TOM WHIPPLE AND THE FORMAL OBJECT OF THE DISCIPLINE

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ABSTRACT

Tom Whipple's focus on the formal object of valuation is reviewed in terms of its significance for the discipline of property economics. His recognition of the distinction between value and price and the social objectives of economics as a discipline lead to recognition that rental growth as the object of valuation runs counter to community quality of life growth that is the object of classical realist economics. Tom Whipple's connections to both of these traditions is shown to lead to the conclusion that his work contained sufficient elements to suggest that the formal object of property economics deserves separate attention and is likely to be related to the common good. Such a focus could make it possible to construct a property economics that could be capable of meeting the community's needs regarding property, provide a framework for a more effective integration with customary property systems and insights for the general discipline of economics.

Keywords: Property economic theory, value and price

INTRODUCTION

There are not too many people who have engaged the argument that Tom Whipple set out under the heading of *The Object of Valuation* in his well known text "Property Valuation & Analysis (1995). His treatment of the formal object of the discipline is buried towards the end of his text and includes some rather obscure usage of the English language.

To students of classical realist philosophy, Tom Whipple's peculiar attentions to the purpose and foundation of valuation are transparent and familiar. He continued, and perhaps crowned the earlier work of outstanding property economics academics, especially Richard Ratcliff, and built on the earlier work on value found in classical economics. Combining classical realism with modern economic thought is a difficult marriage, though the attempt to achieve it meant that Tom Whipple's approach to his discipline contained a rare depth.

This paper will examine the significance of Tom Whipple's contribution to the discipline and its importance for real intellectual development into the future. Tom

Whipple's primary endeavour was to extend the property economics discipline as a science, based on a sound understanding of its fundamentals with a special interest in valuation. The difficulty is that valuation is more correctly recognized as a technique, not a science. It does not have a theory, so much as existing as an application of theories inherited from economics. What are portrayed as the theoretical aspects of valuation are generally theories of technique, not theories of value.

PROPERTY ECONOMICS VERSUS GENERAL ECONOMICS

Property economists generally adopt theories of value from economics or finance that usually originate from early theorists such as Alfred Marshall, John Stuart Mill, David Ricardo or Adam Smith. Too often they are accepted without critical reflection and too few property economists pursue the debates that continue to rage within economics over price theories that weaken its claim to be a true science (Langholm 1969; Frey and Pommerehne 1993; D'Arcy 2006). On the other hand, property economists are specialists in practical pricing (Mangioni 2006; Ong 2006). This would suggest that property economists should take an active interest in general economic theory and its controversies. They should also be explicit in the foundational premises they adopt. Tom Whipple did both.

Property valuers, with their special interest in the mechanics of price and value, may be able to provide insights back into the parent discipline. Indeed, while economics is often described as the investigation of the problem of allocation of scarce resources between the multitude of competing wants, the matter of price as an allocative mechanism should be a core concern (D'Arcy 2006). Albino Barerra went so far as to recognise that "The theory of value occupies a central role in the discipline because it influences all subsequent theorising" (Barrera 2001, p. 61) Valuation, as the investigation into price as existing in practice, therefore lies at the heart of the economic problem. If valuation theorists can shed light on the mechanics of price as found in the marketplace, then their insights have significance in the price related controversies in economics itself.

Property economists, as property valuation experts, have an additional contribution to make to economics. Real property, as based on land, has the distinction of representing a key factor in the productive process and one that is fundamentally opposed to labour in the problem of distribution. The problem of economic distribution is the question of the appropriate proportional rewards to the various factor of production. Adam Smith recognised land, labour and capital as the three fundamental factors of production although there has been some recent tendency to add enterprise as a fourth. Of these, enterprise may be regressed into capital and labour, and capital itself can be regressed into land and labour. This leaves the ultimate question of distribution as the proportioning of returns between land and labour, what William Petty tagged the problem of 'the par' in the seventeenth century

(Roll 1942). It is within this context that Adam Smith described the value of land as represented by the amount of labour that the ownership of land equated to (Smith 1778, p.26). Smith's statement of value is an example of the labour theory of value that held sway in economic thought up to the end of the nineteenth century when it was replaced by the radical positivism of the Marshallian approach (Marshall 1890).

