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Commentary on Chapter 32

of

"ECONOMICS"

*"The pricing and employment of resources;  
Rent, interest and profits."*

by

Jackson and McConnell

By:

Graham Hart

The American author, McConnell, intends his title presumably to refer to all incomes other than wages. His article is noticeably silent on the subject of definitions; probably because, as he admits, "The economic theories .... are very unsettled: there are honest differences of opinions among authorities as to definitions, explanations and implications where non wage incomes are concerned."

It is virtually admitted that among empirical economists definitions are varied no doubt to suit the "unsettled explanations and implications" of the differing theories propounded.

It is not possible to deal with any subject on a scientific basis in this manner, nor is it possible to comment on the subject as developed by the author with any degree of certainty that precise communication is established with the reader. The only method that can be employed under such circumstances is to establish precise definitions and basic principles, which the reader can relate to the author's handling of his subject matter and make judgements accordingly.

1. In attempting the discovery of what is scientific, it is necessary to establish invariable phenomena and to distinguish such from the incidental and the variable.

It is claimed by empirical economists that political economy is not a science because it deals with human nature and human behaviour which is unpredictable.

There is, however, a constant factor which applies without exception to all rational human beings and upon which a science may be formulated. This is stated as follows, "All men seek to satisfy their desires with the least exertion." Desires include physical, mental and moral satisfactions and therefore:-

- i) Men will not use land of inferior utility while better land is available under conditions more attractive to them.
- ii) Men will always resist being unjustly treated, i.e. discriminated against compared with others more favourably treated and so obliging them to expend more effort to satisfy their desires.
- iii) Men will not work for others for lesser satisfactions than they can obtain by working for themselves.
- iv) Men will resist any infringement of their liberty or violation of their inherent human rights.
- v) Men will concede to others what they expect for themselves.
- vi) When governments permit some to live with less exertion, from the labour of others, who are forced to exert correspondingly more exertion for the satisfaction of their desires, this will not be accepted without protest by the underprivileged.

2. There are two basic factors in production - land which is the passive factor, and labour which is the active factor. The latter includes all the functions and faculties of hand and brain of those who manage and co-ordinate, work under the directives of others, or are self-employed.

The return for the use of land is rent, termed "economic rent" in order to make a distinction between the hiring of labour products which are often fixed to land in a manner which would destroy value if removed. For example, home rental includes the economic rent of the land and the hire or interest paid for the use of the building.

3. The product of labour applied to land is wealth which obviously must have the characteristic of satisfying desire, otherwise it would have no exchange value. It is possible that some wealth might satisfy the desire of the producer only, in which case it would have value only to the producer. This is not a normal occurrence and may be disregarded in political economy.

There are two kinds of value - value in use, such as air, water and sunshine; and value in exchange, which arises when there is a market demand for the products or services of labour or the advantage of exclusive occupation of particular land. Economists deal only with value in exchange.

4. Wealth may be directly consumed by the producer or used to increase the power of labour to produce more wealth which in a modern, sophisticated society is the normal method. In such cases, wealth is then termed "Capital".

There are three main ways in which capital is used:-

- i) As goods (or wealth) in the course of exchange. In specialised production which generally applies, sometimes called the division of labour, it is more economical to mass produce and exchange with others also specialising in a similar manner.
- ii) As goods produced to produce more wealth; for example, machinery which also economises in the use of labour and so reduces the cost of the product.
- iii) Specialised production has increased to such an extent, and consequently the number of exchanges necessary, that the whole object of specialisation could be defeated unless some means could be found to facilitate exchanges which are superior to barter.

To this end some labour is devoted to producing an intermediary commodity which is commonly accepted by producers at all stages of specialised production and also by consumers. This commodity may be used over and over again and, by its use, exchanges can be made at an infinitesimal cost compared with any other method. This form of capital is termed "money". It must have intrinsic value equal to that of the goods for which it is exchanged and must also have other qualities which need not here be dealt with.

