Part 1

NOTES FROM HISTORY

A very brief history of economic conditions will help to see where economic thought has come from, and a good starting point is Feudalism.

Feudalism which grew up in the Middle Ages was based upon the tenure of land. In theory every metre of soil was the property of the king. Estates were granted by him upon recognized conditions. The King's men in their turn granted portions of their estates upon like conditions. Except the king, everyone was a vassal of someone.

The primary condition of holding land was the rendering of military service. On the continent of Europe it was generally held that the vassal owed allegiance only to his immediate lord. In England, the allegiance to the overlord prevailed over the allegiance to the immediate lord. Hence today's judicial system of appeal to higher courts.

The English Law of Property Acts 1925 abolished the remaining relics of feudalism.

For security of tenure on their land plots and the use of common lands, the lower classes rendered service to the lord of the manor who in turn rendered service to someone who held higher rank until the service reached the king. Feudalism in principle was administered as though land tenure was common to all and there are still many places in English towns and villages called commons. The service which was rendered constituted what we now call the rent of land sites.

James Edwin Thorold Rogers in "Six Centuries of Work and Wages" points out that feudalism in a way was a golden era. In 1495 real wages were three and a half times those of 1770. There was practically no unemployment or poverty. People were independent, they spun their wool and wove their cloth, they tended their animals and crops. Cottage industries and rural pursuits were labour intensive and people kept busy.

There was little taxation, in 1340 a small wool tax and in 1377 a poll tax in lieu of the original service conditions. There was no need for welfare as families and villagers were able to look after their own.

During feudal times religious orders had been enclosing common lands for their monasteries and convents and from Tudor Times, 1485 onwards, English parliaments passed Enclosure Acts which whittled away many of the lands held in common. These Acts gave some people the privilege of enclosing common lands which thereafter were recognized as private land holdings. The landholder could then acquire more land than he could work himself and employ those who had become landless through loss of their common lands. Or, if the landholder did not want the responsibility of employing people, he was free to rent the site to the landless. The Enclosure Acts therefore changed the whole concept of land tenure from common to private tenure. They created a landholding and a landless class. They created the employer and the employee, the rich and the poor, the "haves and the have nots", the privileged and the enslaved. From 1760 to 1841 4200 Acts enclosed 2,800,000 hectares.

Land enclosure also became the system of land tenure throughout Europe.

The late 15th century began a time of great exploration and colonization from England and Europe which opened up new lands in nearly every country of the world. The colonists took with them the private land tenure system of the countries from which they had come. Philip Carraman in "The Lost Paradise" gives a detailed account of the Jesuits who had extensive missions in Paraguay for some 150 years. These missionaries tried to preserve the tribal economy based upon land held in common but they were forced out completely in 1776* by the Portuguese who wanted to sell the natives as slaves and the Spanish colonists who wanted to enclose their lands.

Across the Pacific Ocean D.G.E. Hall in his monumental work "A History of South East Asia" says: "In the earliest communities, of which we have evidence, land ownership was communal. ...This seems to have been the pattern throughout the whole of societies which came under colonial rule. Hence the economy of native societies altered from one of independence to subservience; self employment to dependence upon employment from colonists who had taken over their lands. Poverty was unknown until the European economic system was imposed".

Our present economic situation is based upon the inheritance of private land holding and collection of rent which caused the breakdown of feudalism and native societies. The monopoly of land enclosure led to other privileges and monopolies such as the right to sell salt which Ghandi campaigned against in India, a licence to conduct a television or radio outlet, or to produce eggs or sell alcoholic beverages, or to import or export goods. These man-made concessions to some are not found in nature and they constitute *an artificial economy superimposed upon the natural economy.*

This artificial economy is an attempt by man to have dominion over or to try and conquer nature instead of cooperating with his natural environment. By this policy of razing forests and wasting resources we have despoiled much of our natural habitat and with unnatural privileges we have despoiled the natural economy.

The enclosure of land to private holders continues apace. Every time a government authority sells off a site it becomes enclosed enabling the title buyer to collect its rent for ever and ever.

Compared with the developments in the physical sciences and technology over the past 250 years, especially over the past 100 years, economic history is interesting not because it has shed light on basic economic problems, but because it has *failed to do so.* Today, more than ever before, there is a greater awareness and use of welfare to distribute wealth more equitably, but the development and consequences of this welfare has posed many problems. Taxes have to be raised to pay welfare in addition to which further taxes have to be raised to cover the cost of raising the taxes plus the cost of distributing to the recipients. Welfare payments create as many or more problems as they solve.

There is still a need for in-depth research into national economies, especially the source of revenue; where best it is to come from; what proportion of a person's income a government can take in taxes, and is there any limit to the proportion. People are not satisfied with the gap which occurs in the incomes of people; some are very rich and some are very poor. Is

This opposition of the Jesuits led to their suppression in 1776. They were reinstated in 1814 by the Bull of Pius VII.

the welfare state a first step along the road towards a better economic system?

Modern economics, we are led to believe, began with Adam Smith, often called the English father of economics. Research however discloses that in 1764 Adam Smith travelled extensively, met and was influenced by many thinkers of the day, including Voltaire, Quensay and Turgot. Whilst in France he began writing "The Wealth of Nations" before returning to England in 1766. Prior to these travels Adam Smith had studied at Glasgow and Oxford Universities. Later in Edinburgh he had lectured and made his name in Rhetoric. In 1751 he was appointed Professor of Logic at Glasgow and was translated to the chair of Moral Philosophy in 1752. All this came 22 years before he published his work on economics. He enjoyed wealth, high esteem and great respect for his views throughout the British Isles.

Andrew Skinner in his introduction to the Pelican issue of "The Wealth of Nations" points out that there is much evidence that Adam Smith owed much to Quesnay, Turgot and Voltaire who were members of a French group who called themselves The Economists or The Physiocrats. This group believed in government by natural order - *physiocracy*. They looked for natural laws to do with government and government economy - political economy, the economy of a state or nation.

It was the Age of Enlightenment when thinkers were discovering natural laws of the physical sciences. Lavoisier, the man who discovered oxygen, was one of the Physiocrats, and he is recognized as the father of modern chemistry. Quesnay was physician to Louis XVI; Turgot became his minister of finance in 1774 and he tried to effect economic reforms suggested by the Physiocrats. As a result and unfortunately for France, he was removed by Louis XVI in 1776 when the nobles, the privileged class, who paid no taxes, objected to his policies which required them to contribute some revenue to the king. There is much evidence to suggest that their refusal hastened the French Revolution.

Adam Smith was familiar with these events, and it seems that he understood the physiocratic approach to economics. He saw what happened to their members, their fall from power and influence, and he must have realized how personally dangerous this philosophy was in England which was governed by a powerful landed aristocracy. Did these circumstances influence him to write "The Wealth of Nations" in a way which would be acceptable to the Establishment on the English side of the Channel? Remember, he was a man of great eminence and social stature in his own country.

In more modern times, Leo Tolstoy and Dr. Sun Yat Sen in Russia and China tried to influence their peoples in the physiocratic kind of reforms and were rejected in preference to Marxism. Both countries, like France, were subsequently embroiled in bloody revolutions.

Let us leave these people and look at the course of economic thought. Prior to the 18th century there was John Locke - "Two Treatises on Government" 1690, then came Thomas Paine - "The Rights of Man" 1787, J.J. Rousseau - "The Origins of Inequality", David Ricardo's "The Principles of Political Economy and Taxation" 1817, Herbert Spencer - "Social Statics" 1851, John Stuart Mill and many others. Until the middle of the 19th century economics was being developed along scientific lines like the physical sciences - experiment, observation and inference. This was a search for the nature of things - natural law and order. The thinkers of the times were not specialists as we now know them. They studied

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the world about them - natural philosophy. In 18~~46~~, however, Karl Marx published "Capital" and economics took a different direction.

The economists before Marx, as we have seen, encountered difficulties with the establishment because the privileged classes saw no advantage to themselves in economic development or change. Marx's theory found some acceptance because it offered the option of retaining the age-old system in principle, provided some concession was made to the "have nots". The formula *"from each according to his means, to each according to his needs"* has continued to the present day. The privileges of the landed artistocracy were not disturbed provided some government welfare was given through the taxation system.

Over the past 130-140 years the theme has been *social justice* to draw attention away from, or to partially placate, those who would strive for, research and develop *economic justice* which the early economists were seeking. The difference between these two important terms will be explained later.

Recent History of Wages

The development of production technology during the Industrial Revolution collapsed the cottage industries, and people drifted to the manufacturing towns and cities. When many failed to find work, there was high unemployment and a counter movement to return to the land for subsistence. But to no avail, because while they had been absent in the towns many Enclosure Acts which dispossessed people of lands had come into force. This land was now enclosed by landholders where previously much of it had been available to the working classes.

