

# Good Government

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## Viewpoint

### DIPLOMATS ARE DANGEROUS

One of the confidence tricks that governments perpetrate on their electors is the illusion that expensive diplomatic representation in other countries is in the public interest.

Occasionally the deception has worn thin and Australians have reacted with anger when party hacks have been given comfortable appointments on being discarded by their electors or as baits to resign from parliament for some sleazy party advantage or when they have become aware of the lavish scale of accommodation and staffing in some overseas embassies which have no relevance to the necessities of the business and domestic conditions of those whose taxes pay for them. However, they are generally accepted with the same cynical tolerance as most other government extravagances rather than with the perceptive thought that would be required to force their discontinuance.

Henry George said of the diplomatic system that it 'is servilely copied from the usages of kings who plotted with each other against the liberties of the people. It serves no purpose save to reward politicians and occasionally to demoralize a poet. To abolish it would save expense, corruption and national dignity.'  
(*Social Problems, 'The Functions of Government'*)

As with all wasteful government expenditures their discontinuance would be an indication of the reassertion of public interest in economic and effective government, an essential step toward more fundamental reform but one which, as Henry George also pointed out, could not in

itself achieve any pronounced improvement in the material condition of producers. Referring to 'the extravagance which is characteristic as well of republican as of monarchical rulers' George wrote:-

'Now, there seems to be an evident connection between the immense sums thus taken from the people and the privations of the lower classes, and it is upon a superficial view natural that a reduction in the enormous burdens thus uselessly imposed would make it easier for the poorest to get a living. But a consideration of the matter in the light of the economic principles heretofore traced out will show that this would not be the effect. A reduction in the amount taken from the aggregate produce of a community by taxation would be simply equivalent to an increase in the power of net production. It would in effect add to the productive power of labour just as do the increasing density of population and improvement in the arts. And as the advantage in the one case goes, and must go, to the owners of land in increased rent, so would the advantage in the other.' (*Progress and Poverty, Bk VI Chap 1*)

It must be accepted that the basic problem of poverty, from which so many other apparently remote social problems stem, cannot be solved except by removing the cause. Governments, however, so frequently, not only ignore the cause, but by their ignorant and irresponsible behaviour, exacerbate the general level of unrest and promote the possibility of war to the extent that the real cause of conflict, which arises from their own incompetence, is obscured behind the superficialities of ideology, religion or race.

### THE PRINCIPLES OF GOOD GOVERNMENT

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 program of education in the economic facts of life to enlighten the electorate.

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

It is in this mischeivous area that the diplomatic system is seen at its worst because the conventions, within which it operates, keeps it remote from informed investigation of tensions within the host country and factual reporting to its home governments, not only of the social conditions likely to lead to internal violence but also of the absence of those economic and political freedoms without which people have little incentive to withstand aggression.

Consequent to the Treaty of Versailles the government of Britain had given undertakings to the government of Poland 'to preserve the territorial integrity' of that country. In fact this commitment was to preserve the reactionary privileges of a small aristocratic class who exploited the population of Poland to a degree that was comparable with that which applied in pre-revolutionary Russia. The people at large, lacking the economic backing and independence of citizenship, were an easy target for Nazi conquest and Britain felt obliged to commit her own people and those of the commonwealth to a war for a fiction of 'territorial integrity' that had never even existed for the mass of the population. What was the role of the British diplomats in Poland in the years between the wars? There is nothing to indicate that they had any understanding of conditions that existed outside the plush, insulated, ambassadorial world of mutual entertainment nor that, had they acquired such knowledge, their government would have welcomed the resultant reports which might have obliged a reconsideration of the guarantees in the absence of basic reform.

After the war Britain staggered on with a series of diplomatic failures culminating in the Suez affair after which most major diplomatic decision making passed to the United States with equally dismal failures. The most notorious of these have been in China, Cuba, Vietnam and now, apparently, in Iran in which the propping up of repressive and corrupt regimes has been misrepresented as beneficial to the interests of the American people.

Even by the quite unworthy standard of thwarting Russia American diplomacy must be the greatest trojan horse ever invented, judging by the inexpensive 'victories' that Russia can claim through its ineptitude.

In Iran the ruling clique, headed by the Shah, is corrupt and repressive. The people should be prosperous but they are plagued by an inflation rate of 50%, high taxes and the diversion of the very considerable revenues from their nationalised oil production to sustain the Shah's personal fortune, his extravagant purchases of armaments and the sophisticated technological installations considered by him to

be appropriate to a strong martial state. American diplomacy has predictably interpreted this dictatorial autocracy as 'strong' government. Events originating in areas remote from the glamorous centres of diplomatic interest have shown its inherent instability.

The type of insensitivity to the real problems of people immeshed in such repellent circumstances and, perhaps, the key to American diplomatic failures is well expressed by the former American ambassador to Teheran, Mr R Helms. In a recent interview he is reported as saying:- 'The Shah needs every ounce of our moral and political support right now. This talk about there being no evidence of the Soviet involvement is nonsense. The KGB is there. We ought to beef up the CIA.' Shades of Cuba and Vietnam!

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## Letters To The Editor

Sir — I have found Mr Donohue's explanation as confusing as your original statement. However, to add to the confusion let me say that economic rent is received and not paid. It is a part of the distribution of wealth and if I am manufacturing clothes pegs on a site above the margin I am receiving wages and rent. What I pay to my landlord for the use of the site is merely contractual and has nothing to do with the distribution of wealth. It might be more or less than the economic rent depending upon political circumstances.

It is the user of the land who receives the economic rent not the landlord.

Society has a right to and it is the duty of Government to collect the equivalent of the economic rent by means of a tax based on the site and when as a result land price disappears and so continues to be non-existent Society will have had its just due.

I have used clothes pegs as an example because hang it all it is simple enough.

LIONEL BOORMAN

Eastwood NSW

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Sir — Unemployment still remains a major social issue.

Governments meanwhile tinker with tax policies which have killed the incentive to work; inflate the price structure and the cost of government; indulge in reckless borrowing sprees, regardless of ability to repay, not to mention the enormous cost of welfare schemes intended to counter the effects of bad government and foolish policies.

Current attempts to deal with unemployment usually exclude any consideration of the conditions of land tenure.

Now the value of land arises from the presence and industry of the people collectively and the services of government necessary to support community life. The site value of land therefore

is the natural revenue of government.

However, governments have allowed this public asset to become the spoil of speculators and monopolists who are able to live, without producing anything, upon the labour of others. In consequence land prices have risen to peaks undreamed of half a century ago. Land price, once about 10% of the cost of a home, has risen to nearer one half.

The remedy is to restore land rent revenue to the people to whom it rightfully belongs; abolish repressive taxation; dispense with all monopolies and allow supply and demand to fix the value of all factors in the productive machine including labour. Involuntary unemployment would then steadily diminish.

G HART  
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Melbourne

Sir — There are two simple measures to eliminate 'windfall profits' and the possibility of corrupt land deals, with no cost and increased revenue to the Government.

Firstly, we ought to cut the vast complexity of building and planning restrictions to a minimum.

We all knew that re-zoning, discretionary approvals and the simple knowledge of how to manipulate the complex system created vast fortunes without productive efforts. We also know that the proliferating restrictions have increased the cost of land, building and consequently all production.