5. The advantages to labour of using capital in the production of wealth are obviously so great that a considerable part of the labour force will specialise in the production of wealth to be used as capital.
6. Production is not complete until the product is at the point of consumption and all the labour devoted to:- i) handling goods in the course of exchange; ii) making capital equipment (machinery etc); and iii) producing and handling money required to facilitate exchanges is part of the productive work force.

The labour force so employed in producing wealth to be used as capital instead of for direct consumption must be fed, clothed and sheltered etc until the capital being produced and used, at length produces for consumption.

It is obvious that an inducement must be offered to compensate for the time factor, i.e. the ultimate delay caused by using capital in the processes of production. This is paid from the ultimate greater productivity which results from using capital in the processes of production.

When the cost of labour is high then it pays to use capital to a greater extent and when the returns to labour are low the inducements to use capital aids to production are reduced accordingly.

7. The returns to labour used to produce wealth directly for consumption or indirectly for wealth used as capital will rise and fall together, so also must the inducement required to compensate for the time factor involved in deferring the satisfactions which are the ultimate objective of production.
8. Not only has the employment of labour become highly specialised, so also has the use of capital become a highly specialised business. Capital, therefore, may be regarded for all practical purposes as a third factor in production.  
  
Rent is the return for the use of land as stated, wages the return to labour, and interest the return for the use of capital. This is generally accepted but a precise understanding of the terminology is not and, as the author admits, there is considerable disagreement.
9. The introduction of a fourth factor, "profits", when the factors of production are but three is a case in point. It is like stating that in mensuration there can be a fourth dimension. One can only speculate to find a reason for regarding profits as a factor in distribution. Are wages regarded as being restricted to the pay packet and to an employer-employee relationship? Self-employed people equally earn wages. Their incomes may also include an element of rent and interest, but to lump such incomes together and call them "profit" is misleading and incorrect.  
  
A large public company declares a "profit" in its trading accounts and pays a dividend which is usually a combination of rent and interest. The word "profit" may properly be used by accountants but it is not a term which features in the distribution of wealth in political economy.
10. It is possible that when Mr McConnell uses the word profits, he really means returns from monopoly. If so, he should say so. Wages are higher than they otherwise would be without the activities of Trade Unions.  
  
Interest is supplemented by manipulations of governments in establishing a public debt structure, in the planned inflation of a fiduciary currency and in forcing interest rates up by competition in the money market.  
  
Economic rent, however, is subject to higher returns from monopoly than the other factors. This is due to the superior bargaining power of landholders, who are in a position to exploit labour and capital when governments permit the private ownership of the rent of land which arises because of the presence and industry of the community collectively and the services of government.  
  
In a planned economy it is virtually impossible to determine what the relative returns to rent, wages and interest would be according to supply and demand and to what extent incomes are supported by monopoly or depressed by inferior bargaining power.  
  
Due to the teachings of Marx, who was not an economist in the scientific sense of the word, "profit" has come to be regarded as a dirty word, synonymous with exploitation. This would support the opinion that when the word "profit" is used the returns from monopoly are really implied and not a combination of the three essential factors in distribution.
11. Mr McConnell makes the same mistakes as do most critics of Henry George. They do not understand his proposals or the economic implications.
12. There is an obsession among empirical economists that land is totally fixed in extent, whereas labour and capital are assumed to be in almost unlimited supply, because the desires of man are insatiable.  
  
Land in a physical sense is fixed in extent but availability is a very different matter. While land may become the object of monopoly and speculation despite, as the author admits, it has no cost of production, the artificial limitations to supply are greater than the physical ones. This has an enormous bearing on the distribution of wealth.

