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Good Government

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Newspoint

OF POLITICIANS AND ASSES

In his "Principles of Political Economy" John
Stuart Mill called the Law of Rent the "pons
asinatorum of Political Economy". He was
asserting that, until that theorem was mastered,
there was no hope of progress in understanding
the science. Most modern politicians and
economists have apparently never even heard of
the law, and certainly have no idea of its
corollaries, and consequently, when confronted
with practical social or economic problems, they
stand on the wrong side of the asses' bridge.

The whole situation is a study in the
efficacy (?) of our much-vaunted modern
education.

COMMON IGNORANCE

Their colossal ignorance is exhibited every
day. For example, the Victorian Cabinet
Minister tried to rally his party colleagues to
a show of guiltlessness when the Housing
Commission land scandals were exposed and told
them to remember that their party stood for free
enterprise and that there was nothing wrong with
anybody being able to make a million or so in a
land deal. And in the recent Federal
Parliamentary incident when it was disclosed
that Australia Post had paid an additional
\$40,000 to a speculator who had pre-empted a
piece of land two weeks earlier, and in which no
harm was seen to be done when it could not be
proved that the speculator had been tipped off
by a minister. And by the equanimity with which
the Queensland Government is parting with the
freehold of a choice area of the central
Queensland coast to an overseas speculator.
Such everyday incidents are just tips of the
iceberg of the gigantic misappropriation of rent
which impoverishes and degrades our country, of
which politicians and their economic advisers
are not even aware.

THE PRINCIPLES OF GOOD GOVERNMENT

1. The true function of government is to main-
tain peace and justice. This does not in-
clude interfering in national or inter-
national trade or commerce, or in the pri-
vate transactions of its electors save
only as these threaten peace and justice.
2. A democratically controlled and just rev-
enue is available to governments by the
collection of all site rents as their sole
and proper revenue, at the same time abo-
lishing all taxes, tariffs and unjust
privileges of every description.
3. A democratic system of representation by
the adoption of proportional representation
in multi-seat electorates and simplified
provision for the referendum, initiative
and recall.
4. A continuous program of education in the
economic facts of life to enlighten the
electorate.

MONTHLY MEETINGS HELD AT 143 LAWSON STREET, REDFERN.

1st Monday, 6 p.m.

Australian School of Social Science
(No January meeting)

2nd Tuesday, 6 p.m.

Henry George Foundation and
Association for Good Government.

3rd Wednesday, 7.45 p.m.

Social Science Club.

(No January or February meeting)

October meeting is held as the Henry George
Commemoration.

December meeting is held on 2nd Wednesday.

LAST Thursday, 6.15 p.m.

Proportional Representation Society.
(No December meeting)

Land is absolutely indispensable to our existence. Without it people cannot produce any of the goods they need, or even find space to live, and the law of rent explains why and to what extent part of what is produced on particular areas of land becomes associated with the land as rent and not with the persons who have carried out the production. In fact, most land, which can be seen to be used for living and production, has acquired, in varying degrees, this attribute of rent. Rent tends to increase, both in quantity and as a proportion of the total production that goes on in society, reaching enormous amounts in cities where production is most concentrated.

Rent does not, as many politicians and others appear to believe, fall as manna from heaven for the benefit of the shrewd or lucky. It is wealth, like food, clothing, furniture, houses and motor cars, produced by the daily, tiresome treadmill of work as are all articles of consumption.

Rent is as inescapable and uncontrollable as the propositions of Euclid. It is a fact of life like gravitation, to which men must accommodate. It originates in the interaction between (a) the unalterable economic nature of men i.e. the human urge to earn the best possible living by working in the most advantageous situations or sites, and (b) the varieties of such situations (sites) in quantity and quality. Competition, which is always economic, ensures that an increasing proportion of what tenants produce is not retained as personal income but is paid over to land-owners as rent; paid over quite voluntarily without any possibility of such payments being recovered by raising the prices of the products. People do this because it is more profitable, for example, to conduct a retail shop in a location where people constantly pass and congregate than in a more isolated location. They cannot recover the higher rent in prices because they are in competition with retailers on lower rents.

It is a matter of common observation that rents progressively rise, unlike the returns of those who carry out the actual production, and who feel under constant pressure to look to trade-unions, arbitration courts, wage-tribunals and governments for income support.

APPARENT ANTAGONISM

The apparent antagonism between rising rents and inadequate returns to producers is never recognised by the orthodox agencies whose business it is to "fix" wages. They are pre-occupied with a Marxian fiction of a struggle between producers and what they mistakenly conceive to be "capitalists", but who, for the most part, are themselves producers caught in the same squeeze as those whom they employ. In fact both the apparent antagonism and the apparent squeeze have been legislatively

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produces by politicians and economists who are still on the wrong side of Mill's bridge and who act in ignorance of the law of rent.

Rent becomes attached to particular sites and natural or social opportunities, not by any quality in the land itself, which has no cost of production, but by society at large, by its productive activities converting the land into sites, i.e. more profitable locations for enterprises. It does this most obviously in and around cities, and to less obvious degrees in farming and mining locations, both as a consequence of public and private works and development. Public expenditure on a Harbour Bridge is immediately reflected in an increase of rents in all the affected areas throughout New South Wales, just as a railway or a port facility will enhance the attraction and the rents of farms and mines. All the personal services and production that population itself brings to an area will cause rents to rise. It is not possible to list the innumerable productive undertakings of people that enhance rent; they are as disparate as the stability of law and the provision of a remote coastal lighthouse. Rent is produced by productive work. It is the corporate product of people who work in natural co-operation by specialising and exchanging their products; it forms a natural social fund that increases with the social integration of society.

THE NATURAL REVENUE OBSCURED

Although rent is the natural social revenue, people have been led away from its recognition by a long history of legislative chicanery, reinforced by economists and vested interests who are ignorant of the fundamentals of economic science. In this process rent has gradually become confused legally with the ownership of land and, instead of being available for the general benefit of those who produce it, has become the subject of speculation and easy fortunes.

The spectacular and tragic result of this mistreatment of a natural social beneficence has been the capitalisation of rent into land-values, which exact from producers a toll of huge proportions which, under the frenzy of speculation, rises to a point where production stops and unemployment starts.

One need not search beyond the law of rent to understand such problems as unemployment, social deterioration, youth frustration and the total disillusionment that minorities express in terrorism. The path to peaceful, productive affluence is blocked by the exactions of land prices which rise like a barrier in front of the productive aspirations of the people.

Those producers who can surmount the barrier, do so only at the cost of a major part of their

VIEWPOINT

production to a minority that renders no service in return. They cannot increase their own rewards in the face of the demands of these privileged non-producers.

The secondary, devastating effect of the legislative conivance, which converts a rational, harmonious public fund into a private perquisite, is resort to taxation that strikes most heavily at producers according to their degree of industry. Taxation is the notorious cause of rising costs and reducer of incomes; it now takes at least half of the average person's income, much of it to be expended on welfare, the necessity for which would largely vanish if land were freed by the restoration of rent to the public.

When the law of rent is really understood, not only will the superstition that arbitration courts can raise wages in general be exposed, but the downward pressure on wages by speculative land-values and taxation will become an historical notoriety like the inquisition or any other such repellent aberration.

