

ENGINEERED PROGRESS

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THE CONTRAST, between rapidly accelerating progress in engineering and other technical matters, and increasing confusion in economic and political affairs of recent years, has led many to conclude that man's technical progress menaces his very existence. These people would like to call a halt to science. Few have tried to seek reasons for the contrast between progress in science and lack of progress in human relationships.

There is in this field much room for thought—it may indeed be that the reasons for the contrast are in fact just differences in ways of thought in engineering and science, and ways of thought in other fields.

Every engineering plan is a forecast. It is a forecast that forces will be of certain magnitude and that materials will act in certain ways. In other fields of human endeavour forecasts are notoriously risky. Why are engineering forecasts almost invariably correct?

I think the answer to this question is that the engineering planner studiously avoids wishful thinking. He earnestly seeks the truth in regard to the forces that will affect his structures or machines and the strength of the materials which will resist those forces. He seeks out and applies the laws of nature. It does not even occur to him to question the fairness or unfairness of the laws or phenomena, or their political acceptability. He knows that in nature there are no rewards and no punishments: there are only consequences. Errors of thought in science once detected are soon discarded, and are seldom if ever revived. That is not the case in economics.

A hundred years ago, Buckle, in his *History of Civilisation*, was confident that the fallacies of protection had been so fully exposed that they would never again delude enlightened men. He would have been astounded could he have known that, in the twentieth century, trade between the great nations of the world would be strangled by tariffs, embargoes and restriction to the extent we find it today. We conducted trade wars with our closest allies—even with Britain whose strength was absolutely essential to our security. We as *individuals* gladly sent scores of thousands of food parcels to Britain, but as a *nation* do our best to build up local industries under high tariff protection and so leave as little opportunity as possible for British manufacturers to sell their goods in Australia.

We Australians should take that admonition well to heart. How few, how pitifully few, men and women in Australia have the initiative and the courage to say publicly or write anything that is either critical or commendatory about the policies or actions of their governments! Would it be one in ten thousand? I doubt it.

When governments have planned and announced highly

controversial actions that have had the most serious consequences on the lives and fortunes of Australians, people protesting have been told to "keep out of the ring" and they have kept out. The sturdy independence on which so many pride themselves simply does not seem to exist. Someone has said that Australians are a race of "knockers." Except in the realm of sport—for great sportsmen are given real honour by all—Australians seem to delight in pulling down those who rise above the crowd—in intellect, in business or in politics. There seems here to be a complex against success and against profits, and that is very bad for the community—perhaps the absence of such a complex in America is one of the reasons for the remarkable development of that country.

Although not written that way in the standard textbooks on economics, I think it can be readily demonstrated that fundamentally wages are a share of the profits. It should be self-evident that there is no crime in profits. Condemnation of profits usually comes from those who have never made any profits, and who have no very clear idea of what profit really is. The real cost of production is the material used up in production. The surplus over the real cost of production is all profit and it is divided between the worker who receives wages, the investor who receives interest and the land owner who receives rent. If there is no profit, there can be no wages, no interest and no rent.

The profit motive—human desire—has not only made possible the amazing human progress recorded in history, but has been the basic cause of that progress. Without a profit motive there could be no material progress; in fact, no desire for any progress. The desire for increased wages by an employee and the desire for better returns from an orchard or farm is nothing more nor less than the profit motive. Acquisition or the receipt of something, whether wages or dividends, is in itself neither good nor evil. The good or evil is in the way the thing is acquired and in the use that is made of it after acquisition. The real issue is "has value been given for value received?" There could never be something for nothing. If anyone appeared to get something for nothing, it was because someone else was getting nothing for something. What I would call legitimate profits were not something for nothing.

Henry Ford, for example, gave to the world a new era, and he sold his cars in free competition with the world. He had no monopoly privileges, no subsidies and no tariffs enabling him to charge more for his goods than they were worth. People willingly paid his price for his cars and were satisfied when they had obtained value for their money. Henry Ford's profits were legitimate profits. His

desire for those profits had meant a material advance in the standard of living of millions of people throughout the world.