But we did not realise how huge this waste was until Mr Hamer recently announced that the Government will reduce requirements, procedures and delays. He estimated that the cost of building a home can be reduced by some \$8000!

Secondly, we ought to ensure that 'windfall profits', the un-earned financial rewards should not go into private pockets. Since the value increases of land come from community activity such as re-zoning, population increase, inflation etc.—the 'windfall profit' truly belongs to the community.

A flat rate Land Tax can effectively collect for community revenue these un-earned 'windfall profits', which would then go a long way to reduce the need for taxes raised from production (Payroll Tax, Income etc.)

These two measures have very important beneficial side effects also!

Both of the measures reduce costs and open up new employment in the housing, construction and associated industries.

The reduced cost of home buying will reduce interest costs, and release new purchasing power into the pockets of consumers. Consequently demand will increase.

Let us demand immediate action from the Government—before it is too late!

G HARDY  
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Melbourne

#### TURNOVER TAX 'INFAMOUS'

(Published in the *North Shore Times*, 6.12.78)

We understand that the Federal Treasurer is examining a proposal to introduce a new tax called a turnover tax, which appears similar to the infamous Value-Added-Tax used in European countries, many of which cannot be commended for their poor record for unemployment and poverty.

Prosperity depends on economic transactions occurring, and all individuals being able to exchange the results of their efforts and services with each other, using a reliable money system.

When two parties exchange (money and services), both sides gain; that is why transactions occur.

But if government imposes fines on such normal legal transactions, the gains are less, and some transactions will cease to provide a gain, and so will not occur.

The heavier the tax, the fewer the sales, followed by less production and less employment opportunity. (There will also less transactions to tax, and more taxes will be needed for doles)

Government must curb expenditure and reduce those taxes which prevent prosperity. Increasing the money supply is not the answer.

Government can reduce the incidence of bad taxation (sales, income, payroll etc) by replacing it with a revenue system which encourages prosperity—namely Site Value taxation.

But primarily this letter is to protest in the strongest terms about the insanity of introducing another tax which causes poverty and unemployment.

J RANDALL  
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Redfern NSW

#### INTEREST

Sir — Mr Cannon (G.G. August), in his far-ranging exposition of the meaning and causes of interest, clears away a lot of the obscurity and clap-trap that bedevils the student of modern economics; but he leaves me, at least, a bit in the dark by an apparent contradiction pinpointed by the last words of his final paragraph.

On page 6, he says 'In the later stages of a boom, land title prices rise at a faster rate than any other factor of economic consequence. This creates an elevating effect on interest rates. Not only do land speculators enter the loan market as competitive borrowers, but they are willing and able to pay high and rising interest rates. This lifts the rate above what competitive industry can afford and here economic stagnation steps in. If allowed to continue, it spreads throughout all industry'. This of course we have seen and are still witnessing in the Australian economy.

But, at the end of his article, Mr Cannon says 'However, no matter what the rate of interest is, under such circumstances, it will always be less

than what the majority of entrepreneurs can afford and not subject to the influence of land speculators'.

I'd be grateful for his elucidation of this apparent contradiction. Perhaps it depends on the meaning of 'under such circumstances'. What circumstances?

E P MIDDLETON Norfolk Island  
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#### PRIVILEGE

Sir — I do wish Mr Gilchrist would think a little more deeply on the subject of the alleged 'privilege' of a title to hold land. What he has to say about it in his article in the August issue detracts sadly from the otherwise excellent statement on privilege in general.

The occupancy of a piece of land is the right of every human being, for without that right life is impossible. What use the occupant makes of it is his own affair, provided he observes the normal obligations of such occupancy; these are: that he does not annoy his neighbours, or society in general, and returns to society that portion of the production from the site (if any) which is known as the economic rent.

The only privilege at present attaching to the occupancy of land is the privilege of retaining that economic rent, which, because of this, creates 'land value'.

'Land value' itself is not, therefore, a proper subject of taxation since, in the 'logic' of the taxation of wealth, 'land value' does not fit, as it is not wealth any more than the proceeds of a lottery ticket or a bank robbery are.

Let the community draw its revenue from the economic rent wherever it is produced, and 'land value' will disappear.

E P MIDDLETON Norfolk Island  
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#### TRADE

Again—the band of commerce was designed  
To associate all the branches of mankind,  
And if a boundless plenty be the robe  
Trade is the golden girdle of the globe.  
Wise to promote whatever end He means  
God opens fruitful nature's various scenes,  
Each climate needs what other climes produce  
And offers something to the general use;  
No land but listens to the common call,  
And in return receives supply from all.  
This genial intercourse and mutual aid  
Cheers what were else a universal shade,  
Calls nature from her ivy-mantled den,  
And softens human rockwork into men.  
Ingenious art, with her expressive face,  
Steps forth to fashion and refine the race —  
Not only fills necessity's demand  
But overcharges her capacious hand:  
Capricious taste itself can crave no more

Than she supplies from her abounding store:  
She strikes out all that luxury can ask  
And gains new vigour at her endless task.  
Here is the spacious arch, the shapely spire,  
The painter's pencil, and the poet's lyre;  
From her the canvas borrows light and shade,  
And verse more lasting, hues that never fade.  
She guides the finger o'er the dancing keys,  
Gives difficulty all the grace of ease,  
And pours a torrent of sweet notes around,  
Fast as the thirsting ear can drink the sound.  
These are the gifts of art, and art thrives most  
Where commerce has enriched the busy coast;  
He catches all improvements in his flight,  
Spreads foreign wonders in his country's sight,  
Imports what others have invented well,  
And stirs his own to match them or excel.  
'Tis thus reciprocating each with each,  
Alternately the nations learn and teach;  
While providence enjoins to every soul  
A union with the vast terraqueous whole.

Heaven speed the canvas gallantly unfurled  
To furnish and accommodate a world,  
To give the pole the produce of the sun,  
And knit the unsocial climates into one!

(From 'CHARITY' by William Cowper, died 1800)  
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#### THAT WONDERFUL QUOTATION

Sir — The correct wording of the quotation has been kindly supplied by Mrs M Gibson of D'Aguilar, Queensland, and is as follows:  
'Those who make private property of the Gift of God pretend in vain to be innocent. For in thus retaining the subsistence of the poor they are the murderers of those who die every day for the want of it'.

Mrs Gibson has not yet succeeded in positively identifying the author, but feels that it was probably Pope Gregory the Great. This accords with my own recollection from many years ago.

But Dr L Hemingway of Warrnambool, Victoria, who is well read on the subject, thinks that the quotation is most unlikely to come from one of the popes. He has kindly supplied another one from Pope John XXIII, which he suggests is the closest approximation that could be found:  
'Since there still remains too great a difference in the distribution of wealth, there are still too many causes for disagreement among the classes. This springs mainly from the concept of the right of private property, which is at times defective and downright unjust, held by those who are interested only in their own personal benefit and convenience'.

Perhaps others of your readers could do some more research. I am most grateful to Mrs Gibson and Dr Hemingway.