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Obituary

THEODORE MAXWELL EDWARDS

It is sad to record that another scholarly and dedicated Georgist, Max Edwards, passed away on January 8th, 1978. Although a few years ago a stroke caused paralysis of limbs on one side and also deprived him of speech, mentally he was bright as ever and his capacious memory never failed. Using an alphabet chart, he conversed with considerable animation and so quickly that one had to be very wide awake to keep up with him. Seemingly he regarded disaster as a challenge. His cheerfulness was inspiring and beautiful. His courage was superb.

Throughout his years of activity he wrote many letters and contributed to Georgist journals. His efforts promoted a wide distribution of George's books and relevant literature. When residing near Gosford he presented books by Henry George to the town library and bestowed a similar benefit on the library of his last place of residence, Hornsby.

As a teacher he observed the disadvantages of the children of the very poor, particularly the aboriginal children with whom he felt great compassion. Having long experience in high school teaching he was not only efficient but also patient as an exponent of Georgist philosophy and practicable proposals.

Taking note of social conditions he travelled in many lands including Russia. Having learned to speak the language he had hoped to converse with people in various occupations, but as he was not permitted to go or stay anywhere without

his official guide, there was no freedom of speech.

In disposition he was gentle and unobtrusive. The philosophy of Henry George was vitally a part of himself. Despite the difficulties and frustrations which beset the Georgist cause, he was on all occasions, courteous. Though sadly missed by his associates he is most affectionately remembered.

Max had two sons and two married daughters, Mrs Kirkwood and Mrs Frazer. Sadly, one of his sons who became a barrister, died in London in consequence of an accident. Our deep sympathy is extended to Max's widow Mrs Maud Edwards of Hornsby, the children and relatives.

IVY AKEROYD

As a tribute to Max's memory the committee has resolved to make gifts of copies of George's principal works to several district libraries, including Hornsby. These will be designated as Max Edwards Memorial Gifts. EDITOR.

*** **

JUSTICE AND LAND TENURE

By S S GILCHRIST

Who should own land?
How should land be distributed between individuals?

Should individuals and some families have the legal right to hold sites and resources forever, and others to be deprived of access to sites forever, except by paying tribute to the land owners?

With our present land tenure system, past governments have issued permanent titles to sites and these titles are maintained by present governments. These titles give the holders the perpetual opportunity to get all the benefits they can from the site, but in doing this the government continually deprives the remainder of the community of such opportunity. Laws such as trespass, backed by police action ensure this situation. This is most unjust as it creates permanent privilege AND permanent disadvantage, particularly as title holders can lease sites, and the landless must pay another individual for permission to use part of Australia.

The fact that titles to land privilege can be bought and sold, does not alter the fact that the titles are government maintained privilege. The distribution of site value privilege is of course unjustly disproportionate. It is this maldistribution which is the main cause of unearned riches on one hand, and of undeserved poverty on the other.

The basic privilege of land owning is increased many fold by the benefits and services which are provided at the community's expense such as roads and highways, bridges, police

protection, schools and teachers, hospitals, fire brigades, libraries, parks and gardens, subsidised rail, bus and ferry services and many others. If any of these services became unavailable in a given area, then the worth of sites is less and prices would fall. Virtually the whole worth of land, as indicated by its market price, is created by the opportunities, advantages, services and benefits all provided at the expense of the community. Even the presence of the community itself increases the value of the land privilege. Ask yourself what are the things which make any site more valuable (or attract greater price) than another site?

As site holders obviously are getting benefits at the expense of the community, is it not simple justice for them to pay the provider of the benefits according to their market value? This is in fact already done to a small extent by some local governments which obtain their revenue from rates on the 'unimproved' land values, but it is clear that the full worth of the privilege is not collected, as the titles still exchange for considerable amounts. It is the duty of government to charge able bodied people for these services.

A good government will steadily increase site value taxation for revenue for central government and it will reduce other taxes such as sales tax and income tax which are unjust and uneconomic. (Briefly site taxes cause prosperity whereas other taxes and deficit budgetting cause depression and unemployment).
 * Increasing site tax removes privilege. Site Value Tax is not so much a tax as a payment for services provided at government expense.
 * Site taxes encourage land speculation. The land, and discourages land speculation. The fuller use of land causes fuller employment opportunities.
 * Remember: The value of land is continually maintained and increased by the continuous stream of services provided by the community.
 * It is absolutely just and economically sound that we each and all pay for the worth that the community is providing to us.
 * Uniform site taxation should be instituted by central government on all sites without exemption and the rate should be increased steadily each year.
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THE LAW OF RENT IS BASIC

"Finally I must insist that the crux of the Land question is the classical theory of Economic Rent, dubbed by Lassalle the Iron Law of Wages. Like the roundness of the earth, it is unfortunately not obvious. It is the pons asinorum of economic mathematics. Our politicians cannot draw their conclusions from it any more than Shakespeare could draw his from the Okapi or the axolotl: they simply do not

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know of its existence. Karl Marx, by an absurd reference to it in 'Das Kapital', proved that he did not understand it. John Ruskin, after a very promising beginning as an economist by his contrast of exchange values with human values, was stopped dead by it. Yet Marx and Ruskin had more brains and keener interest in social questions than three or four average Cabinetts or three or four million average voters. It is the rock on which Liberal Cobdenism has been broken and Socialism built in the struggle between plutocracy and democracy".
 (George Bernard Shaw, "Everybody's Political What's What?" (1944), page 22.)
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BOOK WILL DETAIL HARE-CLARK SYSTEM

The American who came to Tasmania to study the Hare-Clark electoral system 22 years ago, has been commissioned by the Government to write a book on the subject.

Dr George Howatt never went back to the US, and has since become the world's best-known authority on the system. Already he has written a number of reports and will use them as a basis for his book. The State Government has made a cash grant available through the University of Tasmania. But Dr Howatt said at a news conference that he had not set a target date for completion of the book.

He said that when he arrived in Australia in 1956 on a Fulbright scholarship from the University of Pennsylvania, he believed the Hare-Clark system was the best in the world. "And my opinion has not changed," he said. He said the grant would be used to research refinements in the system. The most urgently needed reform was to adopt a change in which the final result was taken from the State-wide majority. Dr Howatt said that this could be done by relating the composition of Parliament to the State-wide vote. As it was, the results in each electorate were calculated in isolation. But under Dr Howatt's proposal the seventh member in each electorate would be elected according to the State-wide majority. This would mean the candidate would be elected on the State-wide trend, not by the trend in his own electorate.

Dr Howatt said that this would also allow an immediate evaluation of the election result. If an early trend favored one political party, then there was no way it could lose. Dr Howatt's changes would ensure a majority of 20-15 every time. The present Government has a majority of only one seat.

Dr Howatt said he was aware of the grant in October last year. The idea of a book on the system originally came from a former Liberal Premier, Mr Angus Bethune. But it was taken up after the declaration of the 1976 poll by the then Premier, Mr Neilson. Mr Neilson backed Dr Howatt's proposals to modify the system to make

It a working model for the world. But yesterday, Dr Howart was not prepared to speculate on whether the subject of his book would become legislation, once he had finished his research. Dr Howart is also preparing another report for a Legislative Council committee.

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ANTI-MONOPOLIST ACTION GROUP A BUDGET FOR PROSPERITY

THE TARGET OF FISCAL POLICY should always be the promotion of the general well-being of the community. This is even more the case in times economic depressions.

