values as well as with economic well-being. Unlike many other and better known social philosophers he also showed the essential first steps towards achieving a freer, more just and happier society.

It is a pity the title and sub-title of this book *The Condition of Labour - an Open Letter to Pope Leo XIII* are hardly inspiring or likely to seem relevant to the problems of the eighties. But in fact Book I in particular does set out, as well as it is possible to set out in an encapsulated form, the philosophy which informs George and the essential conditions which must be met if we are to survive into the coming centuries.

Particularly right now when many of us

are mesmerised by the pace of change and others almost wholly occupied with protesting it or adjusting to it, George really should be required reading. He pinpoints clearly the fixed points which exist even today despite the apparent vortex in which we live. Media coverage seems to show that many people feel quite incapable of having any influence on the course of events even in their own country or of controlling the course of their own lives despite a widespread belief that self-destruction is the inevitable end of present trends. Into this disturbing state of mind George brings a shaft of bright light.

Thinking people should not be put off because *The Condition of Labour* was written in the last century, nor because the ideas put forward are couched in what some may consider outmoded styles. The material is completely up to date. In fact in some respects it is ahead of this generation of thinkers. In all sciences other than economics, professionals learn first the natural laws relating to their subject but many people can study under eminent economists and never learn that there are any natural economic and social laws other than the laws of competition, supply and demand and diminishing returns. And even these are often misapplied or brushed over or their implications not driven home. Some of the natural laws written of in *The Condition of Labour* relate to natural resources (land), the need for and justification of private property, the conditions necessary to secure the rights to private property, the nature of social justice and the rights of the unborn and the urgent and vital need to remove taxes from goods and services and earnings. Those who read this book, or who read only Chapter I of it, will see how concerned he is with private property rights and, one may reasonably hope, cease to vilify George as 'some kind of socialist'. That George is deeply concerned that we should have a good society is certainly true but unfortunately that is not what is meant by 'socialist'.

*The Condition of Labour*, like George's other writings, is lucid and easy to read. However the profundity of the matters he deals with requires and deserves serious thought. To those accustomed to think only in pragmatic terms and with only sectional interests in mind it may also require some effort on their part to take George's much broader view of life. It is certainly worth while.

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