Property economists focus more specifically on landed property, and therefore their interest in price is less cluttered by complex conglomeration of factor inputs that are common to manufactured products. For this reason, property economists are more directly interested in the question of the par, which is one of the ultimate pricing puzzles of contemporary economics. If light can be shed on the par, then pricing of manufactured products becomes more approachable. A little reflection reveals that the pricing of unimproved land value comes very close to this question. The theoretical grounding of the various taxes that are based on land can also be linked to classical recognition of land's passive ability to absorb the economic value that would otherwise accrue to labour.

PROPERTY RIGHTS & VALUE

Underlying the question of value is the question of property rights (Small 2003). What is generally accepted in western societies as property ownership is relatively young in historical terms, being largely a creature of modernity and progressively taking form through the modern era, that is, from Machiavelli (d. 1527) onwards. As recently as the nineteenth century, there have been strong debates over the validity of property rights. That century began with England comfortable with property in human flesh, at least as merchandise for trade with America, it included the crystallisation of socialist thought (Marx 1867) and within conservative circles, debates over perpetual property rights in joint stock companies (Maken 1992; Goyder 1993). Current environmental initiatives include the constraint of property rights which demonstrate that property rights represent a dynamic element in western society that are by no means settled. Property rights are conceptualised in economic terms in modern cultures. Compulsory changes in property rights may include value losses to owners that will not necessarily be compensated (Whipple 1995 p. 6).

The actual amount of economic benefit accruing to particular property rights is less straightforward. This is the problem of valuation and Tom Whipple saw its solution as hinging on a clear understanding of the formal object of the discipline. The formal object of any inquiry defines its whole content and largely directs its method. A study can be understood in terms of the thing that the study considers and the way that it is considered. These two aspects are the material and formal objects respectively. An artist and a physician may both take interest in the human body. They share interest in the same material object, however the type of interest they have, their formal objects, differ considerably. The artist is interested in the human body as a thing of beauty whereas the physician is interested in the human body in terms of its health.

The property economist is interested in real property in terms of its economic value. This could be contrasted to the indigenous owner who may be interested in it in terms of its cultural significance. Tom Whipple's understanding of the formal object of the property economist was *estimated price of landed wealth under the light of productivity*, which may be a more precise way of saying *economic value*. Tom Whipple's precision contains an argument, possibly a doctoral topic. Few of his contemporaries would be uncomfortable with the suggestion that property economics is about the economic value of land, but too few concern themselves with the argument that in embedded in a precise understanding of it. Despite this, the argument is one that has the capacity to explain the dynamics of most problems in valuation and possibly in economics as well. It is certainly something that property economists should give thought to.

VALUE VERSUS PRICE

Tom Whipple recognised that what is commonly referred to as economic value is really the question of price. In so doing, he was rejecting the equivocation initiated by Adam Smith and continued to the present of conflating price and value. Value strictly speaking is the measure of utility that a thing represents. Utility is the capacity of a thing to contribute to one's quality of life. Irving Fisher (1930, reprint 1977) understood *income* to be primarily the quality of one's life which was proxied in the things that one used to live their life which, was in turn proxied by the money that was used to buy those things. Fisher clearly showed the ultimate denominator of economic value was quality of life. Within this understanding, economic value is a positive notion that is ultimately subjective.

By contrast, price is tied conceptually to cost, and cost is a negative notion. The price one pays for a thing is its cost to the person who intends to use it, i.e. the person who realises its value in terms of contribution to quality of life. Purchase price represents cost. The perfect market as a pricing mechanism is understood to result in prices that are governed by the normal cost of production (Marshall 1890; von Kettler 1981). Price as cost represents the burden that must be borne in order to enjoy a given quality of life. The higher the price of a thing, the more it erodes the purchaser's total quality of life.