The meaning of prosperity has been the subject of recent political controversy. Some thought it meant an easy life with little work, more and more income for less and less effort and work. But this romantic ideal did not last for long in modern industries which depend on complex and increasing supplies of goods and services for such simple needs as a glass of water, heating or even the disposal of rubbish. Prosperity is the easy availability of plentiful goods and services. Although incomes, land prices etc. have increased greatly, we have high unemployment and very high taxation--neither goods nor services are 'easily available', because they cost too much. The task of a budget for prosperity is two-fold: it can provide incentives and disincentives to stimulate the competitive supply of goods and services.

1. BUDGET INCENTIVES

We must realise that fiscal measures have only limited influence on economic activity. The freedom of eager suppliers to compete on the market, and so to provide the cheapest goods and services is controlled in modern society by far-reaching protectionist legislation. The Budget can however, remove taxes which penalise productive efforts and in the short-term: replace them with taxes which stimulate productivity. There is plenty of scope in reducing taxes also, because in the last 15 years they have increased much faster than even inflation did. (Taxes on production increased by 960%, whilst the Consumer Price Index increased by only 139% during 1962-77).

(a) Income Tax Reduction: Income tax, especially progressive income tax is a disincentive, a penalty on productive effort. It reduces individual purchasing power whilst it increases the cost of production. How much should we reduce income taxes? As much as practically possible, because it is a tax most directly discriminating against productive effort, because it is very costly to collect and because it can be avoided by utilising expensive services, which could be better utilised.

If we compare Australia with Switzerland, which is a very prosperous country without the rich natural resources that we have and which depends much more on the work-efforts of its citizens, we find that in 1973-74: All Government expenditure in percentage of Gross National Product was: Switzerland: 24%; Australia: 32.6%. (In 1977-78 40%). Taxes on Incomes and Capital: Switzerland: 12.5%; Australia: 18.05%! Our Taxation of incomes was 50% higher in 1973-74, and it is increasing. There seems to be a very great scope for reductions! As a first step, we should abolish income tax for 55% of all income tax payers in the lower brackets--and replace it with a 3% Land Tax (tax-deductible) on Site Values. (Improvements are not included in 'Site Value').

THE FACTS

In 1973-74 21% of Income Tax was paid by 55.6% of Taxpayers (\$1,112 M.)
In 1974-75 18% of Income Tax was paid by 54.7% of Taxpayers (\$1,201 M.)
In 1977-8 18% of the estimated Income Tax amounted to \$2,357.5 M. This amount be replaced by a 3% Land Tax on Site Values (\$2,357.5 M.). This measure alone provides significant incentives for increased competitive supply of both goods and services and without any reduction of tax revenue.
* More than half of Taxpayers (over 3 million) will not be penalised for earning their living any more.
* Their purchasing power increases both with the tax and the accountability fees saved.
* The increased purchasing power provides new employment opportunities--the savings from the reduced cost of tax-collections decrease costs. Further Income Tax-cuts should be made gradually, to reduce the remaining penalising burden. We must remember that even in 1973-74 our taxes on income and capital were 50% higher than those in Switzerland!

(b) Payroll Tax Elimination: The Institute of Applied Economic and Social Research at the University of Melbourne estimates that the elimination of Payroll Tax will result in 100,000 new jobs. This is a direct example, how taxes on production restrict the supply of goods and services and hinder prosperity. Whilst the Commonwealth collects very little in Payroll Tax (77-78 estimate is \$30 M.) the states collect more than \$700 M. The Federal Budget can achieve the abolition of state Payroll taxes if it makes this a condition for providing Federal Grants to the states.

2. BUDGET DIS-INCENTIVES

To discourage restrictive practices which prevent the cheap, competitive supply of goods and services:

(a) Land Tax on Site Values, mentioned before, discourages the speculative holding and under-

development of land. If land is not developed to its economic capacity, it will not be worth while to own it—as it is now. Consequently unused blocks of land will be put on the market, bringing down the cost of land, and underdeveloped slum properties will be renovated and improved. Not only will the cost of building come down, but new constructions will be started with new job opportunities. Capital, which is now tied up in speculative land-holding, will be released and available for new loans. This will result in a reduction of interest rates.

(b) Gradual reduction in the wide ranging subsidies, and benefits paid to industries and individuals which increase the cost and reduce the supply of either goods or services. In times of hardships it is natural to help industries on a temporary basis, which lose their market, or workers who become unemployed. However, if conditions do not change, the community cannot be reasonably expected to subsidise the growing of unsaleable apples, or wasting the productivity of unemployed people who could contribute to the welfare of society. The reduction of subsidies paid to industries will reduce prices directly. If we demand some services in return for continuing personal benefits (i.e. the cost of educating a doctor is over \$20,000; unemployment benefits should be available for some productive activity, social work etc.)—then additional services will be available to general prosperity.

A Budget for Prosperity must provide incentives for work, productivity and disincentives for unproductive, speculative and privileged activities.

*** **

EILEEN MARY SERPELL

(Reprinted from "Progress")

The many friends of Eileen Serpell in the Henry George movement and beyond will be saddened to hear of her death on 5th April after a brief illness.

During the funeral service at Holy Trinity Church, Doncaster, which was attended by many relatives and friends, Mr Morris Williams, MP for Doncaster and an active Georgist, referred to the many ways in which Eileen Serpell had contributed to our movement.

It is difficult to express adequately the contribution she made to the cause of social justice. For many years she was active in promoting the ideas of justice and individual freedom, and unlike many people, her enthusiasm never flagged with advancing age. She was a member of the League Executive for many years, President of the Women's Group, a fluent letter writer to the Press, always ready to welcome new ideas and ways of advancing the cause.

Mrs Serpell was active in a circle far beyond the League. She always used every opportunity in other groups to speak for its ideas. Listeners to the "Heckle Hour" on 3DB in the 30's, chaired by Mr Jack Atkinson, will remember her as a frequent speaker. She was active in the Housewives' Association and the League of Women Voters for many years, serving for terms as President in those bodies. She regarded all government Boards which restricted producers in control and marketing of their own produce as essentially "communistic", and fought strongly against them. Largely through her efforts, the Apple and Pear Board came to an inglorious end in the 40's.

Eileen Serpell came of a strong Georgist family. Her father George Bateman and her brother George were both active in the movement. She married Richard Serpell, also a keen Georgist. Her children Georgina and Peter are also supporters of our movement. To them and the other members of the family we offer our deep sympathy at this time.

M.H.
*** **

AN ENLIGHTENING CORRESPONDENCE FROM SOUTH AUSTRALIA

MADE IN AUSTRALIA

(Published in THE ADVERTISER, Adelaide 21.1.78)

Sir — To celebrate Australia Day in the most appropriate manner for 1978 all our unemployed should parade on the day, each carrying a product made overseas.

This will show just how proud we all are of Australian initiative, Australian technology, Australian education and expertise.

In doing this we may well bring home to our Governments one of the greatest causes of unemployment and lack of future for Australian youth.

We import our nation's decline and fall every day. It's time we supported Australia using Australian raw materials to make Australian goods with Australian labour and expertise.

