

October 12th 1984.

Dear Godfrey,

During my holiday which followed our meeting at Cambridge, I studied your Economic Manifesto and the accompanying paper on marginal labour and the right to work. Owing to various demands on my time I have been unable to get down to writing until now.

What follows is an appraisal of your material in the light of some of the latest thinking in London. First, as to the manifesto, "the earth is common heritage to all men."

Sure, but Man is a large concept and according to the Laws of Manu there are four orders of mankind, usually described in translation as the teacher, the ruler, the merchant and the labourer. Under the ancient system of laws, the land is vested in the ruling class, i.e. those to whom the rent is due. Hence the Ricardian principle that "rent is that portion of the produce of the Earth, which is paid to the landlord for the use of the original and indestructible powers of the soil." This accords perfectly with the ancient laws and with the writings of Sir William Blackstone on the laws of England.

The merchant class, the employers of labour, hold the land and direct its use, hence they have to know about agriculture, tending cattle and trade. Work of the character of service is the duty of the skilled artisans and labourers. One can readily see that this class working in the spirit of service would eliminate the causes of industrial strife.

To the merchant or employing class falls the duty of rendering unto Caesar that which is Caesar's, in other words paying the rent to the landlords. It falls upon them to enact the principle set out by Adam Smith and quoted in my paper at the international conference:

"The subjects of every state ought to contribute towards the support of government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state."

Here revenue means rent as it did to the French Economistes. Where there is no rent, there is no revenue and where the tenant of the land enjoys a large revenue under the protection of the state, then he is liable to pay tax in proportion.

From this one can derive a simple structure for the proper distribution of wealth:

To the landlord, the rent or return on land
To the tenant, the profit or return on capital
To the labourer, his wages or return to labour.

The element of profit is one that has not been much regarded in the School. But the fact is that at the margin the primary distribution of wealth is between wages and profit, defining profit as that part of the product due to improvements upon the land. The profit accruing to the tenant denies nothing to the labourer for without these improvements (such as equipment and buildings) it would be difficult for him to obtain his wages.

The primary distribution of wealth between wages and profit at the margin must be so, for by definition at the margin there is no rent. One could say, following the original notion in the School, that at the margin the product is wages. This is possible, except it allows nothing for improvement of the land which requires input of capital. One can, of course, designate profit as return on capital as some of the economists do. The rule about profit as defined by Adam Smith and David Ricardo is that there cannot be two rates of profit.

The foregoing comments cover your 2nd manifesto point, because the important thing about Man is not really that he is gregarious but rather that he is organised into a recognisable hierarchy: the spiritual aspect is covered by the teachers; the mental by the rulers and the traders; and the physical by the labourers.

Your third and fourth points then apply to men in their capacity as employers and workers. I would query the duty to keep unused land in good condition. This is usually done well enough by the powers of Nature unaided and in any case no one will expend effort on land that is not in use.

On 4 (iv), surely the duty is not so much to collect as to pay the full rent for land, whether occupied by individuals or corporate users. On 4 (v), certainly there will be a general duty to make unoccupied land available for those who wish to use it, but payment of the rent depends on there being rent to pay (in other words, at the margin where land is unoccupied the question of paying rent may not arise).

Under point 5, these duties fall upon the ruling class, including I would suggest point (v) above. When one speaks about the ruling class incidentally it is quite possible to have a democratic constitution - it doesn't necessarily mean an oligarchy. The organisation of most legislatures into Head of State, Upper Chamber and Lower Chamber is perfectly well adapted to the human hierarchy as Sovereign, Lords and Commons are in the United Kingdom.

Your point 7 does not give full recognition to the threefold distribution of wealth. The profit element gets lost somewhere in the rent. Rent is not really that part of the product facilitated by the existence of a community. It is that part of the product which expresses the difference between the product on one piece of land compared with another, with given quantities of capital and labour. This is the classical definition: these days one may say, as I did in my paper, that rent is measured by the differing rates of return on one site compared with another; there is also the possibility of measuring the rent according to the rate at which added value is generated, again with given quantities of capital and labour.

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Rent is related to the community only in so far as the existence and growth of the community brings into use land that is less productive, or to use the classical description, land on which the product is obtained with greater difficulty. That land on which the product is obtained with greatest difficulty is the marginal land and all measurement of rent is related to that. If one is advocating the collection of rent to fund the needs of the State, then one will have to offer first of all a way of identifying what is the rent and, secondly, a mechanism by which it can be assessed.

This is really the question you tackled in your paper. But I think the distinction between natural rent and economic rent is questionable. My sense of this is that natural rent is the rent attributable to the bare and unimproved land; economic rent is the revenue from improved land, in other words an amalgam of rent and profit. That, however, contains a potential muddle about rent, because whereas there can be land in use on which no natural rent arises, in the modern community there can be no land without economic rent or an element of profit due to improvements on the land.

That in turn leads the mind into the major error made by Adam Smith and which stopped him developing a satisfactory economic analysis: I mean his assumption that rent arises on all land under cultivation and therefore that rent enters into the economy as a component of prices. The truth is that much land is cultivated (or should be cultivated) free of rent, i.e. at the margin. Since prices are set at the margin rent cannot possibly enter into prices. As Ricardo correctly said, rent is entirely independent of prices or costs.

My comment would be, rather than introduce an additional and possibly misleading concept of economic rent, we should be absolutely clear as to what is the natural rent. The law of rent you quote on page 3 of your paper is accurate enough, but nowhere near adequate for a proper understanding of the question. For example, the Economics group I have been conducting in London has spent three terms - that is, a whole year - considering only the law of rent as set out by the classical school.

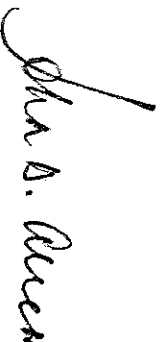
Your statement that the difference between economic rent and natural rent or the rent of land is accounted for by taxation creates the impression that the tax falls upon the rent which is diminished thereby. But surely the whole problem in economics is that no part of taxation falls upon the rental element. Surely the correct view of taxation falling on production is that, at the margin, it compels the producer to raise his prices to meet the tax and may thereby confer an advantage on the occupiers of more productive land.

Another way of expressing this is to say that taxation falling on employment and production may cause the marginal producer to fail, generating unemployment and enabling others to raise prices. If you will look at your diagram (Figure 1) again, this implies that taxation falls on the rent whereas in fact it falls anywhere but on the rent, for example on labour cost or raw materials or the finished product of industry. It would be most unfortunate if the impression gained ground that taxation falling on rent puts land out of production. This is the implication of your diagram as I read it, unless I have completely misunderstood what you are driving at.

Lastly, as to marginal labour can I suggest an alternative definition?

Marginal labour is that whose product can meet only its cost of employment (including income tax and social security charges). This is a reality in some industries in Britain, for example the railways where the whole of the added value is absorbed in meeting the gross employment cost. Hence the railways can show a profit only by means of the public service obligation grant currently running at around £750 million. The situation is similar in the coal industry, except that here the subsidy exceeds £1 billion! That is roughly equal to the total of employment taxes and interest charges paid to the government by the National Coal Board.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'John D. Allen', written in a cursive style.

JOHN D. ALLEN

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