W A DOWE Lakemba NSW  
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Sir — Thanks to Mr W A Dowe for his explanation of Money. But there is something I cannot understand, that is when he writes about the 'gigantic dose of fraud from the governmental

monopoly'. To my mind, governments can only be blamed for their failures, and the first blame I would give governments is their negligence of the importance of community-created land value rising, and their failure to collect the annual interest (land rent) of the rising value. If this were done, and the revenue were used for the reduction of income taxes, there would be nothing with which to feed inflation. Expenses of higher land rent will be balanced by lower income taxes.

Inflation has two sides: the rich (especially land owners) getting more rich, and the poor (the landless) having to pay higher prices for their consumption in order to fill the bags belonging to the landlords who, on top of that, also have the advantage of falling debts.

Those governments who now and then devalue their coin are literally inflating. But it is a mistake to say that governments are inflating the coin by borrowing money above the taxation. When governments borrow, in reality they collect voluntary, and temporary taxes which later on of course have to be collected as real taxes, when the bonds are paid back. But this act is not adding anything to the total amount of money.

It is not correct when some people say that the Central Banks are misusing the printing press. No Central Banks in the 'Western' world are issuing more bank notes than you and I are carrying in our wallets, or our cashiers and the bank cashiers keep in their drawers in order to serve the customers. And the amount of bank notes is continuously shrinking, from about 5 pct some years ago to today only about 2 pct of the total amount of paying media, money.

I am very happy to read Mr Dowe's two lines, '...Freedom includes the right to issue one's own money if others will accept it...' That is just what happens, anyway in my country. If a man buys a house at \$100,000, but only pays \$80,000 out of his own and borrowed money from the bank, he can issue a mortgage deed for the remainder, promising a high rate of interest and a fast repayment. But this mortgage, together with all other mortgages of the same kind, are a great part of the annual rise in the total amount of money which, to my mind, includes every piece of paper with an IOU accepted by the receiver. This excess money most often appears as payment for land value rising, the only income element of importance which is not based upon previous production, and thus bringing the amount of production and the amount of purchasing power out of balance.

KNUD THOLSTRUP

DENMARK

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## INFLATION

(Submitted to Sydney Morning Herald)

Sir — The Institute of Applied Economic and Social Research has stated that next year Australia's jobless will be as high as 550,000 and that inflation will be slightly down (now seven to eight percent) to five or six percent. It is quite obvious that in calculating the inflation rate the soaring prices of real estate is not taken into account.

Although the CPI reflects some improvement in the price rise of consumer goods and services and there is a tendency for interest rates to fall, the enormous load of debt being carried by the home-buyer is constantly increasing. There is little point in reducing the interest rate if the total sum paid in interest constantly increases.

Within recent years the price of existing houses and home units has practically doubled and whereas the average loan for the purchase of a unit was formerly about \$15,000 this average is now around \$20,000 to \$25,000. What is the use of a reduction in interest rates under these circumstances? In fact a reduction in the rate tends to increase the price.

The absurdity is that the buildings daily changing hands are getting older and yet are bringing higher prices and banks are making record profits. The tragedy is that with the hundreds of millions of additional overdraft dollars coming into the economy as a result of increased prices and larger mortgages there is no resultant production and no economic growth. Little wonder that unemployment grows and real wages shrink.

There was a time that Australia could be proud of its percentage of individual home ownership but the amount of investment in home units for letting at exorbitant rentals is quickly changing this. It is time that governments took a hard look at the building industry, encouraged the erection of houses and units and by a substantial increase in Land Tax destroyed the price of building sites. We would then see a dramatic fall in inflation and unemployment and a rise in real wages.

L BOORMAN

Eastwood NSW

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## IS THIS DEMOCRACY?

(Published in The Australian 4.10.78.)

Sir — From time to time and particularly at elections, much is said about our democratic system of government; but how really democratic is our Parliament?

The first essential to make our Parliament really democratic is to allow every member, including back-bench members to have a free vote

on all matters before Parliament. Each member is elected to represent an electorate and no Caucus or party meeting has the right to direct his vote. Parliament thus would be really democracy at work—free members and not muzzled by party bosses. A decision by a Caucus or party meeting could well be arrived at by a majority of one yet the large minority of members with a different opinion must either be silent or support the majority. This is not parliamentary democracy.

As well as matters discussed in Caucus every member should be free to a personal opinion vote on all questions before Parliament. For the vote he would be answerable to his constituents and not to party bosses. Under the present system parliamentary decisions could well degenerate into a near-dictatorship. The recent expulsion of Mr Doug Jennings MLA is a clear example of the tyranny which is inherent in the Caucus or party meeting control over vote of independent members.

The second essential is to adopt a proportional representation system of election similar to that operating in Tasmania. Under the present single electorate system, it is possible for almost 50 per cent of voters to have no vote in the election of a member. If five electorates are joined together for election and the major parties each nominate five candidates the voters then could choose as they desire. In most instances there would be three members from 'X' party and two members of 'Y' party elected. In the case of a swing there might be two members from 'X' party and three from 'Y' party elected. Electors of the area would then see their votes being effective in the election.

This method of election would prevent the landslide result which often follows elections under present single-member electorates and would bring a sense of stability in the Parliament which is absent now. At the present time the members in the 'blue-ribbon' seats of either party are the regular members of Parliament. All other electorates are represented by changing membership. Often by the time a member has come to understand the procedures of Parliament, an election takes place and a swing in political opinion and he is replaced by a member of a different party.

This situation effectively prevents positive contributions which might be of great value to the community; in this case a member's brief term in the Parliament has not produced any positive contribution before he is swept from the scene by a relatively small percentage change in the political atmosphere.

Another reform would be the establishing of the system of 'initiative referendum' as applicable in several States of America. This method enables an arranged percentage of electors by signed petition to cause the

government to hold a referendum on the question set out in the petition. This provision would restore to the elector the right to direct the government between elections. At the present time, politicians tend to completely ignore the desire of the electorate and take up the attitude of 'Big Brother' who knows what is best for the people.

A recent example of this situation is the decision of government on metrication—most people thought the proposal was only decimal coinage and if given a vote would cancel out other metrics. Another example is the question of fluoridation—people had no opportunity to vote on this question, despite a large proportion of people, professional and lay, being opposed to the action.

Other important questions such as capital punishment and liquor trading hours would be fitting subjects for initiative referendum.

This proposal would call for an amendment to the constitution which should be submitted to the people. The Constitutional Convention should have more than half its members elected directly by the people and not composed entirely of politicians who would tend to have thoughts influenced by party affiliation.

J H MORRIS

Coburg, Vic

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## FROM OUR NEW ZEALAND CORRESPONDENT

The cry that local government rates are too high, that rate-payers are reaching the point of not being able to pay, that the central government must subsidise local rates, continues unabated. And that despite the refusal of the Minister of Finance to accede to a request from a combined deputation from the Municipal and the Counties associations for more assistance. However, a general election has opened and in the bribery associated with it we are certain to hear more of the need for assistance.

What is wrong with the thinking pieces of these people claiming 'hand-outs' from the central government? They must know that the central government takes but a fraction of the total taxation paid by the individual. They must know that the central government has no money of its own, has no money that it first doesn't get from the local people.