JOHN A LONGHORST

REPLY

Sir — Your correspondent John A Longhurst claims that one of the greatest causes of unemployment is the importing of goods.

As overseas trade is simply the exchange of what is imported for what is exported, it follows that if the former is stopped or restricted then the latter is inevitably stopped or restricted to a similar degree.

Figures issued by the Australian Department of Overseas Trade confirm that Australian labour currently provides manufactured goods, farm products, minerals, &c., worth more than \$9,500m to overseas countries.

How, by denying entry to our markets of the goods supplied by those same countries in return,

could our unemployment situation be in any way improved? The logic of it escapes me.
JOHN E HALL (Secretary, Henry George League, SA Division) 22.1.78

(Not to mention our primary products other than farm products. EDITOR.)

*** **

The modern fiscal system whose pivot is formed by taxes on the necessities of life (of course making them dearer) therefore bears within itself the germs of an automatic progression. Excessive taxation is not now so much an incident as a principle. In Holland, where this system was first inaugurated, the noted patriot De Witt extolled it in his *Maxims* as the best system for making the wage-earner submissive, frugal, diligent, and over-burdened with labour.

Karl Marx in "*Capital II*" (838)

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Letters
THE EGG BOARD
(Published in the Sydney Morning Herald 11.3.78)

Sir -- Mr Wren has said that the Government is not stepping back from any previous position on the egg industry, but rather is seeking an orderly and stabilised marketing system for the poultry industry. (Herald, March 7).

More than 50 years ago a Labor NSW State Government established the Egg Board for the same reason. It proved a failure. Sir Robert Menzies stepped in and foisted on us the hen tax, to bolster up the egg boards. It proved to be a greater failure.

Then came the last champion of Liberalism, Sir Robert Askin, aided by his Department of Agriculture, to license poultry farms and allot hen quotas so that production could be maintained at par with consumption. This system is also on the road to failure, and it will destroy the once Great poultry industry and the poultry section of the NSW Department of Agriculture as well.

Our eggs do not belong to us, but to the Egg Board. Our hens are taxed for the upkeep of the Egg Board. We are forced to pay a licence fee every year, although the Egg Board knows who we are and where our farms are situated.

Our industry journal, The Poultry Farmer, is muzzled by the Egg Board. We are not allowed to keep hens above the number dictated by the Egg Board.

All this is done, according to the Egg Board, in the name of an orderly and stabilised system of marketing for the poultry industry.

Yet poultry farmers are leaving the industry in droves because the Egg Board is a policing organisation now, not a marketing one.

Ever since the Egg Board was established, overproduction has been the greatest problem of

the industry. No Egg Board means no over-production, because poultry farmers will have to produce for the market which wants their eggs. Having no encumbrances like the monopolistic and expensive Egg Board to maintain, poultry farmers will be able to sell their eggs cheaper to the consuming public.

O that a kind heaven would send us another Oliver Cromwell who would say: "Take away this bauble!"

T H HODGSON
Tahmoor NSW
*** **

THE COST

(Published in the Sydney Morning Herald 11.3.78)

Sir -- Apart from the problems now obvious to the public, there are others created by the NSW Egg Marketing Board.

There are 799 people employed to "look after" 1,000 poultry farmers. Taxpayers pay these people's salaries and expenses as well as at least 10c per dozen for eggs above what they would pay in a free-market situation.

It is illegal for the farmers to sell eggs other than through the board. It is illegal to cut prices and compete.

The sooner this board is dismantled and a free market situation is allowed the better off we all will be.

TIM DAVY
Thornleigh NSW
*** **

OUT OF STEP

(Sent to 'S.M.H.' & 'Financial Review')

Sir -- Even in our kaleidoscopic world it is somewhat surprising to see our staunchly protectionist Mr Fraser, hitherto devoted to protecting 'Australian industry', posing as a free-trader and tilting at stubborn, wicked, protectionist Japan and the EEC. Possibly the present amusing situation will enable Mr Fraser to learn that imports do not create unemployment but prosperity, and that Australia should mature and become a partner with the rest of the world as a free trading unit devoted to the promotion of both internal and external trade without any governmental restrictions (other than those necessary to protect our health).

If, as he says, he wants other countries to lower their tariffs, he must realise that the kettle is hardly likely to be converted to whiteness by the pot. But I certainly wish his present anti-tariff campaign all success.

W A DOME
Lakemba NSW
*** **

CAUSES OF UNEMPLOYMENT

Sir -- Whatever may be the actual numbers unemployed, there are certainly too many. While there are people willing to produce, and there are certainly people willing to consume, it is a ridiculous state of affairs when these twin

(Cont. on page 8)
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desires cannot be fulfilled. The reasons are twofold. Firstly since all wealth, i.e. goods and services, is created by people using their labour in conjunction with the free gifts of nature, i.e. land, the reason for not being employed must be that labour does not have adequate access to land. This is because of the high price of land created by speculation, particularly in times of high inflation (currency debasement).

The second cause arises when legislation or pressure is used to attempt to force employers to pay workers more than the goods they produce are worth. If the price demanded for any goods or services is too high, i.e. above the equilibrium, then some of those goods or services will remain unsold. This law holds true for wheat, motor cars and labour. If the price demanded for labour is too high there will be unemployment.

Taxes on goods and services play an important role, payroll tax which increases the cost of employment and sale taxes on the finished goods.

The only long term cure for unemployment is for the government to collect for the community the rental value of land instead of taxes on labour and industry, and to change legislation which enforces unrealistically high wages.

H B EVERY Melbourne
*** **

RENT

Sir -- It is unfortunate that Mr Gilchrist (GG Dec. '77) is unable to distinguish between economic rent as a part of the distribution of wealth and rent as a payment for the use of a site.

L BOORMAN Eastwood NSW
*** **

ACTION SUGGESTED

Sir -- I am sure that believers in the soundness of the Henry George philosophy look with dismay on the failure of protagonists all over the world to implement it.

On the local front at least, efforts are made to educate people to accept this simple, natural and commonsense solution of most if not all our economic and social ills.

Unfortunately these efforts are not good enough, touching as they do only a small percentage of the population. The movement needs to spread its wings into much wider fields. The only way, as I see it, is to get at the politicians. Governments only can do the job. The H.G. movements, good as they are, can accomplish very little.

The first one to 'get at' should be President Carter of the USA. Here is a man openly presenting himself as a professing Christian. Henry George was an American. Why not arrange a huge delegation of Georgians to wait on the

President. It may be necessary to call delegates from all over the world, but make a start at this place. Here is much potential. Influence the President and a good start will have been made.

HARRY SMITH Warrimoo NSW
*** **

TAXATION IS DESTRUCTIVE

Sir -- The only incentives of the present taxation system are tax avoidance, tax evasion and land speculation.

Tax avoidance reduces the 'Ability to Pay' maxim to mean the 'Inability to Avoid' tax payments. It increases the non-productive waste of tax agents, accountants and lawyers, and uses the courts' time in judicial decisions over Assessable Income, Allowable Deductions and the use of Trusts and other companies to avoid tax payments.

If tax cannot be avoided, then by not declaring assessable income it is easy to evade. It all encourages dishonesty and fraud. Land speculation is encouraged, for it is a more certain profit, especially in times of inflation and strikes, and it is not so heavily taxed. The cure is the collection of site rent (or land values) for public revenue.