The cottage industries were redundant because machines now produced ample cheaper goods to supply the country's needs. In addition these improved methods had increased land values, a further impediment to would-be producers. The result was a permanent pool of unemployed. There was little work; machines had taken over. There was no land available, or it was too expensive to yield a living after paying rent. Competition among workers forced wages down. Nearly all wages went in rent. The landholders became extremely rich, and the workers very poor. This was especially seen in Great Britain and Europe from the late 18th century onwards.

Colonization

The unemployment situation became desperate and poverty so widespread that labour eventually was forced to band together, illegally at first, to demand a living wage. This action gave birth to a struggle between employer and employee which continues to this day. To alleviate unemployment and land enclosures, newly discovered lands were a convenient outlet. Here was living space and marginal lands to fill the needs of the adventurous and needy.

As well, colonization afforded an outlet to transport to far countries the growing number of criminals - many of whom were the illiterate and poverty stricken unemployed who had turned to, or were forced to crime to get a living. Six men from Tolpuddle in Dorchester, England, were transported to Australia as convicts in 1834 because they tried to form "The

Friendly Society of Farm Labourers" which was an attempt to get a wage increase from 9 shillings to 10 shillings a week.

Trade unions were denied full legal liberty in the United Kingdom until the Labour government "freed" them in 1929. There was strong anti-union moves in government circles after the 1926 General Strike.

The colonists who went to Australia, Africa, New Zealand, Asia and other places took with them the economic and social system of their homelands thereby perpetuating the features which had caused the old world to break down. They knew no other way of doing things, and moreover, they desired the same advantages the landholders enjoyed back home.

The indigenous people of the new world were treated as the newly arrived colonists had been treated in their native land. The colonists enclosed the new lands and pushed out the native populations. This process continues in what were the former colonies of the European nations. It is a legacy from the old world. The process of extermination of indigenous people differs only in degree from what has happened so often in history when conquest has been accompanied by cruelty, exile and dispossession; some of the worst examples have occurred in Europe, Asia and Africa this century.

Labour Treated as a Commodity

The pool of unemployed enabled labour to be treated as a commodity, and wages were high or low as the supply of unemployed was scarce or plentiful. Like slaves, labour had, and still has a market value. This soon became apparent when economic slaves offered themselves for less than the price of chattel slaves, so chattel slavery ceased to exist.

Many history books tell us that slavery was abolished for humanitarian reasons yet much information available points to the fact that the economic reason was the deciding factor. Many point to the American Civil War which was a struggle between two economic interests, the rural free traders of the southern states and the industrial protectionists of the north. The slaves of the south were victims of a conflict which did not concern them, only their owners, the free traders. The slaves were emancipated into an economic slavery where, well into the 20th century, they had only their freedom and dire poverty in many instances worse than chattel slavery. It is only since the 1960's that the descendents of emancipated slaves have won a large measure of freedom.

The early development of technology was expected to raise the general level of wages and lighten the load of labour. But improved methods of production forced the margin of cultivation farther out, and wages were continually depressed to subsistence level. (See Law of Rent page 22). Until research into this phenomenon gives the answer to this problem, the expectation of economic improvement cannot be realized.

ECONOMICS

Economics may be considered as having two divisions: that of the *individual* and that of the *community*. The individual economy is the "one purse" unit e.g. that of a person, a family, farm, factory or company of shareholders. The individual economy is the concern of each unit making up the social structure and varies widely with the needs and desires of each. As no two economies are identical the decisions of the private economy are best left to each unit. Such freedom makes for the strongest and most efficient individual unit and, by extension, the social or community economy; the only proviso being that the decision of the individual unit does not damage or disadvantage any other unit or the community at large.

There are more economies than there are individuals. Many people are concerned with more than one economy e.g. a person may be concerned with a household, a farm, a factory, a manufacturing or retail complex all at the one time. It would be impossible, nor is it necessary, to catalogue every economy and its links to each individual. Those economies are decisions for each and every person, and no amount of outside direction can do anything but interfere with their smooth running. They are controlled by the natural forces which surround the *supply and demand of goods and services.*

Political economy concerns the populace as a whole. It may be a municipal, provincial, state, central, federal or international government. Political economy is a *natural science;* it examines natural phenomena in order to establish natural laws or guidelines which can enable economic groups to function efficiently.

In order to be efficient economics dictates that individuals must have freedom to act in the way they see fit provided that all have equal opportunity to pursue their talents and none is artificially advantaged or disadvantaged. A government-granted monopoly, right or concession can give an advantage to some at the expense of others. A protective tariff can give an advantage to a group of people which disadvantages others in the higher prices which have to be paid for the protected goods. A subsidy gives an advantage which has to be financed by taxation falling on others and so on. The pattern of privilege for some upsets the balance of nature, but a natural pattern assures the independence and interdependence of all. No one is favoured.

WEALTH

Because economics is the study of the production and distribution of wealth it is necessary to understand what is *wealth*. Things such as money, stocks, bonds and shares, goodwill of businesses, buildings, machinery, tools, land titles, monopolies and other government-granted concessions, crops and livestock of farms, rolling stock and ships of transport companies, goods in course of production in factories, farms and fishing boats, goods in warehouses and retail stores, are all commonly thought of as wealth. A person having these things in abundance is said to be wealthy.

Some of these things such as foodstuffs, clothing, houses, motor cars, etc. are used to satisfy human needs directly; others must first be exchanged for those things which can be so used. Money, for instance, is quite useless in itself to feed, clothe or shelter anyone; it must first be exchanged for a usable article to satisfy a need. Similarly a monopoly, such as a taxi licence, a government-granted privilege such as a licence to produce eggs or sell salt or operate a television or radio outlet, or a title to a site of land, cannot fill a material need in itself. It can only command goods to satisfy material needs by virtue of its advantage in an exchange.

The meaning of the word wealth has to do with the weal, the wellbeing of the individual and by extension the community. *An article of wealth* must satisfy the criterion that it *is for the material wellbeing of both the individual and nation.* The basic components necessary to give wellbeing are material articles such as food, clothing, housing and, in a community, public services such as water and power supplies, roads, communications, sewer systems, public health, law and order, and education. An increase in these things is an increase in the tangible wealth of a community. An increase in money, shares of a company, mortgages, franchises, subsidies, protective tariffs, licences, etc. is not an increase in things which directly minister to the material wellbeing of an individual or a community. These things are all dependent upon a piece of paper or an oral agreement. If all these things were to suddenly disappear the aggregate stock of useful things would remain unaltered.

The things which are commonly thought of as wealth can therefore be separated into two classes: (a) material goods, and (b) agreements between people or between people and governments. Agreements between people include shares and debentures of companies, mortgages, personal loans, credits, etc. Agreements between people and governments include money, land titles, tariff advantages, government loans, and any concession, privilege or monopoly granted by government or held by custom. These agreements do nothing to alter the aggregate amount of material goods in existence, but are like games of chance in a closed room where agreements are entered into while the contents of the room remain unaltered. Some individuals may win and some lose, but the contents remain the same. Goods can be used for basic needs; agreements in themselves cannot be eaten, worn or provide shelter.

The difference between these two classes of things is often obscured because material wealth is easily exchanged into an agreement security. Goods can be exchanged for money which can be used to buy a monopoly from a government, or loaned to another, and in these transactions there is no increase or decrease in material wealth. At one time slaves and serfs were treated as articles of material wealth. The "owners" of these human beings saw no distinction between their slaves, livestock, land, buildings or machinery. Nowadays this difference is recognized, thereby separating one class of "goods" (slaves and serfs) from the general conglomerate of things which are called wealth. A distinction must be made between material wealth that can actually be used by people for their basic needs and those things which do not meet this criterion.

An examination reveals the difference between these two classes of things: every article of material wealth is a modified *natural product*, something which has been drawn forth from nature - land - and made suitable for human use. Food is grown, gathered and processed, trees felled in the forest and sawn into logs for housing, minerals are mined and smelted, manufacturers modify products still further and ultimately they are transported through warehouses and retail outlets into the hands of the consumer in the form of food, clothing, housing, motor-cars, refrigerators etc. Securities or deeds do not depend upon the modification that people exert upon a natural product, but depend upon an oral or a written agreement, and for this reason are excluded from the classification, material wealth. Such agreements can be designated sham or *pseudo-wealth* to distinguish them from those articles which are derived from natural products found in nature. Agreements are devices of people derived from man-made legislative acts, or personal agreements, and do not occur anywhere in nature.

There is a difference between the permanence of these two classes of things. Articles of material wealth have a limited life because they depreciate, deteriorate, wear out or become obsolete. If not immediately consumed they need to be maintained, repaired and renewed. Agreements are not subject to these factors; they are usually for a specified time like a mortgage. Many agreements, however, are for indefinite time, examples being found in monopolies granted by governments: tariffs, licences, subsidies (which can be altered by the authority that granted them).

These agreements often begin as a temporary privilege. In time they take on the characteristics of permanence, and instead of depreciating, often gain in value as they become accepted and entrenched as though they were in the nature of things. The best examples of this are land titles which, with increase in population, often appreciate enormously in value. These titles are freely bought and sold as though they were permanent and unchangeable, especially is this so when a title has changed hands many times and the original transaction lost sight of. Also, when sales have been made by exchanging goods (material wealth, through the medium of money) for such privileges, the abstract is felt to have become an article of material wealth. That a government can revoke the privilege of land title is often seen when a home or any other site is taken over to widen a road or for any other public purpose, or bankruptcy or to recover outstanding tax debt.