There is an argument that in a free market the price a rational self-interested actor will pay for a thing will equal the subjective estimate of utility. This makes price equal to value, (*qua* utility) and some assert that for this reason price is a measure of value (Barzel 1989). However, it does not necessarily make them equivalent to it. The fact the quantity of money that expresses the price of a thing is equal to the quantity of money that indicates its value does not make price and value merely two words for the same thing. For example, a piano may be equal in weight to a motorcycle and even equal in price and built by the same manufacturer, but that is not to say that the piano is a motorcycle. The equality is merely a chance result of the confluence of a number of factors, many of which could easily change. Tom Whipple recognised that "the terms value and price are different in *kind*" [author's emphasis] with the implication for property economics that "Failure to understand this difference. has lead to great confusion in the law and certainly in valuation theory and practice" (Whipple 2009, p. 9).

Closer inspection reveals that a rational individual's subjective assessment of value represents only the upper limit to price. It is the maximum price at which free trade will occur. It only happens in practice in the total absence of competition, that is, in an extreme and predatorial monopoly.

In many cases, the price paid for things is not equal to the utility they provide in supporting a quality of life. Air is an excellent example. Without it life is tenuous, but it usually comes at no price to the consumer. It is possible that property rights could be created that privatised air and these would result in air attaining a price, though it is unlikely that it would ever reach a price commensurate with its importance for supporting human existence. For the present, water is similarly more valuable in supporting human life than its price suggests though the creation of water property rights has raised concerns about how this gap may be exploited in the future. Despite their familiarity, property rights in land contain the same fundamental problem.

PRICE AND PRODUCTIVITY

Tom Whipple's method of resolving the problem of price was to view it under the light of productivity, but at the same time he may have introduced another equivocation. In one sense, 'productivity' relates to the use of land to supply a critical resource for human life. The human person uses land directly in many ways to support life as home, place of work and source of raw materials. Some persons use land in a different way as developers or investors. These use the land in order to produce money income that is then spent on goods for personal use. For the developer or investor, the land is productive in a different sense, it produces capital gains and rents. Aristotle was aware of this when he noted his famous two uses of a shoe to illustrate that "every piece of property has a double use" (Aristotle 1981, p. 81). Aristotle considered that one use was proper to an item of property, its use as contributing to quality of life, but the other was not, despite being common and important. The second is the commercial use of property and Aristotle was aware that its pricing represented one of the major ethical challenges of a society.

When productivity as use is equated with productivity as sale income, the two uses are equated. Tom Whipple recognised that modern valuation is based on price in the light of productivity. He took productivity to mean capacity to earn rent. Once this is accepted, everything else in his work on valuation follows consistently, but he has left us with the question of how productivity in this meaning is to be valued. That is, if value as property price comes from productivity and productivity is the rental capacity of a property, then valuation is resolved, but not rent.

Pragmatically, property price and property rentals are derived by similar means – inspection of similar recent agreements to trade or lease respectively. This has led valuers away from an active interest in the cause of property value in favour of an interest in techniques for quantifying property rental prices.

RENT AS PRODUCTIVITY

Tom Whipple has pointed to the dependency of property price on property rental, but has not explored the related question of the origin on rentals themselves. David Ricardo (1817) shed some light on that question with his law of rent and the observation that land value was essentially the residue of productivity that remained once production costs including subsistence wages and normal profits had been deducted from the optimum productive use of the land. Productivity can be seen as a core element in Ricardo's determination of land rents, but it is productivity in use and not the commercial productivity that is derived from it. Tom Whipple recognised that the valuer was not concerned primarily with the productivity in use of land so much as the rental, which for Tom Whipple was the investment productivity of the land asset. By contrast, the property economist is concerned with the more complete understanding of the interaction between the contribution of the land to productivity in use leading to the support of the tenant and the supply of rent to the land owner who sees only the rental 'productivity'.

If land rent, and hence its value, is the residue once the wages and business incomes of tenants are deducted from productive use, then rent responds negatively to the cost of living of tenants and their quality of life. The basic quality of life deemed acceptable by a society is ultimately a social artefact. It is derived from cultural, ethical and political forces that determine how the meanest household in a society will live. It differs between communities and through time.