The collection of site-rents is easy to administer and avoidance is impossible. The site-rent represents the unimproved annual value of land. Because this is created by the community, it ethically belongs to the public. Each person or firm would pay in accordance with the amenities that the community makes available in the locality where his land is situated.

In contrast to today's taxation site rents for public revenue would bring an incentive to produce goods and services.

A. SCHMID. Melbourne
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COMMENT ON A R CANNON'S BOOK.

Sir -- Thank you for E P Middleton's review of A R Cannon's "Depression, Inflation and Employment" in the August 1977 issue, in which he writes, quote: "He shows that there are five major causes of inflation-- taxation, protection and monopoly in industry, deficit budgeting, excessive government spending, particularly on the bureaucracy, and land value speculation, the last named being the most important..." unquote. Indeed, the last-named is the most important, and much more so as No.1, taxation, No.3, deficit budgeting, and 4, government spending on bureaucracy, are all derived from No.5, and in many countries No.2, protection, is decreasing year by year, being of no importance.

If you stopped intentional as well as unintentional land speculation, by collecting the land rent, No.1, income taxes, could be abolished, and it is a fact the rising bureaucracy is first of all a consequence of taxation. I would therefore say that there is

only one major cause of inflation, the others being rather symptoms, and at least of no importance.

I fully agree to Mr Middleton's quote: "Clearly, it is not rent which absorbs an unfair share of the national product but the private appropriation of that rent..." unquote.

But later in the same column about "artificially created shortage of sites by the speculative withholding of land from the market", I think he is paying too much attention to that minor part of the total land value rising. The yield obtained from unintentional "speculation" is much higher than that from intentional speculation. All land owners are unintentional "speculators", as all who own a piece of land are profiting, whether they like it or not, from the general development at the cost of all others who are living from their work, paying higher and higher prices for their consumption, including house-rent, also because the mortgages become cheaper and cheaper to pay back.

Just one comment to "Inflation vs Maturity": Henry Hazlitt is observing the consequences, but is wrong in his quote: "...When modern governments inflate by increasing the paper-money supply, directly or indirectly, they do in principle what kings once did when they clipped the coins" unquote.

The supply of paper money is the effect of rising values on real estate, not the cause. As soon as we have just a little inflation, confidence in the coin is decreasing, so people try to hedge themselves by conveying savings into real estate. The bank notes in most countries are only 2-3 pct of the total amount of circulating money.

Most economists make the mistake of only calculating with the conceptions of "M 1" and "M 2". But, as all pieces of paper with an I.O.U. in principle are circulating money as well as the bank notes, not only the governments are issuing money through their central banks, but you and I also, when borrowing from each other and deliver a mortgage or other receipts promising the paying back of the amount, so we are all to blame for the increasing paper money supply.

KNED THOTSTRUP

*** ** Denmark

ARCHIMIDES

By MARK TWAIN

"Give me whereon to stand" said Archimedes, "and I will move the earth." The boast was a pretty safe one, for he knew quite well that the standing place was wanting, and always would be wanting. But suppose he had moved the earth, what then? What benefit would it have been to anybody? The job would never have paid working expenses, let alone dividends, and so what was the use of talking about it? From what astronomers tell us, I should reckon that the earth moved quite fast enough already, and if

there happened to be a few cranks who were dissatisfied with its rate of progress, as far as I am concerned, they might push it along for themselves; I would not move a finger or subscribe a penny piece to assist in anything of the kind.

Why such a fellow as Archimedes should be looked upon as a genius I never could understand; I never heard that he made a pile, or did anything else worth talking about. As for that last contract he took in hand, it was the worst bungle I ever knew; he undertook to keep the Romans out of Syracuse; he tried first one dodge and then another, but they got in after all, and when it came to fair fighting he was out of it altogether, a common soldier in a very business-like sort of way settling all his pretensions.

It is evident that he was an over-rated man. He was in the habit of making a lot of fuss about his screws and levers, but his knowledge of mechanics was in reality of a very limited character. I have never set up for a genius myself, but I know of a mechanical force more powerful than anything the vaunting engineer of Syracuse ever dreamt of. It is the force of land monopoly; it is a screw and lever all in one; it will screw the last penny out of a man's pocket, and bend everything on earth to its own despotic will. Give me the private ownership of all the land, and will I move the earth? No; but I will do more. I will undertake to make slaves of all the human beings on the face of it. Not chattel slaves exactly, but slaves: nevertheless. What an idiot I would be to make chattel slaves of them. I would have to find them salts and senna when they were sick, and whip them to work when they were lazy.

No, it is not good enough. Under the system I propose the fools would imagine they were all free. I would get a maximum of results, and have no responsibility whatever. They would cultivate the soil; they would dive into the bowels of the earth for its hidden treasures; they would build cities and construct railways and telegraphs; their ships would navigate the ocean; they would work and invent and contrive, their warehouses would be full, their markets glutted, and

The beauty of the whole concern would be that everything they made would belong to me.

It would be this way, you see: as I owned all the land, they would, of course, have to pay me rent. They could not reasonably expect me to allow them the use of land for nothing. I am not a hard man, and in fixing the rent I would be very liberal with them. I would allow them, in fact, to fix it themselves. What could be fairer? Here is a piece of land, let us say, it might be a farm, it might be a building site, or it might be something else--if there was only one man who wanted it, of course he would not offer me much, but if the land be really worth

anything such a circumstance is not likely to happen. On the contrary, there would be a number who would want it, and they would go on bidding and bidding one against the other, in order to get it. I should accept the highest offer—what could be fairer? Every increase of population, extension of trade, every advance in the arts and sciences would, as we all know, increase the value of land, and the competition that would naturally arise would continue to force rents upward, so much so, that in many cases the tenants would have little or nothing left for themselves.

In this case a number of those who were hard pushed would seek to borrow, and as for those who were not so hard pushed, they would, as a matter of course, get the idea into their heads that if they only had more capital they could extend their operations, and thereby make their businesses more profitable. Here I am again. The very man they stand in need of; a regular benefactor of my species, and always ready to oblige them. With such an enormous rent-roll I could furnish them with funds up to the full extent of the available security; they would not expect me to do more, and in the matter of interest I would be equally generous.

I would allow them to fix the rate of it themselves in precisely the same manner as they had fixed the rent. I should then have them by the wool, and if they failed in their payments it would be the easiest thing in the world to sell them out. They might bewail their lot, but business is business. They should have worked harder and been more provident. Whatever inconvenience they might suffer, it would be their concern, and not mine. What a glorious time I would have of it! rent and interest, interest and rent, and no limit to either, excepting the ability of the workers to pay. Rents would go up and up, and they would continue to pledge and mortgage, and as they went bung, bung, one after another, it would be the finest sport ever seen. Thus, from the simple leverage of land monopoly, not only the Great Globe itself, but everything on the face of it would eventually belong to me. I would be king and lord of all, and the rest of mankind would be my most willing slaves.