When the hunter gatherer tribes are observed, it is seen that material articles for the wellbeing of people preceded the time when pseudo-wealth came into being. Irrespective of how long civilization lasts on earth, the priority of original material wealth will remain. Original material wealth is *natural wealth*, whereas agreements are *artificial devices*, secondary and not absolutely essential to peoples' material existence. That agreements help, and sometimes hinder, considerably in many human activities and that modern life would be very different without them cannot be denied, but they are a secondary factor.

A government-granted privilege such as a licence or a land title can command goods and services from people. It is an abstract artificial thing, backed by legislation, and often supported by custom, but in these transactions there is no exchange of equal labour effort for equal labour effort as is the case with the exchange of material goods for material goods. There would be no demand for a government-granted privilege if that privilege did not give an advantage which others did not share.

Material Wealth is therefore defined as any natural product which has been modified by human effort to fit it or better fit it for the satisfaction of human needs or desires.

A class of things often called a nation's wealth are natural resources such as land, fishing grounds, soil fertility, rainfall, forests, mineral deposits, rivers and lakes. These, except in rare cases, cannot be used immediately and in the natural form in which they are found. It is not until their products are modified by people that they become goods suitable for human use. More about these things will be considered when discussing the factors of production in pages 13-19.

VALUE

The definition of material wealth can be confirmed by looking at the nature of economic value. All articles of material wealth have value, when they cease to have value they cease to be material wealth, i.e. they do not have an exchange value. Pseudo-wealth also has value, but its value is derived from a different source.

The word value can be used in two senses: (1) *value in use* as when a tool or a machine is spoken of as being valuable to production, and (2) *value in exchange*, i.e. when the same tool or machine is exchanged for goods or services and usually expressed as a sum of money, its price. It is in the second sense that it is generally employed in economics. If it is required to express the idea of value in use, this sense is indicated in the text.

Value in exchange is derived from two sources: (1) from the production of material wealth which is a natural phenomenon arising from the efforts of people in modifying a natural product to produce an article of material wealth. An increase in value from production is an increase in an article or articles of material wealth. All articles of material wealth derive their *value from production*, i.e. the labour effort which the article can command - its price; and (2) value from the sources other than from the production of goods, i.e. that which comes into being without the production of any articles of material wealth at all. It needs little or no labour effort to bring it into being although it can command labour effort. This value is inherent in all those things denoted as securities or pseudo-wealth, deriving their value in exchange from government edicts or agreements between people. It is not related to the production of material wealth. Pseudo-wealth consists of securities and obligations of all kinds; they secure the risks of the lender, and the borrower is obliged to honour the agreement. The return to the lender or the monopoly-holder is value derived from this obligation, and it is designated *value from obligation* to distinguish it from *value from production*. Value from obligation is not a natural phenomenon, but a man-made device which has been used from time immemorial and has now come to be erroneously thought of as a natural phenomenon.

The failure to distinguish between these two sources of value is widespread. This is understandable when it is seen how easily value from production can be exchanged for value from obligation and vice versa. Value from production in an article of material wealth can be exchanged for value from obligation in the form of money which again can be exchanged for other things whether they have value from obligation or value from production. The device of money, acting it does as a measure of value and a medium of exchange, enables this conversion to be made smoothly and easily. As a result, the relationship between the two sources of value becomes confused or overlooked altogether. All securities or pseudo-wealth derive their value from obligation.

Value from production requires the efforts of individuals, but value from obligation requires only simple agreement from parties. These agreements may be oral as with some personal loans, or written as with share certificates of companies or monopoly deeds or concessions issued by governments. Value from production depreciates with the depreciation of the material articles concerned. Value from obligation, inherent in agreements, does not depreciate. On the contrary, in some monopolies there is considerable appreciation with the passage of time, and this despite whether the parties involved are active or inactive, present or absent, such as with titles to land, licences to carry on businesses, shares, etc. Value from production on the other hand requires the ever present activities of people to maintain and preserve it.

Another reason to separate pseudo-wealth from material wealth is that if there is no separation, the value of a thing can be counted twice in the wealth aggregate. Shares, bonds, mortgages, money, licences, monopolies are not material wealth. If a share, or any other pseudo-wealth, is held, it may represent a part of another company's material wealth: buildings, equipment, etc. Now this material wealth is actually counted as such in the affairs of the company and to do so again in the form of a share certificate held by others would be to count it twice and so project an untrue state of a nation's economic affairs. Things which are:

Material Wealth	**Pseudo-Wealth**
Material things made from plants, animals and minerals.	Privileges, oral or written agreements.
Articles produced by labour effort.	Little or no labour required.
Value from production.	Value from obligation.
Drawn from nature.	Arbitrary decisions of people.
Impermanent and have to be maintained.	Permanent or for a fixed term.
Cannot be accumulated without maintenance and repairs.	Can be accumulated and stored without difficulty and being maintained.

Antiques, autographs, works of art, etc. have at their base a measure of value from production. On top of this is a degree — often a vast degree — of value from obligation.

Food, clothing, houses, furniture, motor cars.	Freehold and leasehold land titles.
Goods being produced on farms, in factories and from mines.	Shares, debentures and bonds of companies and government bonds and loans.
Household equipment of every kind.	Goodwill of businesses.
Public works: dams, reservoirs, schools, hospitals, airports, harbour installations etc.	Television, radio, and taxi licences.
Fences, buildings, water storage, machines and equipment of farms, factories, mines, and other industries.	Licences to produce eggs or other produce.
Ships and rolling stocks of transport companies.	Tariffs to protect industries.
Fishing and pleasure boats.	Import and export licences and quotas.
Sewer and water reticulations, power supplies.	Licences to carry on a trade or profession.
Made roads.	Patents.
Goods in warehouses and retails outlets.	Loans and credits.
Domesticated farm animals, fish, caught from waters.	Mortgages, loans, overdrafts and credits.
Concerned with, and aids production of material wealth.	Concerned with, and alters distrib-tion of material wealth.

Remembering when people exchange produce for a land title it is not an exchange of produce for produce, it is an exchange of produce for a government-granted privilege. The difference between the two entities cannot be over-emphasised. If not clearly differentiated, the outcome is confusion and error.

THE PRODUCTION OF MATERIAL WEALTH

Natural resources are modified to produce goods to satisfy human needs and desires. The production of these articles of material wealth begins with the natural world and continues until the product reaches the consumer. It embraces any process or service along this chain: the fisherman, hunter, miner, smelter, manufacturer, butcher, farmer, etc. All alter natural products in form or place. The livestock breeder, beekeeper, forester, market gardener, orchardist, etc. produce material wealth by growing things, the wholesaler, retailer, exporter, importer, and others produce material wealth by the service they provide in getting it to the consumer. There are services contributed by the home-maker, policeman, clergyman, editor, stockbroker, insurance officer, doctor, lawyer, teacher, banker, performing artiste and many others. All contribute to production by saving others time and effort so that each can concentrate upon his or her own specialty.

Often producers are classified into primary, secondary and tertiary or exchanging divisions, but there seems no necessity for this because all forms are engaged in the one natural drive - getting a living. All contribute in one way or another. These three categories draw a distinction where none exists. The different kinds of producers exemplify the specialization and the division of labour which makes up the modern production system and which has developed by trial and error through a long time.

This division of labour makes the best use of the talents and abilities of individuals in a community. For instance, some people are better carpenters than others, some are better at growing things, some people make better teachers than others and so on. Specialized agricultural production is carried on in areas best suited to each kind of crop, specialized manufacturing and industry where resources and/or labour are most conveniently located. Some industries are better suited, by climate or any other reason, than others for the production of some goods and they exchange their products with other places and countries for other particular specialities. Examples of these can be found in retail department stores.

Communities in Today's World and Their GESTALT

If an individual had to do everything necessary for his livelihood: collect water, collect or grow food, build a house, collect fibre, spin and weave cloth, look to his or her own health, production would be primitive, inefficient and the quantity per person very small. Examples can be seen today in surviving tribes of Africa and South America. By modern specialization and the fine divisions of labour, production is made abundant. Villages, towns and cities exhibit the way in which production activities are divided into different trades and professions cooperating with one another. Gain comes about owing to these collective activities, and the gain is in proportion to the population and the economic efficiency of any community. A number of people working in cooperation produce more than the sum of the same number of people working alone. In a community there is a natural spontaneous increase of production over and above the efforts of individuals working alone: a bonus. If this were not so, cooperation by specialization and division of labour would not occur; people would not cooperate in any way unless there was a gain. The extra is not owing to any individual or minority group of individuals, but to the community as a whole unit.