Often enough these people are prominent in the business activities in their communities. These people know what they are doing. Their scheme is nothing more than a way for unloading their rates upon the consumer, especially the property-less consumer. Every cent raised by taxes on commodities is a cent in the pockets of 'the third hand in the game, the non-producing owner of city and suburban property'. As Tregear pointed out nearly eighty years ago, he alone is chief beneficiary of all progress.

We had a good example of the principle of getting public revenue by indirect methods in a recent TV performance, a telethon. One channel conducted a 24-hour session raising three million dollars for health purposes; previous telethons raised the money for other 'worthwhile purposes'. It will become a permanent feature of our taxation system. It was pitiful to see kiddies turning out their money boxes to add their mite to what was nothing more than a scheme to line the pockets of the 'third hand'.

A successful property developer has just brought out a book entitled *New Zealand—The Way I Want It*. There is much good stuff in it. One chapter is headed, *Taxation Is Theft*. He urged people to avoid paying taxes. Yet when the Prime Minister asked him whether he paid his taxes he dodged the issue.

I have always been suspicious of people who talk about taxation as being theft. All too often further acquaintance with their thinking reveals that they have a quite inadequate knowledge of the business of government. So it proves with this author. He denounces government expenditure, calls for drastic curtailment of government activities, advocates a return to private initiative. All very good. But there is hardly a word that would help a hard-pressed Minister of Finance, or Federal Treasurer, in his fight against inflation.

Had he denounced commodity taxation, the taxing of goods for government revenue, he would have directed attention to the cause of inflation. Inflation is a breakdown of government finance. Government, the agent of the community, fails to collect the values of the community services that the community renders to the individual. They allow these values to fall into private pockets (the third hand in the game); but the soldier and the policeman must be paid. To get the wherewithal government resorts to the taxing of goods. Here we have the reason why goods cost more than when largely hand-made two centuries ago.

We single-taxers must heed Frank Chodorov's advice. 'We must polish up our ancient arguments, apply them to the current scene and offer them as brand new merchandise. We must do a selling job. Youth will not buy us out lock, stock, and barrel, but will be rather selective about it; they will take what seems good to them, modernise it, build it into a panacea and start a revolution'.

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## THE INTERESTS OF ALL MEN ARE HARMONIOUS

(A paper read by W A Dowe at the Spring School of The Australian School of Social Science at North Sydney on 8th October 1978)

Harmony is a very wide subject. For instance:

1. There are the physical and chemical harmonies

of the natural order. To some people nature seems to be far from harmonious—'nature red in tooth and claw'. As quoted by Henry George from Tennyson:

'Are art and nature then at strife  
That nature lends such awful dreams?  
So careful of the type she seems  
So careless of the single life.'

Against the concept of the harmonies of nature is the philosophy of Heraclitus that everything in the universe is CONFLICT. This is also the philosophy of the general run of the ruling classes, especially in Britain. Sir Henry Newbolt expresses it in 'Clifton Chapel' (where the young generation of Britain's elite is taught to take fighting as of the unalterable natural order):

'My son, the oath is yours. The end  
Is his, who made the world of strife  
Who gave his children pain for friend  
And death for surest hope of life.'

This philosophy flowed down from Heraclitus through Hegel to Marx in whom it emerged, somewhat inverted, as the Class Struggle.

2. Opposed to this is the man-in-the-street's philosophy of the good neighbour, a watered-down philosophy of the Golden Rule—be friends with everybody as far as is 'reasonable', i.e. as far as convenient and as far as one's prejudices permit.

3. Very different again is the 'Christian Ethic' (to which Mr Wran recently announced his attachment). This is a highly radical philosophy which is generally dismissed as impractical and airy-fairy, but which I believe is a completely social, practical and logical philosophy. It is tersely and forcefully expressed in the 'Sermon on the Mount' recorded in Matthew's Gospel, chapters 5, 6 and 7. It should be read in a good modern translation, and must be pondered over and digested. Among the many pearls in the sermon are the Golden Rule (7.12) and Resist Not One Who Is Evil (5.39). It is full of still untapped revolutionary force, and has been expounded and demonstrated in modern times by Tolstoi who wrote lengthily about it, and by Gandhi who applied it successfully by expelling the British rulers from India without bloodshed.

## 4. SOCIAL HARMONY

I propose to speak on that aspect of harmony named in the title of this Paper. Man is a social animal, and benefits from whatever benefits his fellow-men and suffers from whatever injures his fellow-men. It is our duty to act so that whatever we do benefits our fellows and nothing that we do injures any of them. In this aspect the Georgist proposals and philosophy conform to the Christian ethic. They

contain nothing that will injure anybody, and very much that will benefit everybody. To deprive a person, by the restoration of good government, of an unearned income which he

receives by the operation of misgovernment is not to injure him, but rather to benefit him by justice which benefits all.

It should be obvious to everybody that the two outstanding proposals of the Georgist philosophy, i.e. the appropriation of the economic rent for community purposes and the consequent abolition of taxation on individual wages, will benefit everybody, although even here those who have not adequately studied the proposals often imagine that they will cause unemployment and dislocation. In fact, among the most conspicuous of the benefits which will arise from the substitution of justice for injustice is the disappearance of unemployment, which is the great feature of the disinheritance of the people.

But the abolition of taxes and the restoration of justice involve freedom, particularly free trade, and there is a great deal of popular prejudice against free trade, and it is therefore to this topic that I wish to pay particular attention.

For the abolition of poverty amidst affluence it is, of course, essential that the wholesale robbery of producers by the private misappropriation of the economic rent and by the consequent taxing of private incomes be abolished. The consequent impetus to production will also increase rent which will be the public revenue and will enrich all.

#### HARMONY AND CIVILISATION

Anyone who observes the trading centres will know that these centres are the high-rent areas. In fact trade not only produces rent and harmony, but provides plenty on all sides. Without trade we should all be Robinson Crusoes, totally impoverished and scarcely human beings at all. Trade is, in fact, production. It is also the great harmoniser and civiliser and the originator of all the arts. See the poem *Trade* by William Cowper at the foot of this article.

All the main points about trade are, of course, dealt with in George's *Protection or Free Trade* and other books. The point here is that the interests of all men are harmonious, and that trade is harmonious and for the benefit of all.

Trade is both production and exchange. Each party to the exchange parts with what he has produced which is of less value to him and receives what the other party has produced which is of greater value to him. Each party thus makes a profit and confers a profit. Trade is always distinguished by these features. There is no loss in trade. It is always peaceful and voluntary and trade is never forced on anybody. It is always carried on between individuals, and those individuals form groups and also form the

economy. When the American government 'forced trade' on Japan they forced nobody to trade but forced the Japanese government to stop preventing individuals from trading, which is a normal occupation for all men.

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## THE ROAD TO PEACE ON EARTH

By F T HODGKISS

'On earth Peace. Good will toward Men.' Note the all-inclusive word 'men', for there cannot be peace on earth while good will exists only toward some men. But can it be established among all men? Not while statute laws are enacted based upon ill will and fundamental laws based upon good will are disregarded.