Quality of life in western countries such as the USA and Australia was generally rising between the time of European settlement to about 1970. Since that date, it has been affected by opposing forces that have left the net effect debateable. On one hand, the cheapening of consumer products has improved living standards through the availability of cheaper electronics, food, and other manufactured goods. On the other, working hours, especially on a household basis, have increased enormously making the contemporary household require about twice the number of paid hours of work to live modestly as a generation ago (Warren and Tyagi 2004). It is evident that these changes in net acceptable quality of life have been absorbed into house prices (Small 2009). There is considerable evidence that infrastructure benefits that are intended to improve the quality of life are negated in part by property value increases (Bajic 1983; Carroll, Clauretie et al. 1996; Seo and Simons 2009; Small 2009).

LAND VALUE AND QUALITY OF LIFE

The inverse linkage between general quality of life and land values has been recognised for centuries. Adam Smith noted *"that every improvement in the circumstances of the society tends either directly or indirectly to raise the real rent of land, to increase the real wealth of the landlord"* (Smith 1778, p. 228). Productivity in the sense used by Tom Whipple as a property's ability to generate rent, turns out to be derived indirectly from the land's actual productivity through the moderator of the allocation to the incomes of tenants.

The person who rents a house loses capacity to purchase the other necessities of life in direct proportion to the extent that rents rise. Business owners and their employees lose income as rents on employment land increase. The prevailing rental levels are freely determined by the collective action of the community. In this way they are almost the inverse of Smith's dictum, being the result of how much *loss* of improvement in the circumstances of society a community is prepared to suffer in pursuit of higher land values. Different communities set different levels of property rent and price, and these change over time. Expressed in this way, it can be seen to be a function of the society, a social artefact, not an economic one. As society changes, the determination of an acceptable pattern of rentals will change. This is already evident in international comparisons, especially between societies where different systems of property rights prevail. It is ultimately an ethical question, though one that modernity seems incapable of articulating. John Médaille (2007) outlined some instances where different societies have taken very different approaches or changed approach with good effect.

Ultimately, this leads to the recognition that land value is grounded in something more complex than rental productivity, something that includes considerations of the wellbeing of the community and its members that is more in the realm of ethics than economics.

This would appear to challenge Tom Whipple's assessment of the formal object of property economics. It must be recognised that Tom Whipple set out his definition within a text devoted to property valuation and it has been shown that valuation is only a subset of property economics. He was correct in considering that the formal object of *valuation* was estimated price of landed wealth under the light of productivity. However, this may not be the appropriate formal object of property economics, if the latter is understood to be that discipline that examines the mechanics of land value in relation to the community and its development.

The notion of social sustainability has entered the lexicon of the property economist, suggesting that policy concerning the use and development of landed property should meet social, political and ecological objectives. These objectives are various facets of the common good of the community, if by *common good* is understood the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfilment more fully and more easily. For example, one social objective is the maintenance and improvement of the community's quality of life. This is consistent with Marshall's (1890) objective for the discipline of economics itself and Fisher's (1977) focus on the fundamental intent of income.

However, if for a given level of physical productivity, land rent rises as the community's quality of life falls, then the property economist should be concerned with the trends in community quality of life and aware of the importance of land use and development policy in its maintenance. In this way, property economics is more correctly understood to be a social science with a distinctly ethical dimension. It may even be appropriate to speak of the social aspects of landed property as the underlying causal dynamic of property value.

This leads to the formulation of the formal object of property economics as the overarching discipline within which valuation exists. From the above, the formal object of property economics appears to be *the price of landed wealth under the light of the common good*. I believe that Tom Whipple would have approved of this definition and especially for the opportunities and perspectives it opens for property economists in the exploration of their discipline.