The Physiocrats called this bonus the "produit net" because it could not be traced to the efforts of any particular person or small group. A better name for it is unearned accrual. It occurs spontaneously; it is a natural phenomenon. This phenomenon is universal and is known as *Gestalt* which says that the whole is greater than the sum of its parts.

Gestalt can be illustrated by the performance of an orchestra. Each musician can contribute a musical performance individually. Yet when they all perform as an orchestra the sound and performance is greater than if they had performed singly. If this were not so, orchestras would not be formed. There has to be a gain for human beings to do a particular thing.

More will be said about the unearned accrual when the distribution of wealth is considered.

People seek a full and plenty life-style. It is this which leads to the production of material wealth. Demand from the consumer initiates and drives the entire production process e.g. people work for food because their hunger drives them to sustain themselves. Other kinds of production are for other things such as houses, luxuries, etc. The consumer and the producer are one and the same person; what affects one also affects the other. The ideal is for the producer to offer goods at the lowest price in order that he can exchange them and that he as a consumer can afford them. By this process the producer is kept employed and the consumer is able to buy the necessities of life.

Production is ideally carried on when there is no impediment to any of its processes i.e. there is a free market where people can produce and exchange their goods and services without disadvantage to others or interference from taxation, tariffs licences, government regulations and privileges to some. Interferences are a burden upon the production of wealth. They set up chain reactions which causes goods and services to be more expensive which in turn reduces the amount the consumer can afford (there is less demand) and so production is retarded. The end of the chain is unemployment and in a welfare state unemployment benefits. To advantage a producer with a tariff or a subsidy or any other government measure is to disadvantage him as a consumer when he has to pay higher prices for protected goods. The two facets of the one individual cannot be separated. Production and consumption of wealth are two poles of the one process. To interfere with one affects the other; neither can be treated in isolation. (See tariffs page 59)

THE FACTORS OF PRODUCTION

Originally there were only two factors in the production of material wealth: (1) **land** from which people derive all their material and spiritual needs, and (2) the **labour** efforts of people themselves. Today very little production is carried on by these two factors alone. From time immemorial people have discovered ways of aiding their productive powers and so tools came into use: a digging stick, a spear, an axe, a machine etc. This aid has become recognized and accepted as a third factor and it is called (3) **capital equipment** to aid production.

1. LAND

As a factor in economic production, land has a wider meaning than that usually assigned it.

Land is loosely regarded as the surface of the earth used for grazing, tilling or building upon. This meaning will not do for economics because it ignores the composition of land. The trees of the forest and jungle, grasses of the plains, waters of the rivers, lakes and seas, the flora and fauna on, as well as under and above the earth's surface, the air above and the minerals below must be all included in the term land. In addition to these are the climate and every geographical feature - the soil and its fertility, the rain that falls, the sun that shines, the deserts and ice fields. These are gifts from Nature and moreover gifts which, if allowed or encouraged, continually renew themselves. These resources are made use of in one form or another in order to produce material wealth. Land as an economic term embraces them all.

The physical resources are substances which can be seen and identified. In addition to these are natural forces which enable complex production processes to take place. These forces are inherent in all those physical laws used in engineering, agricultural science, biology, chemistry and so on. These natural physical laws, such as the law of gravity, are an integral part of the universe, and when conformed with aid much production. Without these natural forces, upon which most industries are built, the bulk of production would be impossible.

The term "land" excludes people themselves and all the improvements people have put onto the land, such as crops, fencing, buildings of farm, industry, business and towns, reservoirs, mine pits, harbour installations, roads. In addition to these things can be added domesticated animals bred and reared for food, fish caught and offered for sale.

Definition of Land

Land can therefore be defined as *the natural resources and forces which are available to the human race.*

Land is the primary factor in production and no wealth can be produced without it. Land provides both the raw material and the sites upon which materials are modified. People's every necessity comes from the land and it is entirely *passive*. It must be acted upon by people to produce material wealth; it is not wealth itself, but the source of material wealth. It is a factor in the production of wealth. To live and to produce material wealth people must have access to land of some kind; to deny or to restrict this access is to deprive people of life. Productive land sites may be for rural activities, for building homes, sites for factories and shops, banks and insurance companies, public buildings such as schools, hospitals, mines and every other service.

With virgin land there is no difficulty in identifying what land is and what it is not. In populated areas where land has been cleared, its terrain altered or built upon, and services such as water, sewage works, power, roads and communications put on or adjacent to the sites, the distinction is blurred. Yet it only needs careful observation to distinguish between land, the passive factor, and the results of labour. Where a building has been demolished, there is a site of land - for all practical purposes the first clearing and levelling of the area can be estimated and allowed for. But in most cases those original improvements, especially in a big city, have long since been absorbed into the land site and can be disregarded as an improvement.

Sometimes land is spoken of as being supplied. This is merely a figure of speech which describes the land becoming available for another purpose other than that of its original or past state, or rezoned by an authority for a different use. When governments open up or sell land titles they are granting permission and issuing titles to producers for what was either virgin land or land they have been using themselves. When land developers are said to be making a supply of land available, it means that they have acquired land sites and are subdividing them for other use. In this there is no production of land, only a different use for it. Pegging out new areas, supplying drainage, roads and other services are improvements upon land, not part of land itself. Developers sometimes need to alter the terrain but the fact remains that this is land being modified by labour.

Land is limited in supply and cannot be produced the way in which material wealth is produced from land. Crops can be grown year after year and, to a limited extent, some material wealth can be accumulated and stored, but land cannot be increased. Reclamation can be carried out but again this is improvement upon land already in existence. The sea, a river, a swamp is land.

The value of land is a characteristic associated with the presence and activities of people. This is a natural phenomenon occurring without the conscious action of individuals who are attending to their own productive activities. Land values occur spontaneously, and rise and fall as communities prosper or decline, as populations increase or diminish and as methods of production are efficient or inefficient. This aspect is dealt with more fully when considering the distribution of wealth.

Marginal Land

Land sites vary greatly in usefulness. From the intense industry of a large city productivity fans out to fringe areas where production is minimal, and farther, to areas where there is no production of material wealth. Along one side of the line there is no production, along this line production begins. The point at which it begins is termed the *margin of cultivation* and this productive land is called *marginal land.* It is the *least productive land in use* and a title which gives security of tenure to it has little or no value in an exchange.

Unproductive land never before used is often known as virgin land or simply unused land. Unused land may be fertile but too remote from the consumer, so that transport and other costs which increase the value of the produce makes it cheaper to produce elsewhere. Not all marginal land is necessarily remote. In the heart of a densely populated area, a wasteland in a town or city can be equally unusable e.g. under bridges or around the perimeters of airports. Beginning with marginal land, the value of sites is graduated from zero to very great. Grazing, growing, forest, mineral, urban, industrial, residential, business, and exchange (banks, share markets, insurance offices etc.), lands from the outskirts of civilization to the centres of prosperous cities, all have value in a greater or lesser degree. This value is accurately measureable and manifests itself as a selling price of a land title at public auction, by private treaty or a rental value offered by someone who desires to use the site. There are marginal lands for every activity, for example it would not be sufficiently productive for a jeweller to set up shop in a village of 100 people.

2. LABOUR

Labour is the other original factor necessary to produce material wealth. Without the efforts of labour upon land no material wealth is produced. Labour is the *active* factor applying its exertions upon land to draw forth the things which are required to sustain life and satisfy other human needs. These efforts include all a person's mental and physical aptitudes and capabilities whether inherited or acquired. In human activity, mental and physical effort cannot be separated. Actions are set in motion by thought; desire for something initiates mental followed by physical effort to obtain it. The capabilities of people are so varied that no two are alike. *There is no equality of individuals in this sense* - each person has his or her talents in quality and quantity. Labour includes every kind of occupation from the simplest hunter to the most sophisticated administrator, the unskilled to the highly skilled, the handicapped to the dextrous, the illiterate to the scholarly. As well as satisfying material needs, much labour is occupied in satisfying spiritual, recreational and cultural needs. The priest in the pulpit, the artiste on the stage, the sportsman on the field, are all engaged in satisfying human needs in one form or another. Labour is human effort with all its dignity and spiritual values. The dignity of labour is the dignity of nature.

Labour Produces All Wealth

The modern complex division of labour and extensive specialization throughout the workforce sometimes obscures the fact that labour produces all material wealth. But in truth all processes or services, whatever part they play in the production of material wealth do so as surely as if the completed article was the entire work of one individual. A person may not appear to be producing material wealth when answering a telephone or typing a letter, or by operating a machine to make a component for a product the operator never sees, but the actions are all part of production. Specialisation and division of labour largely hides the personal nature of each worker's productive effort. This is particularly so with services such as office administration, education, research, health services, entrepreneural services, etc. There is such a wide division of labour in any community that a catalogue of its own would not do it justice because new specialities and occupations are cropping up with every new invention and improvement.