13. The participation of labour and capital in productive enterprise on the other hand is limited, to a very considerable extent, to those who are willing and have the opportunity to work and invest their capital under the artificial conditions imposed. Some incomes are loaded with the returns from union-imposed monopolies. Others are limited to the dole without labour expended in exchange. Others who can live from the proceeds of land monopoly have no need to work at all.
14. The returns to rent, wages and interest should be fixed by supply and demand in the free market. If this was so, when land is monopolised as at present and in the absence of the counter monopolies, wages and interest would be at, or near, subsistence level and interest little above the replacement level of capital.
15. The subject cannot be examined with any degree of coherency without consideration of what the early classical economists declared to be the "iron law of wages". They considered that the pressure of increasing population and the "miggardliness of nature" would reduce wages to bare subsistence level.
16. Henry George demonstrated the cause to be the superior bargaining power of land-owners compared with labour and capital and that equal bargaining power could only be restored to the three factors involved when economic rent is taken for public revenue and taxation abolished.  
  
It would then not be profitable to withhold valuable land from use and landholders would be obliged to compete with each other for labour and capital, or dispose of their holdings to those willing and able to use them.
17. The marvels of modern science and technology have effectively disposed of the "miggardliness of nature theory", and the pressure of population against fixed resources would reduce quite dramatically as such resources, physically fixed as they may be, were made available to those who need them, free of tribute to the land barons.
18. Henry George demonstrated that production increases with the division of labour and that, when the returns to labour are low, population increases as if under Divine order to increase the rate of productivity and so relieve poverty.
19. José de Castro further explained how this provision operates. People in dire poverty are obliged to exist on a protein-deficient diet, which appears to stimulate the reproductive functions. Such decline as a protein balance is reached. He produced a graph to demonstrate his theory.
20. Henry George drew attention to the effect of education, showing that as the higher faculties of the mind develop so the rate of reproduction declines. This can only happen when there is a just distribution of wealth.
21. It could be further stated that as the justice of equal opportunity for all mankind to the natural forces of the earth are restored then involuntary unemployment would be impossible. Men being always assured of the opportunity to work could lose the fear of insecurity and would cease to scramble for more wealth than they had need of, so more time would be devoted to the non-commercial, higher aspirations of mankind, thus relieving unnatural pressures on "fixed" physical resources.
22. The writer has never read a critic of Henry George, even those favourably disposed as Mr McConnell appears to be to some of George's teachings, who fully understood his basic philosophy.
23. Critics looking at the visible rental value of land under present conditions declare that a "single tax" on the value of land, or as we prefer to call it, collection of economic rent for revenue, would be entirely inadequate for even the barest necessities of government.

23. It is a simple mathematical proposition that if labour and capital are, because of inferior bargaining power, receiving incomes little above subsistence level and the replacement of capital, then taxes based in one respect or another on production and exchange, will not be absorbed by labour and capital as a further reduction of incomes already at the minimum, but will be passed on as wage and price increases until finally absorbed at the expense of rent.
  24. All taxation, therefore, including the higher returns to the counter monopolies, ultimately are at the expense of rent and tax reductions would be to the advantage of rent.
  25. It follows that in a Georgist form of government public revenue would be equal to the present sum of taxation, plus rent remaining with land-owners, rising as production increased and monopolies were reduced and falling as the bargaining power of labour and capital improved and eventually equated with that of landholders. This is clearly demonstrated in "Progress & Poverty" and particularly featured in Book VI, Chapter 1.
  26. Another area in which George is imperfectly understood is his endorsement and explanation of Ricardo's Law of Rent from which he derived the Law of Wages & Interest. It was originally stated that rent depends on the margin of cultivation falling as the margin rises and rising as it falls. Later, and in keeping with industrial development, the word production was substituted for cultivation.
  27. Today, in keeping with the enormous disparity between minimum and maximum incomes, there is a demand, generated by the privileged classes, for land based on a commercialised assessment of aesthetic considerations (river and ocean views, panoramic landscapes etc) and the Law of Rent might well be rephrased as follows:-
  28. Rent depends on the margin of production (which includes rural production) and the satisfaction of desires having exchange value.
  29. The rephrasing is really only a matter of clarification. All production depends on the basic industries, agriculture (including animal husbandry), mining and fisheries; the secondary and service industries exist from the surplus products of the basic industries. On average the satisfaction of desires must relate in the last analysis to the conditions of production.
  30. From the foregoing Georgists accept that the rent of any piece of land depends on the excess of its produce (the ability to satisfy desire) compared with what the same application of labour and capital can secure from the least productive land in use.
  31. Further misunderstanding of the Law of Rent has arisen by making an over-rigid interpretation of the words "the same application" (of labour and capital). We are told that the same application cannot be applied to land put to different forms of use, comparing farm land with land used for, say, a suburban shopping centre or a multi-storey city building. Of course it cannot in a physical sense! Clerks or shop assistants could not be set to work on a wheat farm, or farmers to growing wheat on a city lot.
  32. Obviously, a common sense view must be taken. The Law of Rent as stated means what the same application of labour and capital, in terms of value in exchange established in the free market, could secure from the least productive land in use.
  33. Some people even object that land used for residential purposes bears no rent because it is not used directly for production. If this could be accepted then Ricardo's law would be totally impracticable.
- Residential land plays a definite, though indirect, part in production. There could be no industry if the work-force had nowhere to live and proximity to the job saves the cost and time involved in travel; densely