Land is the essential to life. In a Christian land the law would secure to all the right to possess land on terms equally just to all. Instead, in Australia, we find 86 per cent are landless, their lives dependent upon terms of access thereto granted by the relatively few. In some countries 5 per cent and less possess the exclusive legal rights to land.

The Premier of South Australia recently stated that on a country trip he came across a man in possession of 90,000 acres who made a good living by working only 1,000 acres. Thus, while thousands of men want acres and thousands of acres want hands, the utilising of many thousand acres depends upon the whim of one man. Our present legislation permits and protects such instances of private land ownership in this all essential to man's life and happiness.

The Premier added that the land should be purchased for closer settlement. Here he exposed the great wrong in our land laws. Land, the gift in common to all mankind, is made by legislation, merchandise, subject to private ownership and sale. In towns and cities tens, hundreds, even thousands of pounds per foot is privately demanded.

Owing to the increasing struggle to live, largely caused through our land laws, the owning of one's home is now less common. We note from English and Canadian sources other evils. A news item in the *Age*, 4.7.44, stated: In 15 minutes all the shops, houses, farms, and woodlands of a Norfolk (Eng.) village, with a population of 560, changed hands. The new landlord graciously announced, 'He wants these good people to know that they can continue to live and work as happily as they have done for 200 years as tenants of the Molyneux-Montgomery family'. Here, we behold, veiled, the autocratic power of the landlord.

In Saskatchewan, Canada, we read: 'The Government in 1935 to 1941 permitted 1,292



foreclosures and evictions. Today 25 per cent of the farmers are renters, whereas 30 years ago only 4 per cent were renters'. Like conditions produce like effects, and with our similar land laws we are steadily creating similar conditions in Australia.

In England, however, thought is becoming aroused. The late Archbishop of Canterbury denounced land speculators as traitors, and Sir Richard Acland, transferring 16,000 acres and a yearly income of 2,500 Pounds a year to the nation, said: 'It has been my growing conviction that we have now reached such a point in history that private ownership of large properties of all kinds, including large estates, is impeding the Christian and economic development of our country'.

The remedy for this chaos in regard to land possession is plain. Note the term 'freehold'. The dictionary states, 'It is a property held free of duty except to the King'. Therefore all land is held from the Crown—the People. Private ownership of land is not recognised in English law—only land possession.

According to Mr W M Hughes, MHR, the Federal Government has the power (Section 51) to collect the annual rentals of all lands. Then, let the people assert their natural and legal rights to all lands. Each land possessor paying rent to the people according to the rental value of the land he holds exclusive of the improvements thereon. Justice to all would thus be asserted and secured, with land possession itself being multiplied many times.

This aggregated land rent would be the people's annual rental income. They would then, and rightly, become the landed class, enjoying their rental income; and, in fairness to all, use it in meeting their governmental expenses and thus, in due time, sweeping away all taxation. What a different condition from now, when a few 'landowners' appropriate without public protest the people's rental income and thereby force upon them the ruinous plunder of taxation, which in plain terms is theft. The Government is confiscating private property and neglecting to collect its own.

This change would enormously benefit the whole community, especially cultivators holding land for bona fide use purposes. Those who would be eliminated would be non-workers, living upon unearned incomes from mere land possession, and speculators, now aiming to reap rises in land values created by need for land, and the increasing community activities of the people.

It is impossible to establish peace on earth and good will among men until the nations abolish their hostile trading relations. Since the preceding World War they have been steadily building up further trade barriers instead.

Mr Cordell Hull, USA Secretary of State, in connection with a National Foreign Trade Week, recently stated: 'Shifts from war to peace economies after the last war entailed commercial blunders of discrimination and protection that led eventually to world-wide depression and World War two. We,' he continued, 'ourselves cannot live in prosperity and security, in our own country, while people in other countries are suffering want and being driven to despair by economic hardship'. It was also Mr Hull who stated, 'If goods are not allowed to pass frontiers, sooner or later armies will', no doubt remembering how particular duties imposed in USA had ruined certain districts in Germany.

Years ago Japan was taking from Australia 800,000 bales of wool annually, and forecast she would soon be taking a million bales per annum. How did Australia reciprocate? In our insular, ill-will spirit, we put up such hostile tariffs against her that it made mutual trade impossible.

Protectionists are believers in self alone. Isolationists in spirit, they disregard the effects of their legislation upon other people's welfare and interests. They will not see how at home and abroad the injure Australia by their protection of monopolists. Further, that they are doing their part now, in eventually bringing about a third World War.

Nor can peace on earth and good will among men prevail with our 'White Australia' policy. It is based upon excluding from our shores men of a different skin colour to our own. It is a distinct challenge to a colour war, making colour the issue between men. Years ago, the USA, in a domineering way, compelled the Japanese to trade, little dreaming that, in a comparatively short time in the life of a nation Japanese ocean liners would traverse the globe, and their armies and navy of coloured men would present a formidable problem to the allied white nations.

Land! Trade! Race! These three great questions confront us, and must be met before we can hope to have peace on earth. Till we face and answer them in accord with the spirit of good will, continuous miseries will afflict mankind. As we sow, so shall we reap!

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## KARL MARX ON RENT

In Chapter XXXVII of *Das Kapital*, Marx makes an analysis of ground rent. He divides it into various classes of what he calls 'differential rent'. He deals thus with its origin: 'Differential rent arises from the differences in the natural fertility of the soil, which depends upon the prevailing degree of development of cultivation (leaving aside for

the moment the question of location), in other words, from the limited area of the best lands, and from the circumstance that equal capitals must be invested in unequal soils which thus yield unequal products'.

#### LAND MONOPOLY A BARRIER TO PRODUCTION

After considering the different forms of rent, Marx deals with the capital necessary in various forms of production, and shows that under certain conditions there is a continual tendency of capital to bring about an equalisation in the distribution of surplus value produced by the total capital, by means of competition, and to overcome all obstacles to this equalisation. Such a condition rests 'upon the continually changing proportional distribution of the total social capital among the various spheres of production, upon the unremitting emigration and immigration of capitals, upon their transfer from one sphere to another'; in other words, if anything happens to interfere with the free movement of capital, this tendency to equalisation of surplus profits is disturbed. If a barrier is erected to prevent this free movement, the tendency will be for one section to acquire an unfair proportion of surplus value.

'But if the reverse happens, if capital meets some foreign power which it cannot overcome, or which it can but partially overcome, and which limits its investment in certain spheres, admitting it only under conditions that wholly or partly exclude that general equalisation of surplus value to an average profit, then it is evident that the excess of the value of commodities in such spheres of production over their prices of production would give rise to a surplus profit, which could be converted into rent and made independent as such compared to profit. Such a foreign power is private ownership of land when it builds obstacles against capital in its endeavour to invest in land. Such a power is the landlord in his relation to the capitalist.'

'Private property in land is the barrier that does not permit any new investment of capital upon hitherto uncultivated or unrented land without levying a tax, in other words, without demanding a rent, although the land to be taken under new cultivation may belong to a class which does not produce any differential rent, and which, were it not for the intervention of private property in land, might have been cultivated at a small increase in the market price, so that the regulating market price would have netted to the cultivator of this worst soil nothing but his price of production. But on account of the barrier raised by private property in land, the market price must rise to a point where the land can pay a surplus over production; in other words, where it can pay rent.'