Labour expended in making articles of material wealth is measured by the value in exchange of the product - the price. This value is not necessarily what the article has cost, but what a similar article will cost to produce. The effect of this is seen when products can be replaced more cheaply than similar articles were made, or, in times of inflation, when costs are rising. To replace articles at the previous price is impossible, so the purchaser has to pay more - the expenditure of more effort - to exchange for them. Exceptions to this are to be found in works of art and antiques which are unique and so have a special value. Copies can be made, but they have neither the associations of the original nor their identical quality and so originals command high prices.

Incentive

The most productive labour is that which receives the full reward of its exertions, and it is then that the most efficient economy takes place. If labour is burdened or disadvantaged, incentive is reduced, i.e. if taxation takes some of labour's earnings there is less incentive to produce to the full capacity of the producer. Inefficiency and inertia are encouraged. The most efficient circumstances for labour to produce is for it to have a clear field and its actions left alone, provided these actions do not disadvantage anyone else. Labour at its best is unencumbered natural private enterprise, and any interference with it by government or other agency is counter-productive. The only province of government in the economy of the community is to ensure there is no concession or advantage to any of its citizens by way of legislation or custom; that there is *equality of opportunity* to produce without waste or disadvantage to others, and that there is no harm done to the environment, i.e. law and order. Labour cannot function at its best without this equality of opportunity.

3. CAPITAL EQUIPMENT

As an economic term capital equipment refers to the *physical articles of material wealth* which has been produced, not to be immediately consumed, but to be used to physically aid in the production of more material wealth. Examples are tools, equipment of every sort used to make production easier and quicker, minerals at the minehead, factory and office buildings, power generators, roads, hospitals, schools, stocks of goods in shops and warehouses, rolling stock for the transport of goods and people, machines. *Capital equipment is defind as articles of material wealth which are used to aid further production including material wealth in course of exchange.*

Pseudo-Capital and Privilege.

Capital equipment as a term in economics excludes all that we have called pseudo-wealth: those things which have been described as agreements or contractual securities and obligations. An individual may have come to look upon these agreements as his personal economy's "capital" because they can command material wealth from others, but in a strict political-economic sense they are not capital equipment.

Agreements in themselves cannot aid production in a physical way. These devices can be exchanged for capital equipment, i.e. money can be exchanged for a machine or a building in which to produce goods, but when this is done it is imperative to understand what is actually happening in the transfer so that one kind of thing is not confused with another. As capital is a word in common use, in economics its use must be restricted to a specific meaning and any other use is a figure of speech. Confusion is avoided in this way. When people speak of capital or capitalists they make no distinction between economic capital equipment and pseudo or false capital much of which are privileges from governments. They make no distinction between material wealth and pseudo-wealth, and this failure to identify terms properly leads to much confusion and ultimately inequity.

All capital equipment is material wealth, but not all material wealth is capital equipment; only that part used in aiding production is capital equipment. Material wealth that is not capital equipment includes those articles in the possession of the consumer which are used for personal needs: foodstuffs on the table and in the pantry, household affects, the motor car, clothes, private houses, indeed everything acquired to satisfy a personal need.

Material wealth is a union of land and labour. Capital equipment in this sense is *stored up labour* in a form to multiply the exertions of people, or to produce material wealth with less effort. In this respect labour and capital equipment are one and the same thing in two different forms. Capital equipment cannot produce by itself. Without labour capital equipment can only depreciate and become obsolete. Capital equipment has inherited the passivity of land in that it needs labour to use it.

Capital Equipment Not Essential To Production

Production can take place without the use of capital equipment. Some limited material wealth can be produced without it, e.g. handpicking wild fruit, catching wild animals by hand. In modern times however, without capital equipment little material wealth is produced. Capital equipment is an aid or an auxilliary factor after land and labour; despite this it has assumed a prominence far above its natural priority. Its volume has made it appear more important than either land or labour (people). This importance is largely owing to the grouping together of capital equipment and pseudo-capital (agreements) and calling it all one. Pseudo-capital in the form of government concessions together with aggregates of private agreements i.e. shares in companies, wields tremendous economic power in a community. The prominence given to what is called "capital" is mostly not capital equipment at all, but pseudo-capital, most of which is privilege. The extensive use of the word "capital" in this way has caused artificial agreements to be looked upon as the major factor in production which has masked the importance of the two original factors, land and labour, and led people into accumulated errors.

Like labour the essential circumstance for capital equipment to aid production is for the owner of capital equipment to have access to land.

It is frequently assumed that there is a struggle between the owners of labour and "capital". If this is so, labour is in conflict with itself in another form. As they both have a common goal, the production of material wealth, one aids the other. How can there be a conflict? Any opponent that labour has is with agreements which amount to privileges allowed by governments, or granted by governments and not held by all. Capital equipment is an ally of labour in this confrontation. Any confrontation is between the owners of labour (workers) and privilege which improvishes both wage earners and capital equipment owners.

For both the economist and the general reader no term causes more confusion than the word capital, but when there is a clear classification of economic materials no confusion arises. It only needs careful analysis to distinguish between capital equipment and pseudo-capital. Pseudo-capital consists entirely of agreements or concessions.

To sum up, the factors of the production of wealth are:

1. *Land: the resources and forces which Nature makes available to the human race.*
2. *Labour: all the mental and physical attributes of people.*
3. *Capital equipment: articles of material wealth which are used to aid further production.*

Note that labour and capital equipment are not limited in number and quantity respectively. Labour can be increased by immigration or natural increase; capital equipment can be increased by producing more. Land cannot be increased. Labour and capital equipment compete for land sites. Land sites do not compete for labour and capital equipment.

CAPITAL EQUIPMENT **Tools and equipment**	**PSEUDO-CAPITAL** **Agreements and contracts**
Buildings used in the the production of material goods and services	Land titles (land is a factor of production); permits to vary land use
Machinery and plant used to produce goods	Money
Crops and livestock on farms	Quotas permitting production of milk, eggs, wheat etc.
The component of stocks and shares representing captial equipment	The component of stocks and shares representing privileges, licences,monopolies, patents, etc.
Rolling stock, ships and aircraft, taxis	Licences of every kind including those to operate airlines, taxis; minimum fare agreements
Goods in warehouses and shops	Goodwill of businesses, registered brand names, trade marks
Power stations, aerodromes, bridges, docks, railways	The exclusive right to levy charges for public services
Mine equipment and minerals at the minehead	Exclusive mineral exploration permits
Hospitals, schools	
Raw materials and other partly finished goods	Loans, mortgages and overdrafts

Share certificates cannot in themselves be counted as material wealth; however they represent part ownership of whatever the company owns. This may consist of a material wealth component such as machinery, buildings and other equipment as well as pseudo-wealth such as licences, land titles, money, monopoly rights or any other privileges.

THE DISTRIBUTION OF MATERIAL WEALTH

The distribution of material wealth is the allocation to each factor of production its just share of the material wealth produced. It is a continuation of production and not separate from it. As land is acted upon, as labour is exerted and as capital equipment aids labour to produce things, a natural share accrues to each factor in proportion to it as a factor. This is a phenomenon of nature and not an arbitrary thing. The proportional distribution or return to each factor can be adjusted by legislation or custom; the proportional accrual cannot be so altered. The share which is allotted to land is called *rent*, that allotted to the reward of labour is called *wages*, and that which accrues for the use of capital equipment is called *interest*.

In modern society pseudo-capital agreements are looked upon as receiving a share of production; this again is an arbitrary man-made thing and not a natural phenonenon. This share can be called *pseudo-interest* or by its commonly used name, profit. Because this classification is artificial, it is not looked at in detail until the description of the *natural order of distribution* is completed.

Where production is primitive so is distribution. In simple societies material wealth is produced and distributed on the spot, e.g. in hunter gatherer tribes no one sets out a formal science of distribution, the natural order is obvious and applied in a practical manner in order that each receives reward for participation in tribal production activities. In a complex society where money is given for rent, wages, interest and profit, it is by a series of exchanges that the landholder, worker, capital equipment owner and pseudo-capitalist receive a share to buy the goods and services they need. Here the exact principles pertaining to distribution become important. Where an individual gets a living alone and the produce is not shared with anyone, there is no need to separate rent, wages, interest. When different individuals have different offices of landholder, worker, capital equipment owner, or two or more of the offices are combined in the one person, the distinctions are not readily seen, and clarification of what naturally belongs to whom becomes essential.

The natural distribution of material wealth, however, is simple; we need only to see what is the nature of its avenues in order to understand which factor is entitled to what amount or proportion of production - to see how each arises and how each is determined and measured.

THE AVENUES OF DISTRIBUTION

1. RENT

In common parlance the rent of a house, factory, office, farm, shop, generally means the payment for the use of the land site plus the material wealth such as buildings, fences, sometimes machinery. In other words, a payment for the occupation of the site plus a payment for the use of the buildings and other equipment upon the site. In economic usage however, the term rent is restricted to the amount which the land site alone commands. It excludes the payment of the interest which accrues from the use of the improvements upon the land site.

When acted upon by labour, all land sites command rent in proportion to their advantage over marginal land. Rent is always relative to marginal land, i.e. land at the line along which production begins as was discussed when considering land as a factor of production (p14-15).