- settled residential land adjacent to the centres of industry is valued in the market accordingly.
33. Those who can afford it, prefer to live in outer, more attractively developed suburbs and others again elect to live in a rural atmosphere and to work adjacent to where they find it more pleasant to live and rear a family, or will accept the greater distances in travelling to their place of business. This is all marvellously adjusted by the law of supply and demand in the market.
34. Some land is used partly for residential and partly for industrial or commercial purposes as the case might be, with some architects and planners, who can work effectively from home and travel to meet clients and inspect their projects.
35. This objection also is clarified by the proposed inclusion of "the satisfaction of desire" in the statement of Ricardo's law. It is the potential value of land for the purpose or functions to which it is most suited rather than the precise use to which land is put that is important.
- As population increases and technology develops, land will become more attractive for other forms of use and improvements, as we know, may become a liability. This also is adjusted in the market.
36. Even if it was conceded that the law as formulated is difficult to follow, or in fact is difficult to define, there is not the slightest difficulty in explaining its meaning by example.
37. A wheat farmer working on marginal land can secure, say, 20 bushells of wheat to the acre. There is no rent to be paid; obviously the return is for wages and interest, bearing in mind that his productive outlay is:-  
a) labour, and b) seed, super, machinery, fuel, transport, costs for bringing in supplies and delivering the harvested crop to the point of distribution; all of which involves the use of the farmer's own or of hired capital.
38. Compare this operation with a farm located on the best land, as to fertility of soil, reliable rainfall, proximity to markets and living amenities generally. Application of the same exchange value yields 60 bushells to the acre. The farmer can earn an equivalent living or satisfactions by paying the additional 40 bushells, which is the value of rent for the use of better land.
39. "The same application" is used as the yardstick to measure the value of land. Its components will nevertheless be quite different. In the case of the 60 bushell farmer, less super and seed in relation to yield will be required, his transport costs will be lower etc.
- In fact, the labour-capital ratio will vary in every particular form of industry and in each individual enterprise. No-one, however, will be prepared to hand over two-thirds or indeed any proportion of his output unless he sees an advantage, a desire satisfied, by so doing.
40. An astute businessman will think carefully about the location of his factory site before proceeding to develop fixed improvements which might not be suitable for a subsequent change of use. For this reason, some will prefer to operate as tenants and pay rent to others.
41. Some and indeed most forms of industry cannot operate profitably on marginal land. The retail trader, the stockbroker, the doctor, the veterinary surgeon, the motel proprietor, the builder, the light industrialist, or those who cater for heavy industry, the farmer, the automotive vendor or service mechanic, all see particular advantages in different areas and location and in competition with each other fix the rental value of the land most suited to their particular use.

