

Two Kinds of Economic Value

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EXPLANATIONS for the continuing high rate of inflation despite declining business activity have been offered to a bewildered reading public in ever increasing numbers, usually by economists who give the conventional responses and who do not seem to be capable of articulating the correct explanation.

A book which would help to clarify this bewilderment is *The Science of Political Economy*, where Henry George contrasts two kinds of economic value—value from production and value from obligation.

Values from production originate in human diligence, intelligent division of labor and sensible capital deployment. They manifest themselves as high output combined with low prices, good wages and significant profits. The Lincoln Electric Company in Cleveland is one outstanding American company with an incentive system producing values from production. It was founded by John C. Lincoln who was, until his death, president of the Henry George School.

Values from obligation originate mainly in compulsory government control of the terms of cooperation between buyer and seller, employer and employee, and between the governed and their governors. Values from obligation arise when one party to an exchange receives more from the exchange than he would if both acted spontaneously. Examples are too many—tariffs, parity, minimum wages, special treatment of labor unions, sugar subsidies, patents, Federal Reserve open-market operations and war contract over-runs. All government-sponsored values from obligation act to produce a market-place bias in favor of sellers, and sellers' markets invariably result in higher prices.

This is the element of causality that is missing from conventional explanations of continuing inflation. Values from obligation induce large scale misinvestment of land, labor and capital. Competition for the diminished stock of productive resources adds free market price rises to compulsory rises in markets dominated by government intervention—the resulting economic state is called inflation.

Inflation continues because those in policy-determining positions make little or no attempt to reduce either the number or size of the many values from obligation acting on the economy. In fact seller-biased values from obligation appear to grow with every legislative session, from the federal to the local levels.

The concept of values from obligation embraces a few obvious anti-inflationary measures and others that are not so obvious. The obvious ones direct the repeal of legislative contrivances such as parity,

protective tariffs and monetary manipulation. Not so obvious to the general public and to orthodox economists are the directives involving such natural and necessary monopolies as patents and public utilities.

Land tenure remains a natural monopoly because technological knowledge has not yet discovered a method for allowing two solid bodies to occupy the same space at the same time. Because land varies in quality the present method of assigning tenure enables some producers to accomplish more than others with equal expenditure of effort. Land tenure and value from obligation are functionally inseparable.

Detrimental effects of land tenure in practice include inflated site costs and misinvestment caused by withholding land from use at the proper time. It is only when land is taxed near full value that the detrimental effects of the private collection of ground rent can be dispersed while maintaining a free-market operation for assigning sites efficiently and fixing the costs.

Patent protection is necessary to assure inventors the opportunity to reap the fruits of their labors. As currently maintained patent monopolies too often are used to wreak mischief on the free market's operations. The mischief may be dissipated by changing the patent law to feature a market-sensitive estimate of the service performed by government in granting a temporary monopoly.

Public utilities are also necessary because of the waste inherent in allowing more than one company to operate in a given area. If utility franchises for energy and transport were allocated on a limited term basis, an element of competition would be introduced strong enough to disperse any of the harm now found in utility companies' enjoyment of values from obligation.

It will not be easy to introduce the concept of values from obligation into the mainstream of economic theorizing because Henry George has been denied admittance to the theorists' club, although land value taxation, the foundation of George's economic synthesis, is being studied as an aid to urban renewal. The widespread enactment of land value taxation alone would not bring a return to freedom's way, as evidenced by the experience of Denmark, New Zealand and Australia, who are inflation ridden welfare states despite their having adopted some LVT many years ago.

The situation in those three countries proves George's contention that land value taxation will not achieve a free society unless values from obligation are collected privately, not under government compulsion. More people are becoming aware of the qualities of George's social philosophy. He worked for total freedom and justice—can we settle for less?