HOW RENT ARISES.

To understand the nature of rent it is imperative to know how it arises. In sparsely occupied places, where people eke out a bare subsistence, e.g. nomadic tribes in desert and semi-desert places, they win a living on land which commands no rent to a landholder or government. This had its counterpart in the early days of colonization when people migrated to new lands such as Australia and America. The early settlers barely survived at first, but after seasons of trial and error crops were established, and living became more secure.

All this took place on lands which originally commanded no rent. Then as communities grew, villages, towns and cities arose owing to the pursuits of increased numbers of people. With this growth, rent was offered to occupy some sites, small at first, and increasing as the communities became larger and extended. Originally the best sites were taken up, then more remote and less desirable ones were occupied. The farther back the margin was pushed the greater the value of those sites nearer the centres of cities and towns.

Rent arises only because of the presence (population) and the activities (methods of production, efficiency etc.) of people. This is an entirely natural and spontaneous development and it is an unearned accural which was discussed under "produit net" when considering the production of material wealth (pages 13,24). That people as a whole cause rent to arise can be seen by looking at populations anywhere. Where population density is greatest, occupation of the best sites is highly competitive, consequently their rents are high. People are prepared to *offer* part of their production to occupy the better sites because they yield more for the *same application of labour and capital equipment* and this holds for land whether it is used for any purpose whatsoever from rural to city sites.

Land is limited and cannot be reproduced like articles of material wealth, only the margin can be forced back. Where production methods are most efficient, and more produce is won from sites, people are prosperous and they can offer more for the best sites than if they were merely subsisting - the converse of this is also true.

That people and their activities cause rent can also be seen when looking at a town or city which has 'gone back' - ruins of once great places of history, or ghost towns after the district has collapsed through lack of industry or has been 'mined out'. Land titles become valueless when people and their activities disappear. Rents rise and fall with that of populations and their efficiency in productive methods. Undeveloped countries with large populations and primitive production methods do not give rise to such high rents as do equally populated places with well educated, highly skilled and organized people with advanced technologies.

Site Price

Rent of land can be expressed in two ways: (1) the amount offered for a fixed term - a week, month, year etc., or (2) a selling price when a land title exchanges for a sum of money for freehold or leasehold tenure. Leasehold is usually for a fixed term. A freehold, of course, is considered to be for ever although this is qualified as the state can acquire a site for its own purposes. This qualification shows that a land title is a privilege granted by a government and it can be revoked at any time. The sum of money paid for the title is called the sale price to occupy the site, or sometimes the 'capitalised value'. This sale price is equal to the rental value for a number of years and paid in a lump sum in advance. When the sale price is recovered, the rent after that time is a gain to the buyer of the title.

To call the sale price a 'capital value' is misleading because land is never capital equipment and therefore must not be confused with it. When this erroneous term is used, it confuses the landholder with an owner of capital equipment - that is, an owner of material wealth used to produce more material wealth. This confusion can amount to a landholder being mistakenly thought of as a capital equipment owner, which, as purely a landholder, he is not. As mentioned before, at one time slaves were counted as "capital" before they were classified as human beings - labour.

Land titles were originally issued and held for security of tenure which is essential for efficient production. This is necessary even on marginal land before rent arises.

LAW OF RENT

The law of rent was brought to notice by David Ricardo (1772-1823) in 1817 when he published his 'Principles of Political Economy and Taxation' and has been recognized by economists ever since. This law states: *rent of land is determined by the excess of its produce over that which the same application of labour and capital equipment can secure from the least productive land in use.* Marginal land yields no rent - what is produced upon such land is all wages and interest when labour and capital equipment take part. Of course, if only labour is the productive factor, the produce is all wages. All other sites have a rental value according to how much more they yield to the same application. It cannot be emphasised too strongly that all production is the same. It is confusing to divide it into primary, secondary and exchange sites where rent is concerned. There is no difference in sense because all land in use is productive land of one kind or another.

To explain the law of rent the best example is to look at the colonizing beginnings of an area or country. When people, other than the original native population, came to Australia and New Zealand, the first settlers selected and took up the most desirable sites. At the time these sites were looked upon as marginal land i.e. land which commanded no rent or very small rent. The government of the day, the British Colonial Office in the case of Australia and New Zealand, sold titles at a very small price compared with the prices of 200 years later.

As time went on and more settlers arrived, the later migrants and the natural increase had to seek sites farther from those the earlier people had acquired. These were less desirable sites, but the best that were then available. Further increase of population forced out settlement still farther until the situation was reached where the originally occupied sites were now in the centres of cities. Farther away were towns and farther still villages.

In places remote from centres of cities and towns there arose transport and other costs to bring the produce to where the people in the cities and towns resided, and where they carried on trade and commerce. The marginal producers found that to occupy sites nearer their markets they must offer rent to those who occupy the sites in cities and towns because in places where population is dense the same application of labour and capital equipment gives a greater reward. A greater reward occurs because there are more people in the vicinity who want what the producer has to sell and therefore trade is less effort, less expensive, more competition by buyers and sellers to acquire and sell goods and services, less expensive transport and other costs. It is therefore easier to get a return for the same effort on a site in the centre of a city or town than in a remote area where people are widely spread.

The difference which can be obtained from different sites is measured by the rent of a site and rent is always relative to marginal, no rent, land. All other sites have a rental value according to the difference of the amount which labour and capital equipment can produce on marginal land because labour and capital equipment through competition, will offer as rent all the excess over what it can produce on marginal land. From observations it can be seen that the differences in rents which occur in any country vary greatly from the centres of large prosperous cities where yearly rents or land values may be millions of dollars per hectare to remote country areas where a site may be obtained for a few dollars or nothing per hectare.

Diagramatically the phenomenon of rent can be shown thus:

Land used for	Administration Exchange City xx	Industrial Business City and Town xx	Urban Housing Town xx	Grazing Farming Rural xx	Marginal
Rent	1000's - 500	500 - 90	90 - 20	20 - 1	0-units

xx indicates land unused or inefficiently used and which can occur in any area, sometimes held out of use for speculation.

Inefficiently used and unused land can be observed in most areas. It consists of those sites with a productive capacity upon which inefficient or no production is carried on; it is land out of use. Examples are to be found in rural holdings unused or poorly managed, town and city lots left vacant or only partly used, old industrial housing areas which have fallen into decay. Land is sometimes held out of use by landholders, often absentee landholders, because they have no immediate need of the rent income, or they are speculating on rents rising as population or inflation increases.

Rent a Natural Phenomenon

Rent of land being a natural phenomenon, the production of a community and the unearned bonus of cooperation (page 12), *economic study indicates it is the property of the community in which it occurs.* As each member of a community contributes his or her presence and industry, each is correspondingly entitled to a share in any benefits which rent contributes to the general pool of wealth. Rent is the natural income of that community, fluctuating in accordance with the community's rise and fall. It is an inbuilt provision for public needs - when a community is small its public expenses and rents are small and each growth is in step with the growth of that group of people.

Unearned Accrual

Variations in rents led the early economists to call rent an unearned component (pages 12,21) of a community because, as it has been seen, it could not be classified as an earning of an individual's labour, or the use of his capital equipment. Labour or capital equipment therefore could not claim it. Because it is not the result of their own efforts, producers willingly give rent to occupy better sites. Individual producers lose nothing by doing so, for, after offering rent, they are left with the full return from the efforts which they could acquire on marginal land plus the return for the use of their capital equipment on the same site.

Rent is the central principle of economics and political economy. It is to the distribution of wealth what land is to the production of wealth. It is the foundation stone upon which the economic structure of a nation is built. If land is used wisely to produce things, a community can prosper, and if rent is used wisely to distribute wealth, a community will prosper. If the two conditions occur together a community must prosper.

Rent or land value does not arise from the productiveness or utility of land, nor does it represent any help or advantage given to production. Labour has to expend effort and capital equipment has to be used whatever the site. *The community is the factor in the process which generates rent, not the site.* The site is passive; the community is active and its collective efforts are rewarded in the form of rent.

Human Behaviour

People have the choice to use land intelligently for production, or to lay it to waste. In distribution they can do the same with rent - either treat it as part of the ecological system which it is, or use it unintelligently and accept the consequences i.e. the present state of national economies. Governmental treatment (human behaviour) of rent determines the economic basis in the activities of a nation, and this is the business of every individual in a nation.

2. WAGES

We observe in nature that every living thing exerts itself upon land to obtain the necessities of life. The results of these exertions are wages. When it comes to people - labour - two assumptions can be made about these efforts:

1. *people seek to satisfy their needs and desires with the least exertion, or they seek as much reward as possible for the exertion expended;*
2. *generally speaking, no person will work for another for less than he or she can secure by working for himself or herself.*

From these axioms it follows that the wage a person can command is the amount which he or she can secure by producing on marginal land. All the yield will constitute wages because no rent is offered. The margin of cultivation determines the general rate of wages. This can only be a general rate because different individuals can win differing yields from the same site. Not everyone can earn the same amount of wages; each person is subject to the restrictions and horizons of his or her own abilities. The general rate of wages rises and falls with the fluctuations of the margin of cultivation. When labour is exerted upon marginal land which yields much, wages are high; when exerted upon marginal land which yields little, wages are low.