The point is further dealt with as follows:  
'Private property in land prevents such an

equalisation among capitals invested in the soil whenever production requires real estate, either for agriculture or for the extraction of raw materials, and catches a portion of the surplus value which would otherwise assist in the formation of the average rate of profits. The rent, then, forms a portion of the value, or more specifically, of the surplus value, of commodities, and instead of falling into the hands of the capitalists, who extract it from their labourers, it is captured by the landlords who extract it from the capitalists'.

#### LANDLORDS DEMAND PAYMENT FOR USE OF THE EARTH

'One section of society thus exacts from another a tribute for the permission of inhabiting the earth. Private property in land implies the privilege of the landlord to exploit the body of the globe, the bowels of the earth, the air, and with them the conservation and development of life...

'Wherever natural forces can be monopolised and thereby guarantee a surplus profit to the industrial capitalist using these forces, whether it be waterfalls, or rich mines, or waters teeming with fish, or a favourably located building lot, there the person who by his or her title to a portion of the globe has been privileged to own these things will capture a part of the surplus profit of the active capital by means of rent.

'That it is the ground rent, and not the house, that forms the actual object of building speculation in rapidly-growing cities, especially when building is carried on as an industry, as it is in London, we have shown in Volume 2. And it should not be forgotten that after the lapse of the lease, at the end of ninety-nine years as a rule, the land, with all the buildings upon it, and with the ground rent generally increased to twice or thrice its original amount, reverts from the building speculator or from his legal successor to the original landlord.'

#### SURPLUS VALUE AND RENT PRACTICALLY THE SAME

It is rarely that one hears a Marxist refer to Marx's writings in reference to land and rent. The common expression that comes from their lips is that the workers are robbed through the appropriation of surplus value. When asked the nature and origin of surplus value they seem unable to give a logical reply. To all such Marxists the following quotations by their apostle will prove of interest. They show that Marx considered surplus value and rent as almost interchangeable terms.

'That it is only the title of a number of persons to the possession of the globe that enables them to appropriate a portion of the surplus labour of society to themselves, and to do so to an increasing extent with the development of production, is concealed by the fact that the capitalised rent, this capitalised tribute, appears as the price of land, and that

the land may be sold like any other article of commerce. The buyer, therefore, does not feel that his title to the rent is obtained *gratis*, and without the labour, the risk, and the spirit of enterprise of the capitalist, but rather that he has paid for it with an equivalent. To the buyer, as we have previously remarked, the rent appears merely as the interest on his capital, with which he has bought the land, and consequently his title to the rent. In the same way, the slaveholder considers a negro, whom he has bought, his property, not because slavery as such entitles him to that negro, but because he has acquired sale and purchase.

'But the title itself is only transferred, not created, by sale. The title must exist before it can be sold, and a series of slaves cannot create this title by repetition any more than a single sale can...From the point of view of a higher economic form of society, the private ownership of the globe on the part of some individuals will appear quite as absurd as the private ownership of one man by another. Even a whole society, a nation, or even all societies together, are not the owners of the globe. They are only its possessors, its users, and they have to hand it down to the coming generations in an improved condition, like good fathers of families.

'If we observe ground rent in its simplest form, that of labour rent, which means that the direct producer cultivates during a part of the week, with instruments of labour (plough, cattle, etc.) actually or legally belonging to him, the soil owned by him, and works during the remaining days upon the estate of the feudal lord, without any compensation, the proposition is quite clear, for in this case rent and surplus value are identical. The rent, not the profit, is here the form through which the unpaid surplus labour expresses itself. To what extent the labourer, the self-sustaining serf, can here secure for himself a surplus above his indispensable necessities of life, a surplus production, depends, other circumstances remaining unchanged, upon the proportion in which his labour time is divided into labour time for himself and forced labour time for his feudal lord. This surplus above the indispensable requirements of life, the germ of that which appears as profit under the capitalist mode of production, is therefore wholly determined by the size of the ground rent, which in this case not only is unpaid surplus labour, but also appears as such...

'So much is evident in the case of labour rent, the simplest and most primitive form of rent; the rent is here the original form of surplus value and coincides with it. Furthermore, the identity of surplus value with unpaid labour of others does not need to be demonstrated by any analysis in this case, because it still exists in its visible, palpable form, for the labour of the direct producer for himself is still separated by space and time from his labour for

the landlord, and this last labour appears clearly in the brutal form of forced labour for another.

'In the same way the 'quality' of the soil to produce a rent is here reduced to a tangibly open secret, for the nature which here furnishes the rent also includes the human labour power bound to the soil, and the property relation which compels the owner of labour power to exert this quality and keep it busy beyond the measure required for the satisfaction of his own material needs. The rent consists directly in the appropriation, by the landlord, of his surplus expenditure of labour power. For the direct producer pays no other rent. Here, where surplus value and rent are not only identical, but where surplus value obviously has the form of surplus labour, the natural conditions, of limits, of rent, lie on the surface, because those of surplus value do.'

#### THE FINAL TYPE OF RENT

In the concluding chapters of Volume 3, Marx deals with 'money rent' as the final type of rent. He shows who gets it, and how it is obtained:

'Money rent, as a converted form of rent in kind, and as an antagonist of rent in kind, is the last form of ground rent which we have considered so far, namely the ground rent as the normal form of surplus value and of the unpaid surplus labour to be performed for the owner of the means of production. In its pure form, this rent, like labour rent and rent in kind, does not represent any surplus above the profit. It absorbs the profit as it is understood...

'In all these forms of ground rent, whether labour rent, rent in kind, or money rent (as a mere change of form of rent in kind), the rent-paying party is always supposed to be the actual tiller and possessor of the land, whose unpaid surplus labour passes directly into the hands of the landlord. Even in the last form, money rent—to the extent that it is 'pure', in other words, a mere change of form of rent in kind—this is not only possible, but actually takes place.

'Capital pumps the surplus labour, which is represented by surplus value and surplus product, directly out of the labourers. Private land has nothing to do with the actual process of production. Its role is confined to carrying a portion of the produced surplus value from the pockets of the capitalist to its own. However, the landlord plays a role in the capitalist process of production, not merely by the pressure which he exerts upon capital, nor by the fact that large property in land is a prerequisite and condition of capitalist production, seeing that it separates the labourer from the means of production, but particularly because the landlord appears as the personification of one of the most essential

requirements of production.'

#### CONCLUSION

The quotations given show that Marx devoted a great deal more time to the land question than is admitted by his followers. They do not seem to realise the important part that land monopoly plays in the exploitation of the wealth producers. All their attention is centred on the capitalist—the owner of the machine. They fail to see that they are 'barking up the wrong tree'.

It is true that under present-day conditions it does appear to those unacquainted with economic knowledge as if the ownership of machinery is the cause of the unjust distribution of wealth. Marx saw there was something deeper: it was the alienation of the people from the soil—the robbery of their natural heritage. He has shown that where land was free to all it was impossible to get wage slaves. He made it clear that it is not Capital that exploits Labour, but that the private appropriation of ground rent is the great original economic sin. Knowing the cause of the trouble, the remedy is at hand. It is to divert the rent of land from private pockets, and put it into the public treasury, as advocated by Marx in the first plank of the Communist Manifesto.

