# IN FROM

## The Mindless Kinematics

## Professor ROY MARTIN

FOR MANY YEARS, I have pondered the adamant refusal of academic economists to discuss the land question. Latterly, I became acquainted with a well-known professor of economics. He had a number of books to his credit and was a collaborator of Keynes and friend of von Hayek. I occasionally raised the matter of the "economic rent" of land but he was always dismissive. Finally, I told him that as I wished "to come in out of the cold", would he write me a short note showing why the theories so well illuminated by Henry George were wrong. Under the title, *RENT et al*, in 1987, he wrote the following.

"English economics began with Davenant's studies of the causes affecting the size of the National Income in the C17th and so a tendency to think in macro terms was set up which persisted under the name of Political Economy – a melange of moral and political philosophy and sociology and riddled with ethical and aesthetic judgements which are no more relevant to modern economic analysis than they are to the differential calculus. Freed from irrelevancies economic science has become a system of analysis for the examination of the problems of the mechanism by which a society gets its living. It does not issue directions of mandatory character 'You should do this'. Rather it says 'If you want to do this you can achieve it by this, that and the other method and the side affects will be such and such in each case'. Take what you will says God and pay for it – as they say in Spain.

"The original approach and the dominance of agriculture and the problem of feeding the population led to analysis being in terms of a fixed quantity of land and an expanding labour force – not the whole labour force but 'productive labour' only – the labour engaged in the extraction industries – agriculture and mining. All the rest of the working population merely 'distributed' the balance from total output after the productive labour had been paid a subsistence wage. Therein was one of the roots of the Georgite fallacies about Rent. Adam Smith scotched the fallacy of 'non-productive labour' but it was a long time dying if indeed it is even now not entirely defunct in popular thought.

*I am suspicious that the professor's rejection of George ... arose from a socialist-oriented belief with the concomitant use of economists in government.*

"The adherents of this scheme of analysis were too self satisfied to bother about its failure to deal with most of the problems of economic society. The state of the subject was parallel to that of physics and chemistry before atomic theory or even before Priestly. Ricardo had qualms but the breakthrough came with Jevrons in England and Cournot and Walras (*pere et fils*) in France and Switzerland. The economic problem became that of showing how the resources of land, labour and equipment are divided up to cater for the multitude of human choices. First the attempt was made to examine the individual circumstances of industries – an industry made only one product itself an unrealistic assumption – then the move was made to individual single product firms and then to multi-product firms. So far it was feasible to proceed with the assumption that quantity of each resource was fixed – equilibrium theory – then quantity of resources became variable and the subheads of resources proliferated. Since usable land for any purpose is not the gift of God but the product of human effort the total quantity of land and the quantity used for any specific purpose are both variables. To talk as the Georgites do of any monopoly of land is a nonsense. Beauty lies in the eyes of the beholder. Monopoly lies in the choice of the consumer. The 'Perfect Competition' of the C19th economics is a myth. If a number of people buy 'Players Weights' from No. 10 High Street rather than from No. 21, No. 10 has that degree of monopoly. The people who buy Chivers jam in jars labelled Chivers instead of identically the same jam in jars labelled with other names confer that element of monopoly and there are gradations of monopoly from that level up to the statutory monopoly of postal services enjoyed by the GPO. Given the obstacles, human choices determine how resources are productively deployed.

"This is the first time I have ever written a word on the Georgites nor indeed have I ever read a discussion by a professional economist. An eminent American economist years ago once commented to me – the only cranks you have to deal with are the Douglasites – (the 1930's) we have the Georgites as well. That I think is a fair assessment of the impact of Henry George on European economists.

"There is the problem of the 'unearned increment' – the increase in the value of a holding due to development on surrounding land. The cost and effort of the initial survey and valuation and the creation of litigious field have inhibited every attempt to deal with it."

HE THEN DERIVED from a short mathematical statement, that: "Price (of resources) = value of marginal product (differential of production function)" and continued: "This applies to all resources used in variable quantities in a given production unit, and given time all quantities are variable. In short time quantity of a resource may be fixed – payment determined as surplus after variable resources (which will not work unless they are paid) have been paid as much as they can earn elsewhere. Such a payment was termed a rent by Marshall."

First, it is important to note that he tries the same dodge as most modern economists by virtually dismissing land as an economic factor once the economy passes primarily from an agricultural to an industrial one. This illustrates their theoretical bias that land value arises solely from its use. Usability of, or the efforts of man to use, land is not the turning

# THE COLD

## of a Mainstream Economist

point for economic value. Wheat in Westminster and Harrods in the Highlands serve that notion. But such use will never occur unless the site value of Westminster falls to a point where wheat-growing would provide the highest profitability, or the site value of the Highlands rises because a sufficient population moves there and demands a Harrods. It is the site value, and the return of economic rent that it so provides which determines the use: and, any increase in it indicates the ripeness of the site for a change in use, which the developer/entrepreneur recognises. No increased effort by himself will increase the usability and value of his site.