The lowest amount labour can accept for its exertions is the amount necessary to maintain and replace itself i.e. sufficient food, clothing, shelter, etc., necessary to keep it alive and reproduce itself. The margin can be pushed back only to this point. The highest amount labour can naturally receive is its yield from marginal land and competition among labourers keeps wages to a subsistance level whether that level is high or low.

LAW OF WAGES

The law of wages, which is corollary of the law of rent, is that it is the reward which can be obtained by labour from the most productive land available to it without the payment of rent i.e. on marginal land. Because all wealth comes from the land, the essential factor in the exertion of labour is access to land which will yield it a living. As rent is the natural property of a community, wages can be the natural property only of the worker who expends the effort; no one else has expended that particular effort which has been mixed with a natural product. This can be clearly seen in the hunter gatherer society and all production is only a technological extension of the original manner of getting a living. The hunter gatherer exerts himself or herself and claims the result of that exertion, even the birds in the trees do that.

Wages can be received in kind as when self-employed people produce something for themselves to use, or when employees receive some or all of their wages in kind. A share farmer may live in a house which is assessed as part of wages; he may receive some of the produce in part payment, or he may receive some other benefit.

By far, however, the greater amount of wages is received in money. Wages are measured by value and this is expressed in terms of money. Whether in kind or in money, wages are the measure of a worker's exertion, and the value of the produce is the amount of human exertion someone will exchange for it. These observations about wages refer to any activity of people; it matters not whether he or she is an employer or employee.

Some wages are known by one name and some by another; wages, salaries, stipends, commissions, bonuses, fees, gratuities,etc. are all wages paid for one service or another.

3. INTEREST

It is not intended to discuss current theories and teachings about interest as the word is commonly used in relation to pseudo-wealth; suffice it to say that modern works on the subject treat interest as though it is inextricably bound up with money. Interest is seen as a purely monetary phenomenon and therefore it is treated as something which can be manipulated or controlled artificially. This is traceable to the failure to define "capital". Consequently interest is conflated with other returns such as from lending money, monopoly rights, speculative gains, rent of land sites, usually grouped under the common heading called profit. It is proposed therefore to see what are the basic facts concerning interest.

Interest, as an economic term, is that proportion of production which accrues to the use of capital equipment only, and as capital equipment has been clearly defined on pages 17-19 there is no room for doubt as to what it is. Interest is the return for the use of tools, machines, office and factory buildings, industrial equipment, rolling stock and goods in warehouses and shops in course of exchange.

Because wages and interest are the shares naturally allotted to two forms of the one thing, human exertion, most observations about wages apply to interest. Labour is applied directly, while capital equipment is used as required. Interest is the return to stored-up labour - capital equipment. (The story of wages is also the story of interest, but it must be remembered that this does not include the story of pseudo-interest.)

Capital equipment can increase production immensely, but not all that increase is a return to capital equipment because in the use of capital equipment there is also a use of labour. Capital equipment does not take part in production until labour employs it; *labour employs capital equipment.* Some of the increase of production is therefore owing to labour. This regulates itself in the balance which is the natural relation between wages and interest. Capital equipment, like labour, will not consent to be produced and used for less than its cost of maintenance and replacement. When wages are low, labour will be employed in preference to capital equipment. When wages are high, capital equipment is produced and used because the returns to it are sufficient to offset its cost and replacement. This natural process maintains a balance between labour and capital equipment, and the two avenues of distribution, wages and interest. Supply and demand automatically balances the use of labour in relation to capital equipment and vice versa. In poor countries where labour is cheap the use of capital equipment is low; in prosperous high-wage countries this is reversed. Mechanized, automated, computerized production gives capital equipment a return and therefore it is used, and the two factors achieve a balance. The production of capital equipment will slow down when interest falls to the point where it is cheaper to employ labour.

Like wages, the general rate of interest is determined at the margin of cultivation. What capital equipment can earn on marginal land determines the interest it can command on all other sites. Interest rises and falls as the margin comes forward or is pushed back. If all production were carried on by capital equipment alone it would, like labour, offer as rent on better sites all that excess over what it could earn on marginal land. Again, the minimum rate of interest is the amount necessary for capital equipment's maintenance and replacement, while the maximum is the yield on marginal land, and these two rates usually coincide. Wages and interest therefore rise and fall together.

Interest Rates

In any community there are varying rates of interest for loans. Some of these figures are a composite of true interest and pseudo-interest. True interest accrues to true capital equipment. Pseudo-interest is a return to pseudo-capital and is better called profit coming from privileges or agreements between people. What people agree upon is an aspect of arbitrary human behaviour, and does not necessarily conform with the natural rate of interest. Money is often treated as a commodity in the market place which can cause interest rates to rise and fall artificially and this is a separate thing from the interest rates accruing to genuine capital equipment used in producing goods.

Wages are usually expressed as an amount, interest as a proportion. This is not to say that all interest is paid as a percentage of something, because, like wages, interest can be received in kind, but in most transactions interest is paid as a percentage and expressed in terms of money.

Attempts by governments to regulate wages and interest rates are arbitrary human actions which usually have little relation to natural principles, and most attempts stem from the erroneous premise that capital equipment employs labour when in reality it is privilege profits in the form of land titles and other monopolies which are able to employ unemployed labour. The question why people are unemployed never seems to be researched.

The law of interest can be stated thus: *Interest is the return which can be obtained by the use of capital equipment on the most productive land available to it without the payment of rent.*

The relationship of the avenues of distribution is shown in this table:

Land used for	Administration Exchange City xx	Industrial Business Town xx	Urban Housing Town xx	Grazing Farming Village xx	Marginal
Rent	1000's - 500	500 - 90	90 - 20	20 - 1	0 units
Wages	1	1	1	1	1
Interest	1	1	1	1	1

As in table on page 23 xx indicates land inefficiently or entirely unused. From this table it can be seen that rents vary while wages and interest remain constant at the return from marginal land. In the centres of prosperous cities, sites can attain high rents. The table again shows how the sites graduate in value in towns, suburbs, villages, rural and marginal lands at the same time as wages and interest paid to workers and capital equipment owners are the same for the same effort on whatever site is occupied. This process is a natural one and no person or class of individuals is responsible for it. It is a fact of life, and human beings can use it for their benefit or their harm.

In the rise of land values with a fall in wages and interest, the movement of wages and interest is cancelled out if improved methods of prodution and/or the increase of population yield sufficient to offset the fall. This increased production makes up the difference which goes to rent, while wages and interest remain stable. Thus only rent alters under these circumstances.

Wages and interest tend to subsistence level because, as the margin is pushed back, wages and interest tend to fall and rents rise. Factors in this process are:

1. workers and capital equipment owners compete with each other which keeps wages and interest to a minimum, and

2. workers and capital equipment owners also compete with each other to use the available land which keeps rent to a maximum,

3. as was seen on page 18, the number of workers and capital equipment can be increased, and

4. land cannot be increased, nor is it mobile like labour and capital equipment.

Summary

The laws of the distribution of wealth accurately delineate what part of production naturally belongs to whom. It establishes what *inalienably* belongs to the community as a unit, to the worker as a unit and to a capital equipment owner as a unit. *The distribution of wealth is the natural science of the ownership of material things* and therefore it is a guide to human behaviour in all economies whether individual, local, state, national and international. This is of the utmost importance because it concerns people's material needs, their philosophies, their religions and it reaches to the depths of all thinking and the day-to-day living of all nations and civilizations.

Scope of Distribution

Distribution is not concerned with the consumption of wealth nor with taxation by governments. Once the produce has been distributed it is outside the province of political economy and becomes the subject and object of human behaviour. It is in human behaviour that people may take advantage of acting in the way economic principles dictate. It is in economic science that Nature indicates to mankind what should be done. People have the choice of conforming with the natural forces around them and so ensure that the factors of production receive the returns Nature decrees. To be ignorant of these forces or to ignore or to attempt to counter them is the road to problems and ultimate economic disaster.

Over the centuries the developments in productive methods have been made possible by discovering and making use of natural laws and forces, i.e. laws of physics, chemistry, engineering. Developments in the distribution of that production during the same period has lagged behind, or been almost entirely neglected. Natural laws and forces can be availed of to distribute wealth; it is only necessary for them to be recognized and to be accepted and used. Material wealth is the life blood of a community, and it can be used to nourish society or, if its natural flow is diverted, society languishes and dies.

The relationship of the parts of the science of political economy to the whole is illustrated thus:

ECONOMICS
POLITICAL ECONOMY
is the study of

MATERIAL WEALTH
its PRODUCTION and its DISTRIBUTION

Factors in Production	LAND	RENT	Avenues of Distribution
	LABOUR	WAGES	
	CAPITAL EQUIPMENT	INTEREST	

That economics, and more particularly political economy, is categorized as an exact science there can be no doubt because every conclusion can be verified by repeated observations and each conclusion accurately measured: Rent, wages and interest can be measured to the last cent.