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#### INTEREST—A NATURAL ECONOMIC REWARD

By E B DONOHUE

The curse of all discussions on economic matters is the confusion that prevails between what is social and what is mutual and nowhere is this confusion more evident than in discussions on interest where it has inhibited great minds from seeing the truth about its nature as a natural share in the distribution of the social produce. And it is clear from his article on the subject of interest (G.G. August) that Mr A R Cannon has fallen victim to this curse when he is forced into the unhappy conclusion that interest cannot be seen in a clearer light unless the idea of a reward for capital's part in production is discarded.

The economists of the nineteenth century faced a similar dilemma when the word wealth proved a real plague to their economic theories because they could not agree on how it should be defined. They took the easy way out suggested by Mr Cannon and decided to drop the term, a move which prompted Professor Perry in 1866 to express the frank opinion that 'happily there is no need to use this word. In emancipating itself from the word wealth as a technical term, political economy has dropped a clog and its movements are now relatively free.' The term was actually dropped about 1900 and since then political economy has moved in a way strongly suggestive of that freedom which comes to a

yacht that has dropped its keel. Elsewhere Mr Cannon observes that 'unless someone can come forward with a new 'reward' theory interest cannot be considered as such'. Fortunately through his profound concept of the body economic, the late Dr H G Pearce was able to do just that, when he completed the segment on the laws of distribution which Henry George, through his untimely death, had left unfinished in his text book *The Science of Political Economy*. Pearce not only formulated and illuminated the theory of market distribution of wealth but also the mechanics whereby such distribution was effected through money-price into rewards of rent, interest and wages.

To study Pearce is to become convinced that without a grasp of his reasoning on price and value and his analysis of how rent, interest and wages are distributed, it is impossible to gain an adequate understanding of the unique concept of a natural economic order envisaged by George. And without such understanding in this age of economic lunacy, it is even more impossible to make an effective presentation of the Georgist proposition to a bewildered public. Hence it is a great pity that the Georgist movement in this State, through lack of wisdom and the failure to appreciate the enormous significance of Pearce's enlightening contribution to economic thought, on the advancement of George's political proposal, has rejected the idea of publishing his great work. I present this brief outline of the nature and cause of interest as taught by our distinguished colleague in the hope that it will be helpful to those interested in the subject.

In the economic sense of the term production requires not only labour—the exercise of reason and will in the exertion of man's powers and faculties—but also another exercise of reason and will through the investment of his products (capital) as an aid to further production. Both of these productive actions are induced by the rewards which society offers as a natural result of our natural social impulse to save effort through exchange. This was one of the great truths glimpsed by Adam Smith when he observed that the fundamental causes of the wealth of nations are: labour, investment of capital (stored labour) and association of producers (division of labour through trade). Unfortunately, his successors departed from this formal viewpoint and became obsessed with a technical viewpoint that was economic only in the material and not the formal sense. The result was that they fell into the error of starting their development of political economy from 'factors' of production called land, labour and capital which necessarily commanded rewards of rent, wages and interest. This erroneous concept opened the door to all the muddle and intellectual lumber that has since degraded political economy to the level of a pseudo science as the Marxists rightly inferred that as

land and capital were non-human elements in production, they could not merit any rewards. The Marxists then blundered into the fallacy that the whole of the produce must therefore belong to the labourer. This self-refuting absurdity ended up in the proposal that the State should take over the whole produce and decree a political wage for the labourer and decree its own revenue, to any extent that the legislators may think fit, through the chaotic muddle of taxation. The 'Capitalist' defence against this absurdity was no less absurd for it was based on the same false principle that the returns to the labourer and the State can be arbitrarily determined by human laws.

Pearce saw through this land, labour, capital 'factors' nonsense to the reality that man was the only agent in production that could merit any rewards. He saw that the natural division of the social produce was into wages to man the labourer, interest to man the investor and rent — the differential in production arising from territorial advantage—to the State as revenue to meet the cost of government. Unfortunately, since the time of Smith, economists have been consistently blind to the fundamental truth that since man is naturally directed towards social co-production, there must be incorporated in the economic organism he quite unwittingly promotes, a natural division of the produce. If this rejection of the concept of any natural laws of distribution operating in the market, by contemporary economists, is to be accepted, it means that there can be no economic science but only the technique of thinking which is responsible for the chaos of discordant opinions that now discredit and demean this vitally important branch of human knowledge. A technique wherein labour is mostly regarded as a commodity that can be bought and sold; capital as if it had the initiative in production and the creation of employment; land as something that farmers use; and protective tariffs as a necessity to keep us all in work. Protection does, of course, make work but only in the sense that a bunch of kids create work for the housewife when they plant their muddy footprints on the floor she has just polished. Only economic science can expose and uproot all such economic and political superstitions that now muddle the minds of paper boys, professors and prime ministers alike.

The complete fallacy of the illogical land, labour and capital jargon is obvious once it is recognised that land is a passive element in production i.e. it does nothing, while capital is but an instrumental cause of products, devoid of any will and therefore neither can merit any reward from the market. Indeed it is quite impossible to find any basis for a market return to land or capital which are non-human factors. As the only agent in production man operates in three ways: as labourer by the output of his personal exertion; as investor by the output or

outlay of his personal property (capital); and as an associator through trade. Hence in the distribution of rewards which can be diffused only through market price, there is naturally a wage for his labour, interest for his investment and a profit for his association through exchange. Exchange, of course, creates no increase in products but it does create a bilateral increase in the use value or utility of existing products and this use value is the formal constitutive of wealth. However, the profit that accrues from exchange varies in accordance with the site whereon the exchanges are made and it is this differential in the profit of association that Henry George saw as rent.

It can be said that interest is a return to labour because it is the return for the human act of investment (extension of man's powers of reason and will) but not without destroying the necessary distinction between wealth and capital. It can be and more often than not, is also said that capital is not an original factor in production and hence there is no valid case for a return for its investment. But a little thought will show that although it is true that capital is the result of labour and therefore a secondary factor in production, it is true only in the technical sense. For it is obvious that without capital there can be no exchange and hence no economy, which makes it a most original factor in production and its investors fully worthy of their return from the market.

There is no war between labour and capital for market rewards. The real war is between capital and spurious capital. This war which makes current wage-regulation and indexation an utter farce is an evil that stems from the diversion of private incomes to public purposes, the conversion of public income (rent) into a field of investment *against* production and the consequent conversion of the earth from a source of all production to a source of speculation and economic confusion. All rewards owed by society are owed to man and they are distributed in money-price after society has evaluated the products (wealth) supplied to the market through man's operations as labourer, investor and associator. This natural price structure is regulated by the principle of competition exerted through the natural desire of all exchangers to save effort, by buying in the cheapest market and selling in the dearest. Hence any interference with competition immediately disturbs and distorts the natural equivalence between a multiplicity of diverse productive efforts and the power of human wisdom is not competent to restore it. Feeble and costly measures to substitute social security for social justice by re-distributing the economic cake through taxation, arbitration and welfare are examples of political deception at its worst.