It hardly needs to be said that it would not be consistent with my dignity to associate with the common rank and file of humanity; it would not be politic to say so, but, as a matter of fact, I not only hate work but I hate those who do work, and I would not have their stinking carcasses near me at any price. High above the contemptible herd I would sit enthroned amid a circle of devoted worshippers. I would choose for myself companions after my own heart. I would deck them with ribbons and gewgaws to tickle their vanity; they would esteem it an honour to kiss my Glove, and would pay homage to the very chair that I sat upon; brave men would

die for me; parsons would pray for me, and bright-eyed beauty would pander to my pleasures. For the proper management of public affairs I would have a parliament, and for preservation of law and order there would be soldiers and policemen, all sworn to serve me faithfully; their pay would not be much, but their high sense of duty would be a sufficient guarantee that they would fulfill the terms of the contract.

Outside the charmed circle of my society would be others eagerly pressing forward in the hope of sharing my favours; outside of these would be others again who would be forever seeking to wriggle themselves into the ranks of those in front of them, and so on, outward and downward, until we reach the deep ranks of the workers forever toiling and forever struggling merely to live, and with the hell of poverty forever threatening to engulf them. The hell of poverty, that outer realm of darkness where there is weeping and wailing and gnashing of teeth—the social Gehenna, where the worm dieth not, and the fire is not quenched—here is a whip more effective by far than the keenest lash of the charrel slave owner, urging them on by day, haunting their dreams by night, draining without stint the life blood from their veins, and pursuing them with relentless constancy to their very graves. In the buoyancy of youth many would start full of hope and with high expectations; but, as they journeyed along, disappointment would follow disappointment, hope would gradually give place to despair, the promised cup of joy would be turned to bitterness, and the holiest affection would become a poisoned arrow quivering in the heart.

What a beautiful arrangement—ambition urging in front, want and the fear of want bringing up the rear! In the conflicting interests that would be involved, in the throat-cutting competition that would prevail, in the bitterness that would be engendered between man and man, husband and wife, father and son, I should, of course, have no part. There would be lying and cheating, harsh treatment by masters, dishonesty of servants, strikes and lockouts, assaults and intimidation, family feuds and interminable broils; but they would not concern Me. In the serene atmosphere of my earthly paradise I would be safe from all evil. I would feast on the daintiest of dishes, and sip wines of the choicest vintage; my gardens would have the most magnificent terraces and the finest walks. I would roam mid the umbrageous foliage of the trees, the blooming flowers, the warbling of birds, the jetting of fountains, and the splashing of pellucid waters; my palace would have its walls of alabaster and domes of crystal, there would be furniture of the most exquisite workmanship, carpets and hangings of the richest fabrics and finest textures, carvings and paintings that were miracles of

art, vessels of gold and silver, gems of the purest ray glittering in their settings, the voluptuous strains of the sweetest music, the perfume of roses, the softest of couches, a horde of titled lackeys to come and go at my bidding, and a perfect galaxy of beauty to stimulate desire, and administer to my enjoyment. Thus would I pass the happy hours away, while throughout the world it would be a hall, mark of respectability to extol my virtues, and anthems would be everywhere sung in praise.

Archmedes never dreamt of anything like that. Yet, with the earth for my fulcrum and its private ownership for my lever, it is all possible. If it should be said that the people would eventually detect the fraud, and with swift vengeance hurl me and all my courtly parasites to perdition, I answer, "Nothing of the kind, the people are as good as gold, and would stand it like bricks, and I appeal to the facts of today to bear me witness."

(This sketch, published in the Standard of July 27, 1889, under the pseudonym "Twarck Main" is considered by experts including Daniel C Beard, to be an authentic writing by Samuel Clemens.)
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PROPORTIONAL REPRESENTATION SOCIETY OF AUSTRALIA NSW BRANCH

VICTORY CELEBRATION

We reported earlier on an agreement between the Government and Opposition on proposals for the use of the quota-preferential method with optional preferential voting in future elections of the NSW Legislative Council. The details were revealed when the proposals were presented to Parliament in the form of three Bills on Wednesday 8 March. The method of election is similar to the one used in Senate and NSW local-government elections. It differs in several details from the method incorporated in the amendments moved by Mr John Hatton but the principle is the same. The most important difference is in the provision for the transfer of surplus votes of elected candidates. The procedure to be used involves the random selection of papers for transfer, so that there is a small element of chance. The method in Mr Hatton's amendments, which was based on the Tasmanian Hare-Clark method, does not require selection of papers for transfer and there is no element of chance. It is unlikely that the random-selection procedure will cause problems but the view of the Society is that the procedure used in Tasmania is to be preferred.

If the new method of election is approved at a referendum to be held on 17 June, the Council will in future consist of 45 members, with 15 elected at each regular election from the whole State as a single electoral district. The term

of each member will be three terms of the Legislative Assembly, which normally will be nine years. Voters will be required to show ten preferences and may, if they wish, show further preferences. There is an interesting provision, taken over from the Local Government Act which, in spite of the requirement for ten preferences, allows a vote to be counted as formal if a number is repeated or if there is a break in the numerical sequence. These votes will be counted up to the preference immediately before the repetition or break. We still regard compulsion to record preferences other than those a voter would be prepared to mark voluntarily as an unwarranted interference with his freedom of choice. The new legislation at least moves a little in a desirable direction in calling only for a number of preferences less than the number of vacancies and in providing a let-out clause for those who refuse to pretend that they have preferences for candidates in whom they are not interested.

One regrettable feature of the new legislation is the provision for filling casual vacancies. Mr Hatton's amendments would have led to the use of the procedure that applies to casual vacancies in the Tasmanian House of Assembly. The papers forming the quota of the vacating member are re-examined to find which of the unelected candidates is the next choice of the voters who have lost their representative. Unfortunately, this procedure was not adopted. The parties will present their endorsed candidates in groups in recommended order and a casual vacancy will be filled by the candidate next in order after the vacating member. If there is no eligible candidate at the time of a casual vacancy, a replacement will be elected at a joint sitting of the two Houses, the replacement being a member of the same party as the vacating member. This will in most cases give the same result as the Tasmanian procedure but there will be no certainty that the replacement will be the person the voters would have chosen and it is possible that party supporters might not have the same views about the relative merits of candidates as the pre-selectors. If nothing else, the casual-vacancy provision will encourage the parties to endorse more candidates than they expect to be elected, giving the voters some choice beyond what they might have had without this provision.

The fact that a relatively satisfactory method is to be used rather than the unacceptable party-list method originally proposed indicates that politicians can be influenced by what goes on in the world outside as well as in Parliament House. The criticism that greeted the party-list method proposal was well-informed and effective, largely because of the information that the Society was able to give to members of Parliament and to the press. Mr John Hatton's speeches in the Assembly showed

clearly that there was a democratically acceptable alternative to the party-list method that was completely consistent with the stated intentions of the Government. The strong support for the Australian Democrats in the December Federal election showed that it was likely that the Democrats would win at least one seat in the Legislative Council with the list method, and they might have held the balance of power. More cynical observers might be tempted to believe that the most important factor was the financial problem faced by all of the major parties after the December Federal election. The Sydney Morning Herald on 4 February pointed out that the major parties would save more than \$500,000 because of the compromise agreement. Without it, they would have had to plan for large spending in campaigns for a referendum, a Council election, and an Assembly election within a year.

Whatever the reasons, the outcome is certainly a cause for celebration. There are some important implications for other elections. Our friends in South Australia will be inspired to press for replacement of the party-list method by the quota-preferential method for their Legislative Council elections. We still have requirements for marking large numbers of preferences in Senate and NSW local-government elections. Then there is the array of Federal and State electoral systems based on single-member districts. We have plenty of scope for future work and, perhaps in the not too distant future, more celebration.