42. Looking further into the case of the wheat farmer and including a third example of land that will yield, say, 40 bushells for the same application, distribution will be as follows:-

production yield and distribution to rent, wages and interest  
expressed as bags of wheat will be:

	<u>Rent</u>	<u>Wages &amp; Interest</u>	<u>Yield</u>
Example 1	Nil	20	20
Example 2	20	20	40
Example 3	40	20	60

43. Expressed another way it will be noted that in example 1, 100% of the product goes to wages and interest; in example 2, 50% of the product goes to wages and interest; and in example 3, 33 1/3% of the product goes to wages and interest.

The cost of the product, however, remains the same in all cases. People will not pay more for the same product just because higher rents are incurred.

44. The payment of rent then does not add to price, it is nevertheless an element and indeed even a major element in the cost of production in all areas of production other than on marginal land.

This is because the use of better land make the employment of labour and capital more efficient. Rent is paid then for a service rendered just the same as are wages and interest.

45. If lower wages are paid for equivalently less effective skills, there is no price reduction. If lower rents are paid for land of inferior quality or location, there is no saving in cost.

46. It is, therefore, stated that under equitable conditions rent, though included in the cost structure, does not add to price.

47. Economic rent may be taken in total for public revenue without adding to production costs. It is of no concern to the land user (assuming in this case for the sake of clarity that he is a tenant user) whether he pays land rent to the state or to a private landholder.

48. It will be seen from the foregoing illustration that wages are fixed at the margin of production (or satisfied desire). The only way to raise real wages, therefore, is to raise the margin or if by the pressure of increasing population and advancing technology the margin falls then, when there is maximum incentive to produce, the division of labour (specialisation) increases the output per unit of labour and capital.

49. When much valuable land is held idle for speculation, available supply is restricted and the pressure of population and technology lowers the margin, wages fall as a proportion of the product.

50. Taxation, waste, and monopolies divert the natural distribution of wealth as well as discouraging production. It is not the market value of labour which falls due to such factors but the margin rises as the pressure on land falls because of lower production; the margin rises and rent falls.

51. Wages which are already at or near subsistence level, (disregarding trade union and other monopolies) cannot ultimately be lowered by taxation etc and are not greatly affected. It is rent that falls.

52. Real wages can only rise when the bargaining power of labour improves and this in turn can only happen when rent is diverted to revenue.



53. John Stuart Mill correctly observed that no-one could forecast the result of any legislation who did not understand the Law of Rent. (inter alia)
54. Mr McConnell has attempted to deal with related subject matter without even a passing reference to Ricardo's Law. There is no recognition that when the community value of land is not taken for public revenue, when consequently land speculation, monopoly and the withholding of valuable land from use is tolerated as a normal way of life, landholders - because of superior bargaining power - will have first claim on the products of labour and capital leaving only to producers a bare level of subsistence, comparable with what can be earned from an unnaturally depressed margin of production.
55. To restate the laws governing the distribution of wealth:- Rent depends on the margin of production (as clarified) rising as the margin falls and falling as the margin rises.
56. Wages and interest (taken together) depend on the margin of production rising as the margin rises and falling as it falls.
57. Under present conditions, returns to labour and capital are augmented by returns from the counter monopolies, but the price paid is industrial lawlessness - crime, vandalism, the exploitation of cartels, and the rapid drift towards either a fascist or communist form of dictatorship.
58. Does anyone doubt the power of land dealing to exploit? If so, let him pick up any newspaper almost at random. \$5.5m paid for 2½ acres of land at Mosman Park\*, more than \$9m paid for Moores department store, \$3m more than the vendor expected, sold because the proceeds are tax free whereas not even bank interest subject to tax could be earned from the property as a trading concern; \$1.6m made by holding the Esplanade Hotel site vacant for a few years.
59. Multiply these three examples that come to mind with the land dealing (not the poor man's sport) that goes on daily throughout the Commonwealth, without comment or recognition of its significance in depressing the returns to labour and capital; the enormous prices paid are the future value of capitalised rent.