Political economy is the simplest and the highest science, it concerns itself with peoples as a whole, holistically, it is the combination of the production and the distribution of material wealth. It combines the physical sciences of production with the ethical sciences of distribution - the sciences with the humanities and shows how inseparable they are.

PRODUCTION	AND	DISTRIBUTION
Physical sciences give guidelines to produce things.		Ethical sciences give guidelines to distribute things.
Material.		Spiritual.
Rational.		Intuitive.
Reason.		Feeling - is it fair.
Sciences.		Humanities.

CONCLUSIONS FROM THE LAWS OF THE DISTRIBUTION OF WEALTH

The foregoing pages have outlined the field of economics; the elements of the subject have been classified; the terms have been defined; from observations of natural phenomena, natural laws have been disclosed; it remains to make valid deductions and conclusions from the data acquired. These economic principles are a guide to analyse and investigate the economic affairs of the individual and the economic relationship of a government to an individual and an individual to a government.

Political economy is the study which shows the fusion of the universal physical principles with the universal ethical principles; this is the holism which makes up the life of people.

At the present time no one can be blamed for the non-use of economic principles. Today's position is similar to the situation when plagues visited Europe; this one and that circumstance came in for blame and all were wide of the mark until the germ theory of disease was brought to light. To blame this or that for economic troubles is to spend time and effort better spent in researching and learning more about it.

A science is an exercise in discovering and setting down the principles of a subject as they are understood at any particular time and economics is no exception to this. Perhaps the easiest task is that of finding and demonstrating these principles. After doing so, utilizing the knowledge presents a different set of problems. It leads to questions previously unthought of, and throws doubt upon attitudes which have been regarded as stable and acceptable for all time. It asks questions about customs, practices, philosophical and theological teachings, as well as everyday relationships between individuals, even between those within the same family.

Naturally we find it difficult, even uncomfortable, putting aside what for centuries was thought to have been the mainstays of civilizations. In the transition doubts and confusions arise, but these are to be expected in the developmental stage of any discipline; over the centuries most discoveries have been received with unbelief, often derision and often too with persecution. The question is not what should be done but when. Here the ideal comes into conflict with the practical; the theory with the political; but if economic progress is to be made in the lives of people and nations these challenges must be met.

History shows that many discoveries have been slow to become generally used. For some considerable time the old exists along with the new, for example, the discoveries in astronomy were accepted slowly, medical discoveries at first made slow headway, but the usefulness of knowledge forced itself upon the world and led to personal and public benefits. There is always a constant refining and improving in the application of principles, and with every stage the idea becomes more acceptable as results prove their worth.

The laws of the distribution of material wealth give guidelines from which to build a successful economic system for any state or nation; the measures which must be implemented by a government are:

1. all revenue must come from rent and other monopolies which have been granted or allowed to continue from custom;
2. there must be no taxation of any kind upon wages and interest from capital equipment.

Economics and Parliamentarians (Members of Parliament)

The laws of the distribution of material wealth demonstrate that human edicts, whether made by individuals or states, are not the final decision makers in economic matters. All the legislative acts, those of a dictator or a democratically elected government wielding what human force may be at their disposal, are powerless to prevent the natural forces of political economy exercising their efforts. Parliamentarians or dictators are doomed to failure if they convince themselves, or their constituents, of the expediency of measures which do not conform with the nature of things. Those artificial measures which are not outright disasters create anomalies which in their turn have to be alleviated by more artificial measures and the cycle continues ad infinitum. The farther this process continues the greater the confusion associated with advantage to some, and the consequent disadvantage to all others. Example: direct and indirect taxation which leads to the necessity of welfare. When a government gives a concession or an advantage, such as a licence which is not shared by all, other people are disadvantaged, and to try and balance the situation, welfare has to be offered to the disadvantaged; there is never equitable compensation by this method.

It is quite obvious that people who purport to be sophisticated and civilized have distanced themselves so far away from natural economics that all are in difficult economic situations. Nations which have 'developed' have done so in such a way as to hide the entire natural economic order under a blanket of unsatisfactory artificial measures. With the 'progress' of nations, free enterprise and communistic alike, there has been an erosion of the natural economy by superimposing upon it a universal system of arbitrary privilege which amounts to an erosion of civil liberties and certainly of natural justice. The end product is that the world is faced with complicated and seemingly insoluble social problems. Nevertheless, while there is the alternative of scientific economic measures to restore civil rights and economic justice, there is always the hope that the erosion of the past will be reversed.

Wages and Interest Fluctuate with Rent

Wages and interest fall while rent rises proportionately; there is no independence in these movements, with the alteration of one side of the equation there is a corresponding alteration of the other side. Production = Rent + Wages + Interest or P-R=W+I. There comes a point where wages and interest are barely sufficient to support labour and capital equipment as the margin is pushed back. In the natural process, as opposed to the present artificial economy, there is provision preventing disadvantages to the level of wages and interest because labour and capital equipment benefit from public services which high rent and the absence of taxation can provide. In a natural social system, where rent is revenue, the higher rents rise, the greater the compensating public services which can be offered to each and every citizen.

Everyone has an equal opportunity to avail themselves of their share; there is no advantage to any and all may benefit. This process is a natural economic balance which occurs in the same way as in any ecological system, indeed economics is an integral part of the natural ecology. The environment, physical or economic, is upset by people alone, not by nature. Exceptions may be put forward of natural disasters such as floods, droughts or earthquakes, etc., but these are a part of natural forces and have their place in the natural scheme of things. Nature is constantly striving to maintain its strength, equilibrium, harmony and what the new physics calls entropy. No useful purpose can be served by pointing to natural disasters to explain man-made economic disasters such as war, poverty, the ecological rape of the planet which creates droughts, deserts and so on.

Ecological Balance

When rent, wages and interest are diverted from their natural course, the ecological balance is disturbed; that is when by legal enactments, which do not conform with natural law, rents are diverted into private pockets and wages and interest are appropriated by taxation to provide for public services. Rents then advantage the landholder and the confiscation of wages and interest by taxation disadvantages the workers and capital equipment owners. As time goes on and the community grows, the gap between the two classes widens. Eventually a country has a very few extremely rich powerful monopolists standing apart from the poverty stricken masses of the people, e.g. The Philipines and some South American countries. As the margin is pushed back, labour and capital equipment find it an impossible task to support the system which breaks down into civil strife. The weakened and exhausted community is then wide open for a takeover by a military or civil dictator, or an invasion by a more vigorous people.

It is remarkable that artificial systems do not collapse sooner or more often than they do, the resilience, ability, resourcefulness and strength of people to delay communal disintegration, demonstrates the human power which is available to build rationally based societies. Much of the superstructure of modern societies is sound. There has developed an economic edifice which continually tries to buttress and reinforce the structure built upon unsatisfactory foundations. Reinforcements such as welfare services to counter heavy taxation, subsidies and tariffs to support ailing industries whose costs are too high and counter-productive bureaucracies which aggravate the situation by interfering in productive processes which make the social structure top heavy with too many non-producers who have to be provided for. Communist countries have shown that bureaucracies can bring production almost to a standstill. Nature has always and always will overcome the puny efforts of human beings opposing its way. In this respect people are out of tune with the universe; in the natural army they are the only soldiers out of step with their environment. Will people ever choose cooperation with Nature in place of economic antagonism? People singly and in groups have cooperated with Nature in overcoming many production problems; why not with problems of economic distribution? Artificial economies are incompatible with Nature.

Changes in the Distribution of Wealth

The past fifty years or so have seen a tendency towards change, so that the material wealth of the world is a little better distributed in some places. But is it a change which will bring about lasting world-wide peace and prosperity? The change has been for the working people to get a greater share by the taxation of some to benefit others. The study of economics indicates that this symptomatic Robin Hood method is, at best, a stop gap treatment for an old social problem. It does nothing to search out and treat the origin or cause of the trouble. Socialist systems may constitute a transitional stage from the old order of artificial private enterprise to the evolution of another improved system of natural private enterprise. (There is no evidence at the moment to suggest that this may be so or what form a change may take.) Natural private enterprise is a system where ends are pursued in the knowledge that means to the end disadvantages no-one. There is no benefit to society in having a growth of artificial private enterprise dependent upon quotas, licences or other monopoly rather than creation of real material wealth - examples of these quotas and licences are found under pseudo-wealth on pages 10 and 11 for such a growth is malignant and like all malignancies sooner or later devours their hosts.

The early economists' philosophy, particularly Herbert Spencer's first principle ("Social Statics" 1851), was that a person should be free to do whatever he wills, provided he infringes not the like freedom of his fellows. In other words people should be free to do what they want provided it disadvantages no-one. From this it can be seen that economics is the meeting point of the material and the ethical world; it demonstrates that these two concepts are a unity; one part complements and is dependent upon the other and can never be separate from it; they are two poles of the one entity.