UNFIT FOR DEMOCRACY

Analysis of the final results of the December 1977 election for the House of Representatives shows that the method of election failed dismally to give the representation the voters wanted. Of the 7,922,850 voters who recorded formal votes, 3,764,215 voted for candidates who were not elected. All of these voters are now nominally represented by people whom they did not want and who have publicly supported policies different from those of these voters. The frustrated voters amount to 47.5% of the total and they include supporters of all parties. In Victoria, Western Australia and Northern Territory, more than half of the votes were for candidates who were not elected. In the electorates of Mackellar, Warringham, Bradfield, North Sydney, Bennelong, Berowra, and Dundas, which all returned Liberal members, 182,048 voters (39.6%) voted for non-Liberal candidates. In Werriwa, Reid, Blaxland, Banks, Grayndler, Prospect and Hughes, all now represented by Labor members, there were 211,244 (45.7%) non-Labor voters.

The table shows how seriously the numbers of seats won by the parties were out of line with their voting support.

	Votes for parties	Percentages for parties	Seats according to votes	Seats actually won
ALP	3141048	39.65	49.17	38
Lfb	3017894	38.09	47.23	67
NCP	793445	10.01	12.41	19
AD	743365	9.38	11.63	0
Other	227098	2.87	3.56	0

An examination of the votes in groups of electorates simulating an election with proportional representation shows that the result would probably have been

ALP 49 Lfb 50 NCP 15 AD 10

As this election was held just after a redistribution in which enrolments were brought within a range of 10% above or below the average, no one can tell us that the crazy results were caused by inequalities in the enrolments in different districts. These results again show that electoral methods based on single-member districts do not give the effective representation essential for real democracy. *** **

WILL WE EVER LEARN?

"The government goes on printing these scraps, because, if it stopped, that would mean the end of the government. Because, once the printing presses stopped—that is the requisite for the stabilization of the mark—the swindle would at once be brought to light. For then the worker would realize that he is only making a third of what he made in peacetime, because two thirds of his labour go for tribute to the enemy."

Believe me, our misery will increase. The scoundrel will get by. But the decent, solid businessman who doesn't speculate will be utterly crushed; first the little fellow on the bottom, but in the end the big fellow on the top, too. But the scoundrel and the swindler will remain, top and bottom. The reason: because the state itself has become the biggest swindler and crook. A robber's state!....."

— Adolph Hitler, Feb. 1923 *** **

THE BAD GOVERNMENT

A FAIRY TALE FOR GROWN-UPS

Once upon a time, long ago, there was a very prosperous country. The people could always employ each other or themselves as much as they wanted, so they worked just as much as they wanted and they exchanged their goods and services and used the usual money system. And the government interfered as little as possible.

But the silly people got bored with prosperity and with good government, so they elected a Bad Government which promised to reduce prosperity and to cause depression and unemployment.

When the new cabinet met they thought "How can we stop prosperity?" Then one bright minister said "Prosperity seems to depend on everyone freely exchanging their goods and services; how can we prevent that, when everyone still seems to want to keep doing that?"; "Perhaps we could punish them?"; "What, put them in prison?, that's a bit much"; "Well what about fining them?"; "Yes, that's a good idea; and we can spend the money on people to check on the transactions and to collect the fines; and then those people won't be doing anything productive; and the standard of living must be reduced by that much, and we can spend some money extravagantly on things people don't really want, or perhaps we can spend it to help our own particular friends and supporters."

So the government decided to fine people every time they spent money for goods or to employ people. They called these fines: Sales Tax, Income Tax, Payroll Tax, Stamp Duty, and Value Added Tax. Strangely, still many people tried to work and exchange, but eventually the fines got so high that some exchanges were no longer made, and some people were no longer employed. The government of course did other things to restrict trade and prevent people from competing with each other. They gave out various licences and privileges to some, and of course this was at the expense of the others, so they caused antagonism and even some violence. And the government went further by debasing the currency, and by borrowing excessively. Naturally prices went up continuously and there were strikes, and lack of confidence.

Now children (I mean Grown-ups), you may well ask where did the old good government get its revenue, if it did not have Income Tax, Sales Tax etc, which are all fines on people every time money changes hands. Well, the good government got its revenue by a heavy tax on all land value (which collected as close as feasible to the full site rent). Now this was a good system of revenue which caused prosperity, so naturally the bad government steadily reduced it. With site taxation the title holders used to use their sites to their best advantage. If they were not getting satisfaction or could not manage a site profitably, they would let some one else have it. But when the site tax was removed, there was no great incentive to use the land well, and it was often left idle, or used for trivial things such as shooting pheasants or quail for a week every year. Because land and resources were kept idle by the holders, many people were deprived of the opportunity to work, and there was poverty and low wages. Unfortunately this fairy tale does not have a happy ending because the silly people have forgotten what good government is.

Moral. If you want depression and poverty, vote for governments which tax money when ever

Good Government

It changes hands. If you want prosperity, vote for governments which get their revenue by site value taxation, which is a tax which removes privilege, and which encourages the use of sites and full employment.
Hans Grim

(S S Gilchrist.)

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KARL MARX'S THEORIES OF SURPLUS VALUE AND LAND RENT

BY P C R DOUGLAS, M.A.

The systematic exposition of the economic theories of Karl Marx is contained in the three volumes or 'books' of *Das Capital*. The first edition of the first volume was published in German in 1867, and an English translation by Moore and Aveling appeared in 1886. The second volume contains little to modify the first volume, and will not be noticed here. The third volume, which bears the sub-title "The Process of Capitalist Production as a Whole," was, as Frederick Engels explains in his preface, drafted between 1863 and 1867. It was not prepared for the press and published until 1894 when Engels completed this task eleven years after the author's death. The first volume had therefore a long start of it, and most of those who profess themselves to be Marxians base themselves on that or on popular summaries of it, and are unacquainted with the third volume, which in important matters profoundly modifies the inferences to be drawn from the first. In their preface to the latest translation of the first volume Eden and Cedar Paul say: "The present volume contains the whole of what most people mean when they speak of 'Marx's Capital!'"

THE LABOUR THEORY OF VALUE

The foundation of the whole Marxian system is the labour theory of value expounded in Volume I. The way in which this is established is simple. We have to explain why two commodities exchange in a certain ratio, for example: "why one quarter of wheat = x cwt. of iron." This equation, says Marx, "tells us that in two different things, namely, in one quarter of wheat and in x cwt. of iron, there exists in equal quantities something common to both. They are, therefore, equal to a third something, which differs in essence from them both" (p. 5). Now, says Marx, exchange values are different from use-values, we must therefore disregard use-values, and we must also disregard all the physical, chemical, or other natural properties of commodities which give them value in use. The result is that "when use-values of commodities are left out of the reckoning, there remains but one property common to them all, that of being products of labour" (p.6). Thus, labour is the measure of value in exchange.

Nothing could be simpler. We start with commodities, which are the product of labour.

We ignore anything which has value but is not a product of labour. We ignore every circumstance concerning a commodity except that it is a product of labour. So having eliminated everything else we conclude that value is measured by labour. This is an example of so-called Marxian "Dialectic."