One of the reasons for taking this position relates to an aspect of Tom Whipple's scholarly life that is not generally known. It was his interest in the philosophical thought of St. Thomas Aquinas. Tom Whipple had been educated in philosophy through the Sydney Aquinas Academy under its founder Dr. Austin Woodbury, one of the foremost Thomistic scholars of the twentieth century. The fabric of Tom Whipple's philosophical approach was distinctly formed by Woodbury's Thomism and Tom Whipple devoted several years of the latter part of his life to collecting Dr Woodbury's notes for preservation. This sheds considerable light on the totality of Tom Whipple's understanding of the significance of economics within the human condition. Following Aristotle, Aquinas recognised that economics was a moral science, a position that held to the beginning of the twentieth century.

The last century has seen an attempted separation of economics from morals, however the debate over its validity continues to arouse considerable debate (Crespo 1998). Small (2003) demonstrated that property economics continues to be best understood as built upon a cultural/moral base and the reluctance of western users of property to do this is largely responsible for the difficulties encountered in relating to customary property rights. The Aristotelian/Thomistic approach to the institution of property is built on considerations of the good of the community as the justification of private property itself and this approach would have been familiar to Tom Whipple, and apparently valued by him as evidenced in his contribution to preserving Dr. Woodbury's work. This author was introduced to the same tradition through one of Tom Whipple's long time friends and colleagues, Dr. Don Boland who is the current director of the Centre for Thomistic Studies.

This leads back to the marriage of classical realism and modern economics. Scott Meikle (1995) concluded that Aristotle's economic thought had been alienated from modern economics to the point that the two approaches now had negligible common ground. Tom Whipple would have been aware of this and the difficulties this poses for a classical realist engaged in any area of contemporary economics. His strategy was to maintain a specialised interest in valuation and most of his work reflects his acute insights into the practicalities of the valuation process. In this way, he maintained a distance between his work and the considerably more controversial area of the fundamentals of economics. However, his classical realist sensitivities continued to shine through and added a zest to his work. His interest in the formal object of valuation is an example, but it also reveals the tension. His final publications (Hockley and Whipple 2009; Whipple 2009) can be read as investigations into the meaning of value under the influence of a certain questioning of the common practices and theories of value as though he was not convinced of the validity of the current valuation paradigm. That is, his understanding of the formal object of economics, which he did not explore publicly existed in tension with his statement of the formal object of valuation that he did make a point of placing before his students.

The last few years have thrown up evidence that the tension between valuation and property's impact on the community is growing overdue for review. The phenomenon of onerous housing affordability trends, and the initiating mechanics of the global financial crisis all point to property economic mechanisms that have led away from the common good. It is easy, but perhaps irresponsible, for valuers to shy away from taking an informed position on the impact of property on the community. This is the distinction between the narrow technical activity of valuation and the more comprehensive understanding of property economics as a moral science. By focusing attention on investigation of formal objects, Tom Whipple has pointed to this need. He wisely limited his application of formal objects to his own specialisation of valuation, but has planted an awareness of its importance for application to property economics for those who may wish to take up the more controversial challenge at a time when the discipline and the community are willing to countenance it. Recent global events would appear to suggest that the tie may be drawing near.

Tom Whipple's legacy for the discipline is therefore considerably more profound than merely his apparent contribution to valuation, though that in itself has been great. Despite over two decades of Australian development of property economics as an academic discipline, it continues to be dominated by studies into the techniques of valuation on one hand and statistical correlations illustrating old urban economics theories on the other. Tom Whipple's own work on valuation inclined his students to recognise the legal, planning, psychological and even cultural aspects, all of which point to a broader theory of property and its significance. An excellent place to begin setting out a genuine science of property economics is with its formal object.

The classical thinkers who influenced Tom Whipple's scholarship were convinced that the formal object of economics should have a cultural/moral aspect and his work suggests that he has left a trail that leads back to them imbedded in his works. Property economics, with its special connection to land pricing in practice would seem to be a most promising area for reviewing the effectiveness of Marshall's claims for the positive discipline of economics. In this way, Tom Whipple's most pervasive contribution to the future is a strategy for giving the community, and not merely investors, a more comprehensive and effective science of property economics. Such a perspective could provide broader insights for general economics as well.

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