Second, he removes from economics most of the qualities of man's nature which control his perception and actions. Thus, he limits economics to mindless kinematics bereft of its dynamic or genetic origin. Unfortunately, he does not sustain this position when he refers to the wages of productive workers as being only of a "subsistence" level, which is a social assessment and irrelevant to detached economics. Later, he regards land as the effort of man, thus making the effort of man, and therefore his will (inevitably riddled with non-economic judgements), essential to economic analysis. There is a further contradiction when he refers to the "problems of economic society" in paragraph four.

Third, there seems to be a confusion over the use of the word "distribution". Usually, in its economic context "distribution" is taken to mean the return of wealth to the factors of production after its creation. Clearly, it is not to be confused with the "distribution", or trading, of goods, which is part of the process of the creation of wealth, not its distribution. In fact, one wonders why any of mankind, in any economic context, would indulge in "non-productive labour". As such a concept has no place in the Georgist economic argument, it can not be a root cause of its supposed fallacies.

Fourth, he says the notion of a land monopoly is nonsense, that "Monopoly lies in the choice of the consumer." and that "usable land for any purpose is ... the product of human effort ... " This is such an apparent abuse of the English language and reality that one must assume that in his economic context they mean something quite different to normal. He says the "degree of monopoly" (sic) gained by a particular shop is due to people preferring it rather than another from which to buy their "Players Weights". He does not distinguish them by the difference in their size, shape, colour, service satisfaction and other attractions, but by their position in the High Street, No. 10 and No. 21. Thus, that site No. 10, presumably meant to indicate nearer the centre of the town, has been made more valuable not by the owner but by the people. This is an intriguing, if unwitting, way of confirming the Georgist argument, monopoly and all.

Fifth, on the problem of the "unearned increment" in land, he accepts that it is due to the development on surrounding land, which, again, is pure Georgist. He dismisses it, however, by claiming that it is difficult to measure. Thus an agreed economic factor is calmly removed from consideration without knowing its significance. This shows the falsity of his position. It constitutes no economic argument even if it is true, which it is not. Go any day to your local estate agent or valuator and you will receive, immediately or in short time, a valuation of the capital price and annual rental of your land. In effect, this is done every time you take out fire insurance on your house – you do not insure the land on which it is built.

Sixth, his mathematically derived statement that after the variable resources, let us presume they are labour and capital, have been paid, the surplus is paid to the resource which is fixed in the short term, which, in this context, must be land. Put thus, it confirms the notion of rent as defined by Marshall and his classical predecessors. Turn this round to make capital the fixed factor, and it becomes the rent or surplus. Likewise, labour has it turn according to this expression of the relationship between the factors. But land, palpably, is the only factor fixed in place or quantity, whether the term considered is long or short. Again, the idea that this is not so arises from the perception that change in use of land constitutes variability in its supply.

Seventh, in paragraph four, he discredits himself and his arguments by attempting to throw professional weight instead of argument into the discussion. Henry George was more widely known in his day than Karl Marx. Lloyd George and Churchill vigorously sought land reform and Harold Wilson, himself an economist, "sang the Land Song at his father's knee". Land value taxation was introduced in the 1910 Liberal budget and again in Snowden's 1931 Labour budget. I am suspicious that the professor's rejection of George, like so many other economists, arose from a socialist-oriented belief with the concomitant use of economists in government. *Laissez-faire*, George's object, was an anathema to him.

Lastly, he makes only one reference to value and none to wealth – the central purpose of economics. Apparently, even John Maynard Keynes had doubts about his highly influential theories in the absence of a theory of value. He said he could not find one which was acceptable – acceptable to who? Not fellow scientists, because they know that the definition, even if they disagree with it, of key words and concepts is essential to building a theory and holding orderly discussion on it; otherwise anything goes. And, as the professor once told me, Keynes did not, as many presume, influence the government but was used by it to convince fellow economists and the general public of the need to abandon the gold standard so as to use inflation – historically, the oldest economic trick in the book – to control the economy.

## Election Aired Land Tax Strategies

LAND TAXER Alanna Hartzok scored 4.1% of the votes to come third in a special election in the 9th Congressional District of Pennsylvania on May 15.

The Green Party fielded a candidate for the first time ever for this district, which claimed just 100 registered Greens in the entire district. The Republican was a clear winner with nearly 52% of the votes, but Ms. Hartzok used the campaign to good effect to present voters with an alternative strategy to local problems.

During the five week campaign, she appeared on eight TV programmes and 15 radio shows. Ms. Hartzok told *Land & Liberty*:

"Debate time is usually limited and our policies are so different from mainstream tax proposals that average people and reporters often respond with puzzled looks on their faces.

"I was forced to grasp a number of issues of current concern to see how they fit into the overall tax shift policies that we are working towards.

"An entire mindset must change for us to really get anywhere. The most interest was from a 90 minute Green tax seminar I gave to 30 students at Penn State University. I had time to articulate the idea and ethic that the earth is our right by birth, or should be. But if I had said that in the TV debates and elsewhere, most people probably would have written me off as crazed.

"I will be happy to get back to working for LVT for Philadelphia and with people who *think*."