requirements of production.'

CONCLUSION

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

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

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INTEREST— A NATURAL ECONOMIC REWARD

By E B DONOHUE

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

The economists of the nineteenth century faced a similar dilemma when the word wealth proved a real plague to their economic theories because they could not agree on how it should be defined. They took the easy way out suggested by Mr Cannon and decided to drop the term, a move which prompted Professor Perry in 1866 to express the frank opinion that 'happily there is no need to use this word. In emancipating itself from the word wealth as a technical term, political economy has dropped a clog and its movements are now relatively free.' The term was actually dropped about 1900 and since then political economy has moved in a way strongly suggestive of that freedom which comes to a yacht that has dropped its keel. Elsewhere Mr Cannon observes that 'unless someone can come forward with a new 'reward' theory interest cannot be considered as such'. Fortunately through his profound concept of the body economic, the late Dr H G Pearce was able to do just that, when he completed the segment on the laws of distribution which Henry George, through his untimely death, had left unfinished in his text book *The Science of Political Economy*. Pearce not only formulated and illuminated the theory of market distribution of wealth but also the mechanics whereby such distribution was effected through money-price into rewards of rent, interest and wages.

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

In the economic sense of the term production requires not only labour— the exercise of reason and will in the exertion of man's powers and faculties— but also another exercise of reason and will through the investment of his products (capital) as an aid to further production. Both of these productive actions are induced by the rewards which society offers as a natural result of our natural social impulse to save effort throught exchange. This was one of the great truths glimpsed by Adam Smith when he observed that the fundamental causes of the wealth of nations are: labour, investment of capital (stored labour) and association of producers (division of labour through trade). Unfortunately, his successors departed from this formal viewpoint and became obsessed with a technical viewpoint that was economic only in the material and not the formal sense. The result was that they fell into the error of starting their development of political economy from 'factors' of production called land,labour and capital which necessarily commanded rewards of rent, wages and interest. This erroneous concept opened the door to all the muddle and intellectual lumber that has since degraded political economy to the level of a pseudo science as the Marxists rightly inferred that as land and capital were non-human elements in production, they could not merit any rewards. The Marxists then blundered into the fallacy that the whole of the produce must therefore belong to the labourer. This self-refuting absurdity ended up in the proposal that the State should take over the whole produce and decree a political wage for the labourer and decree its own revenue, to any extent that the legislators may think fit, through the chaotic muddle of taxation. The 'Capitalist' defence against this absurdity was no less absurd for it was based on the same false principle that the returns to the labourer and the State can be arbitrarily determined by human laws.

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

The complete fallacy of the illogical land, labour and capital jargon is obvious once it is recognised that land is a passive element in production i.e. it does nothing, while capital is but an instrumental cause of products, devoid of any will and therefore neither can merit any reward from the market. Indeed it is quite impossible to find any basis for a market return to land or capital which are non-human factors. As the only agent in production man operates in three ways: as labourer by the output of his personal exertion; as investor by the output or outlay of his personal property (capital); and as an associator through trade. Hence in the distribution of rewards which can be diffused only through market price, there is naturally a wage for his labour, interest for his investment and a profit for his association through exchange. Exchange, of course, creates no increase in products but it does create a bilateral increase in the use value or utility of existing products and this use value is the formal constitutive of wealth. However, the profit that accrues from exchange varies in accordance with the site whereon the exchanges are made and it is this differential in the profit of association that Henry George saw as rent.

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

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

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

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

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

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

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