\* In this case, the Western Australian Government owned the land and the unearned increment passed to the people to whom it rightly belonged in the form of capitalised rent. It has been customary to capitalise rent at 5% without allowing for inflation or the higher price paid as a hedge against inflation. Disregarding such considerations, the visible value of rent (potential, in this case) would be:

$$\frac{\$5,500,000}{20} = \$275,000 \text{ per annum}$$

Such a high rental would be uneconomic for productive use, but could be marketable for the satisfaction of desire of wealthy people who are willing to pay for river views and social class distinction. The land is obviously loaded with capitalised expectation of rising future value and because its price will rise with inflation.

Had rent been taken for revenue years ago, this class of land would have been fully developed by now, because it would have been uneconomic to keep valuable land underdeveloped for a long period. The suburban sprawl which increases the cost of public services also would have been avoided. The best land within the marginal perimeter would be put to use before less desirable land was developed, as the market would determine.

60. Land price is multiple of economic rent less public charges, i.e. that part of rent remaining with the landholder. The multiple is usually governed by the net return for the use of capital or other forms of investment, adjusting for inflation, risk and the consideration of future gains. If such were assessed at 5% then the multiple would be 20. When there is an expectation of unearned future gain the multiple can be much greater.
61. If the whole of economic rent was taken for revenue, the multiple would be nil and land price, therefore, would disappear. Under present conditions, a capitalised selling price may attach even to marginal land, despite the fact that economic rent is NIL. This is in expectation of future gain.  
  
This consideration would disappear if it was known that when real economic rent did appear it would be taken as public revenue.  
  
Economic rent is fair market value at the time based on utility. It is increased by artificially created scarcity. Capitalised rent, however, responds also to other factors as we have seen in anticipation of increases in population, advance in technology, and correction for reduced money values due to inflation.
62. Economists attempt to explain "economics" in terms of fiduciary currency which we have seen is not capital and the returns from which, therefore, are not real interest but are the returns from another form of monopoly.
63. Apart from criticisms of George, based on lack of understanding of his proposals, the main objection usually is based on sympathy for newcomer land speculators, who have bought at inflated prices which would decline as rent was taken for revenue.
64. Such people have taken a calculated gamble that the government will not, in the time during which they expect to cash in, take for public revenue what rightly belongs to the people - the socially-created rental value of land. Those who gamble on horses and lose cannot expect similar sympathetic consideration.  
  
Investors in government loans take a comparable risk. Such loans are backed, not by real capital, but by a solemn undertaking that the wealth of future generations will be confiscated by taxation to repay the loan with "interest". Future generations may not be so gullible and have a moral right to repudiate such arrangements since they were not consulted in the deal.
65. There is little or no consideration for young couples struggling under impossible conditions to start a home, running the gauntlet of land speculation, tax gatherers, and interest payments which will more than double the cost of the land before it is paid for, oblige the wife to go to work and "defer" the rearing of a family till the "boat comes in".
66. It must never be forgotten that wages are the earnings of labour and an employer-employee relationship is not necessarily involved; that rent is a return for the advantage of the exclusive use of a particular piece of valuable land (collectively of all valuable land), a landlord-tenant relationship is not necessarily involved; that interest is the earnings of capital and a borrower-lender relationship need not exist.
67. It is a fortunate circumstance that there are borrower-lender, employer-employee, landlord-tenant relationships which assist in registering the market value of interest, wages and rent as such are involved in the production and distribution of wealth.