But there are other profits which I would not call legitimate profits, for they have been obtained as a consequence of giving nothing for something or of charging more for articles than they were worth, which charges have been made possible as a result of the total or partial exclusion of competition by tariffs, import licences or other legal privileges. It is unfortunate that the term "profit" is generally applied to all gains whether they are earned or unearned. For example, the term "profit" is used when referring to the unearned increment obtained by land speculators who have bought up suburban or country land and held it unused for later resale at enhanced prices. The gain or profit which these speculators receive is frequently very large indeed.

Unearned increment is always paid in toil and sweat by someone, yet people have seldom questioned the common sense or the morality of legal or political systems that not only permit unearned increment to go into private pockets but make it unavoidable. The amounts involved are colossal, but there are no officially kept statistics available to show up the tremendous burden that is carried by the community. There is room for fact finding and clear thinking in this field.

We then come to what I regard as the most vital problem of all—and it is one to which absolutely no attention appears to have been given—probably few people realise that it even exists—and that is the problem of ensuring that—at least broadly—those who meet the cost of developmental works receive commensurate benefits. In these days of complex and often tangled public finances, with subsidies and grants, direct and indirect, from revenues and loan funds, it is not easy to relate benefit and cost, but I have no hesitation in saying that a great deal of governmental expenditure can truthfully be described as "public expenditure for private profit." I do not suggest for a moment that there is anything in the way of intentional corruption in such expenditure or even that those who authorise it do so with the knowledge that much of that benefit will be capitalised in urban and rural land values and pocketed by the fortunate owners when the lands concerned are next sold.

Few people have given any thought as to what constitutes land values. Those who talk and write so much of costs of production and in their figures include what they call interest on the "value" of land, betray their shallow thinking at once. It is not easy during a time of inflation to separate increases in land value which are due to a reduction in the purchasing power of money from increases due to real increases in values and prices of products, increases in population and consequent demands for land, increases due to public works and facilities or even increases due to scientific discoveries.

It may startle many to know that the success of the myxomatosis campaign will cost the state many hundreds

of thousands of pounds in the increased prices which the State Rivers and Water Supply Commission is having to pay for land being resumed for the Big Eildon Reservoir. These increased prices are not unreal but are the natural results of the increased carrying capacity of lands from which rabbits have been practically eliminated as a result of the introduction of myxomatosis to the district.

A generation ago there were similar spectacular increases in land values when the possibilities of superphosphate were discovered.

We can be proud of the results of scientific discoveries, but we may not be quite so happy when we realise that as land values go higher and higher it becomes more and more difficult for newcomers, or even the sons of our own farmers, to become land owners. Natural closer settlement of agricultural and grazing lands by private subdivision and private purchasers becomes more and more difficult for buyers to finance because of high land values, and government closer settlement by compulsory acquisition becomes more and more costly to the state for the same reason.

These high land values put an increasingly severe brake on practically all development aimed at expanding production. They are real enough, and the land owners concerned are in no way to blame for wanting full market value for what they sell.

The defect is in taxation and rating systems that fall heavily on production and leave practically untouched the unearned increases in land values that are the inevitable result of developmental works and other activities carried out largely at the expense of the general taxpayers of the community.

Great truths are fundamentally simple, and in a democratic community men have only themselves to blame if they are unwilling to give any thought to economic problems that have such far-reaching effects on their lives.

BURDENS ON THE USER OF LAND

As a matter of fact, the owner contributes nothing to local taxation. Everything is heaped on the occupier. The land would be worthless without roads, and the occupier has to construct, widen and repair them. It could not be inhabited without proper drainage, and the occupier is constrained to construct and pay for the works that give an initial value to the ground rent, and, after the outlay, enhance it. It could not be occupied without a proper supply of water, and the cost of this supply is levied on the occupier also. In return for the enormous expenditure paid by the tenant for these permanent improvements, he has his rent raised on his improvements, and his taxes increased by them. — Thorold Rogers "Six Centuries of Work and Wages."