In the language of economic distribution wages

is a word in common speech that comes close enough to the idea of the return to labour. And rent of ground-rent in common speech expresses the idea of the return that attaches to the site or territory of human association. But there is no word in common speech or in traditional economic language which comes near to the idea of the return to the investor of wealth outlaid in social co-production (capital). It is unfortunate that the word interest which has been appropriated for the purpose is hopelessly confused with the returns to the 'investors' of non-wealth or spurious capital. It is used not only popularly but even among economists to express as well as the return to investment in production the returns to 'investment' in *liens* on production and all kinds of tribute such as the unearned income from investments in land values or taxi licenses which have nothing to do with production. It also means all returns on invested money whether the investment be in real capital or spurious capital or whether it is simply money loaned to a borrower for gambling on poker machines or dog races. Little wonder then that interest has always been and still is a perennial contradiction in economic reality and a perpetual disturber of economic thought. Once interest is defined as the return on the investment of capital, an essential factor in the production of wealth, it cannot get muddled as an economic term with the non-economic payments made to a lender by a borrower. The latter are only mutual and legal transactions that are outside the scope of economic analysis. Even if there were no borrowers and lenders there would still be a market distribution of interest on real capital, just as there would still be economic rent if there were no tenants and still be wages if there were no employees. Waiting and abstinence also have nothing to do with the cause of interest. The only proper act of the investor is the investment or socialisation of his property for a time. Nor does interest include compensation for risk which is only an equalisation of returns between different employments of capital just as margins for skill are equalisations of returns between different kinds of labour.

And just as wages do not come from some mysterious 'wage fund' in the employers pocket but only from prices circulating in the market, so interest is not a payment made by a borrower but a social share in such prices. For real capital comes from the produce of industry not from loan funds in the hands of bankers. Bankers as such, are only bookkeepers and custodians of cash whose normal rewards for their work as bankers and not as pawnbrokers, come simply from a price paid for money. Even where there is an employer-employee relationship it is obvious that the employer must receive the wages from the market price of his products before he can pay wages to anybody—unless he wants to go bankrupt. The same is true of the borrower who must receive interest through market price

before he can pay 'interest' to anybody. Those who borrow for non-economic purposes such as gambling do not pay interest in the economic sense but only a price for the money received.

Coming now to the laws of distribution which are naturally laws of proportion in the sharing of the output of industry between wages, interest and rent, it has to be seen that these are not laws of man but laws of nature. That is not to say that the actual distribution of market rewards at any given time is not subject to the acts of our legislators. But as John Stuart Mill explained while actual distribution depends on the laws and customs of society, such rules being a matter of human institution, the laws of distribution are natural laws, not arbitrary rules. As Mill said, and I quote 'we have here to consider not the causes, but the consequences of the rules according to which wealth may be distributed. These at least, are as little arbitrary and have as much the character of physical laws as the laws of production... Society can subject the distribution of wealth to whatever rules it thinks best, but what practical results will flow from the operation of these rules must be discovered like any other physical or mental truths, by observation and reasoning'. (*Principles of Pol. Econ. Bk 11, Ch 1, Sec 1*)

The essence of what Mill was saying is that whatever the rules may decree, they cannot amend the natural laws of distribution for the very sound reason given by Henry George, viz. that in the ordinary course, things are not distributed because they have been produced but are produced in order that they may be distributed. Hence interference with the normal market distribution of wealth is interference with its production and its effect is shown in lessened production. Human law under the varying stupidities of politicians can wrest from producers some or all of the fruits of their labour but the nemesis that never falters where there is injustice ensures that if society violates the natural laws of distribution then society must take the consequences in economic and social disorder.

As I said earlier, the laws of distribution are laws of proportion determined by the principle of competition which is the natural regulator of price and dispenser of equitable shares in the social produce. Competition between producers for land determines the allocation of the share distributed as rent, as each producer pays for such use in accordance with the effort he expects to save because of the aid from society that attaches to his particular site. The payment of rent therefore, is not a payment at the expense of wages and interest but rather an equivalent which offsets inequalities in economic opportunity among producers. The residue, after the return to human association has been determined, then becomes divided into shares to wages and interest and such divisions will tend to be

uniform over the whole economy. For as we have seen labour and investment are but two species of human effort and the principle of saving effort provides that if wages get out of equilibrium with interest, then one form of exertion is discouraged and the other relatively encouraged and the level is thus maintained. So any tendency of interest to rise above its natural level with wages immediately begets both a conversion of wealth into capital and a diversion of industry from the production of consumer goods towards the production of capital goods.

Likewise any tendency of interest to fall sets in motion the opposite tendency and the diversion of industry away from the production of capital goods. Hence wages and interest under normal social conditions will rise or fall together according to the size of the marginal product after rent has been appropriated. It is as absurd therefore, to think of capital as the natural enemy of labour as it is to think of skilled labour as the natural enemy of unskilled labour. Both wages and interest are necessary to induce persons to labour and invest. Rent, on the other hand, is an impersonal return which must be taken as public revenue in order to preserve equity in the personal returns to labour and investment.

From the individual or mutual standpoint wages and interest are profits but from the social or economic standpoint they are costs, costs of production which society must pay in order to keep supplies of wealth flowing to the market. Rent being a surplus or differential over and above the cost of production, it is not necessary for inducing production. But where it is appropriated as private instead of public revenue it becomes a gilt edged field of speculation for gamblers who 'invest' in 'land values', thereby inflating the demand for land for productive purposes far beyond the normal level. This inflation of the normal rent line is the real inflation that swallows up all the economic growth arising from advances in science and technology, that would otherwise be diffused throughout society in wages and interest. Worse still, when the rent is not taken for public purposes government has no option but to turn to the legal robbery of taxation for its revenue and so society becomes condemned to an interminable cycle of taxation, speculation and inflation.

Only by removing the cause, the private appropriation of economic rent and the consequent speculative advance of land value that brings about a chronic devitalisation of the economy with recurrent periods of acute industrial depression, can these three great negations of the economy be stopped. And only then will society see an end to the degrading struggle between labour and capital (employer and employee) over a fair division of the wealth they have combined to produce, as it is obvious

from the very nature of the economy that there cannot be any conflict between them other than what is created by microgovernment and bureaucratic bungling.

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#### THE CANONS OF TAXATION

The best tax by which public revenues can be raised is evidently that which will closest conform to the following conditions:

1. That it bear as lightly as possible upon production—so as least to check the increase of the general fund from which taxes must be paid and the community maintained.
2. That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers—so as to take from the people as little as possible in addition to what it yields the government.
3. That it be certain—so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of the taxpayers.
4. That it bear equally—so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

Let us consider what form of taxation best accords with these conditions. Whatever it be, that evidently will be the best mode in which the public revenues can be raised.

(P 408 'Progress and Poverty' by HENRY GEORGE)

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1st Monday, 6 p.m.

Australian School of Social Science  
(No January meeting)

2nd Tuesday, 6 p.m.

Henry George Foundation and  
Association for Good Government.

3rd Wednesday, 7.45 p.m.

Social Science Club.  
(No January or February meeting)  
October meeting is held as the Henry George  
Commemoration.  
December meeting is held on 2nd Wednesday.

LAST Thursday, 6.15 p.m.

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