68. It is a major problem that opportunities are available for investment in land and, since all forms of investment are interchangeable, those requiring the use of capital must compete with the returns from land speculation. Investment opportunities also are available for dealing in fiduciary currency and other forms of monopoly which complete with investments in genuine productive industry.
69. There are serious misunderstandings among economists regarding the circulation of fiduciary currency and one hears complaints on occasions of money lying idle in banks, with exhortations for governments to take some form of artificial action to "make the money circulate". No such considerations can exist with regard to real money which is capital and functions similarly to the flywheel of an engine to cushion the effects of acceleration and deceleration, i.e. the transactions between borrowers and lenders. The majority of commercial transactions are by bank entries in credit and debit accounts and do not involve the use or the circulation of currency.
70. Real money is in competition with other forms of real capital and, unfortunately, with the monopoly forms of investment.
- Fiduciary currency is backed similarly by government guarantees to tax future generations, otherwise it would not be accepted. Real money requires no guarantees or artificial manipulation.
71. It is an historical fact that not in the past fifty years, or even much longer, has a government been elected that could be trusted with the handling of a fiduciary currency. Temptations to inflate are created by the taxation and electoral systems, but mainly by the failure to collect economic rent for revenue which is basic and anterior to other pressures.
72. The method of raising public revenue by taxation has three major defects:-
- i) Taxes raised on the processes of production in any form have the effect of discouraging production by creating disincentives and so drying up the source or the revenue base of taxation. For this reason, taxes must continually be increased to obtain the same net revenue.
  - ii) Governments, especially in the socialist society which pertains at this time, are extensive users of the products of industry and, since taxes increase prices and hence wage demands, governments are placed in the position of buying back or paying for a substantial part of their own taxes.
  - iii) The failure of governments to collect the rent of land as their natural revenue causes unemployment and hence the need for the welfare state, which in turn involves the employment of a welfare army which diverts workers from productive industry, in addition to the direct payment of unemployment relief, together with the loss of productivity of the unemployed themselves.
73. Under the foregoing circumstances it is virtually impossible for governments to balance their budgets, except on odd occasions, without recourse to inflation which is a further tax on the poor and rich alike.
74. Once governments practise a hand-out form of administration, then political parties vie with each other to increase such hand-outs in order to buy votes at election time and so the dog never succeeds in actually catching up with its tail.
75. With inflation comes the unnatural impetus given to speculating in land because this is the most effective hedge against inflation, maintaining and increasing in value as the currency is debased.

76. People look at the activities of the spectacularly successful land speculator with hardly a passing thought except to "wish it was me". But it is them, in reverse. Those who live without producing wealth or performing service must live on the labour of others.
77. Under present conditions, the high and increasing rate of taxes which continually apply, ultimately, are at the expense of the land-owner and therefore are necessary, as a choice of evils, to prevent rent and land prices rising even higher than otherwise would be the case.
78. Under conditions which permit the private appropriation of economic rent, the bargaining power of the land-owner must always be superior to that of labour and capital, which will be forced to, or near, subsistence level (subject to the counter monopolies). It follows that increasing taxes cannot and will not be paid from the already depleted incomes of labour and capital.
79. The only other source of taxation is rent. Georgists propose to take rent directly for revenue which stimulates, as we have seen, the incentive to work and achieve. Our opponents propose to take it indirectly as taxes. It follows that taxation is really only an indirect, stupid, inefficient way of collecting rent for revenue and in the process destroying moral concepts of right and wrong: of mine and thine, of ours collectively, and of theirs as individuals.
80. History teaches that civilisations so based have never survived and neither can this one. Government by statute law in conflict with natural law has no more chance of survival than would an industry which persisted in ignoring the laws of physics and chemistry.
81. The student should bear in mind that it is not the industry of labour from which wages are drawn but the industry of labour working effectively for the satisfaction of desire, the value of which is measured in the free market not in the arbitration court.
82. It is not the added value which the use of capital returns to make labour more effective, which is true interest, but rather that part which according to supply and demand the market determines is the reward of capital. Neither is it the added value which the use of better land yields to the more effective application of labour and capital but rather that part which accrues when the bargaining powers of the three factors of production are on a level of equality.

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