Marx proceeds: "A use-value or a good (useful article) has value solely because abstract human labour has been embodied or materialised in it. How are we to measure this value? In terms of the quantity of 'value-creating' substance it contains—the quantity of labour. This is itself measured by its duration; and labour time, in turn, is measured by hours, days, etc." (p.7).

Here Marx must get over the difficulty that even in making the same thing workers are unequally productive and that in practice unequal duration of labour is required to make identical articles, having identical values. This difficulty is bridged by saying that the quantity of labour which determines exchange value is "the average labour time or the socially necessary labour time" (p.7). Then there is the difficulty that highly skilled labour may on the average produce much more value in a given time than unskilled labour. This presents no obstacle to Marxian dialectic. "Skilled labour counts only as intensified, or rather multiplied, simple labour, so that a smaller quantity of skilled labour is equal to a larger quantity of simple labour" (p.13). He adds that "experience shows that skilled labour can always be reduced in this way to the terms of simple labour," but he ignores that experience has shown that this reduction is made by reference to the value of the labour. To find the multiplier which reduces skilled labour to simple labour, the idea of value is brought in at the back door, and so the whole explanation involves reasoning in a circle.

THE THEORY OF SURPLUS VALUE

The next step is to follow how the theory of surplus value is built on the labour theory of value. The value of a commodity, according to Marx, depends upon the quantity of labour time required to produce it. If the commodity is produced by working upon a raw material which has already been produced, the value of the raw material depends upon the amount of the labour necessary to produce it. This value passes on to the finished article. To it is added the quantity of labour required to produce the finished article from the raw material.

Thus the capitalist buys his raw materials at a value which is determined by the labour time necessary to produce them, he buys the labour time necessary to work them up, and sells the finished article at a value which represents

the labour time required for producing the raw materials plus the labour time required to work them up into finished articles. Whence then comes his "profit" or surplus value? Marx's answer is simple. The capitalist buys his labour time not at the value which it adds to production, but at a less value. He pays the labourer only sufficient to keep him in existence. He buys labour at its cost of production, the amount necessary to feed and clothe the labourer.

Or, to put it in another way, if six hours working time per day is sufficient to maintain the labourer (the "necessary working time"); and if he works for ten hours a day, the capitalist pays him a wage which represents the value of six hours labour and appropriates the balance (the "surplus working time") for himself. Thus, surplus value is the equivalent of "surplus working time." It is unpaid working time. In this consists the exploitation of labour.

Granted its premises, the theory is simple and clear cut; but a very important question remains. Why does the labourer consent to sell his labour power to the capitalist for less than the amount of value which his labour creates in production? Marx is not unaware of this difficulty. He says: "We have seen how money is transformed into capital; how, by means of capital, surplus value is made, and how out of surplus value more capital is made. But the accumulation of capital presupposes surplus value; surplus value presupposes capitalist production; capitalist production presupposes the existence of considerable quantities of capital and labour power in the hands of the producers of commodities. The whole movement, therefore, seems to turn in a vicious circle, out of which we can only make our way by the assumption that, as a prelude to capitalist accumulation, there has been a process of primary accumulation (Adam Smith terms it 'previous accumulation')—an accumulation which is not the outcome of the capitalist method of production, but the starting-point thereof" (p.790).

The last two chapters of Volume I are devoted to elucidating this problem. "Money and commodities," says Marx, "are not, from the first, capital, any more than the means of production, and the means of subsistence are. They have to be transformed into capital." The necessary conditions are that on the one hand "there must be the owners of money, of the means of production, and of the means of subsistence, who desire by the purchase of others' labour power, to increase the sum of the values they own. On the other hand, there must be free workers, the sellers of their own labour power, and therefore the sellers of labour. They must be 'free' workers in a double sense. First of all they must not themselves form a direct part

of the means of production, must not belong to the means of production, as do slaves, serfs, etc. Secondly, the means of production must not belong to them, as the means of production belong to peasant proprietors" (p.791).

The foundation of the capitalist system in fact is the expropriation of the people from the land. "In the history of primary accumulation we must regard as epoch-making all revolutions that acted as stepping stones for the capitalist class in course of formation. Above all, this applies to those moments when great masses of human beings were suddenly and forcibly torn away from the means of subsistence, and hurled into the labour market as masterless proletarians. The expropriation of the agricultural producers, the peasants, their severance from the soil, was the basis of the whole process" (p.793).

The final chapter of Volume 1 brings in the experience of the colonies as proof that the exploitation of the worker is only made possible by his expropriation from the land. Property in itself is not necessarily a means of exploitation. "In political economy there is a current confusion between two very different kinds of private property, one of which is based on the producer's own labour, whilst the other is based upon the exploitation of others. Not only do the economists forget that the latter kind of property is the direct antithesis of the former; they forget, likewise, that the latter can only grow on the tomb of the former" (p.848).

Referring to the writings of E G Wakefield on colonization, Marx says: "First of all, he discovered that in the colonies the ownership of money, the means of subsistence, machinery and the other means of production, do not suffice to stamp the owner as a capitalist unless there also exist, as correlative, wage workers, other persons who are compelled to sell themselves 'voluntarily.' He made the discovery that capital is not a thing, but a social relation between persons, and a relation determined by things" (p.849). Here Marx makes it clear that private ownership of capital in the popular sense (produced means of production) does not constitute capitalism in the Marxian sense, i.e. a system under which people are exploited, and that capital or capitalism in his sense is that social relation in which the mass of the people are deprived of land. A few pages later he says: "We have seen that the expropriation of the masses of the people from the land forms the basis of the capitalist method of production. The essence of free colonization on the other hand, consists in this, that the bulk of the land is still public property, and that every settler on it can, therefore, turn part of it into his private property and individual means of production, without interfering with subsequent settlers when they wish to perform a like operation" (p.852). Henry George solved

the problem of how to make every country a perpetual colony by sharing the value of land equally between all its inhabitants, thus making it impossible for land to be held out of use, and men compelled to sell themselves for a subsistence wage.

Marx concludes this volume by saying: "Here, however, we are not concerned with colonial conditions. The only thing that interests us is that the political economy of the old world has discovered in the new world, and has then proclaimed on the house-tops, a great secret: that the capitalist method of production and accumulation, in short, capitalist private property, demands as its fundamental condition the annihilation of self-earned private property in other words, the expropriation of the worker" (p.858). (In the translation by Moore and Aveling the following words are added: "-that is, the exclusion of labour from the land.")

THE CONTRADICTION

It will be seen from the explanation of the Marxian theory of surplus value given above, that it is only the money or capital which the capitalist expends in buying labour power which yields him surplus value. The amount which he lays out in purchasing materials (including machinery and other articles usually designated capital) is merely returned to him out of the price of the finished product without addition. Marx expressly recognizes this and in consequence he calls the latter "constant capital" and the former "variable capital."

Thus, for example, let us assume that the "rate of surplus value" is 50 per cent, that is to say, that the value of the labour power is 50 per cent greater than the amount which the capitalist has to pay for it. Then, if a capitalist conducts his business with 80 constant capital and 20 variable capital, he would obtain 10 units of surplus value, and his rate of profit on his total capital would be 10 per cent. But if he could conduct it with 60 constant capital and 40 variable capital, he would obtain 20 units of surplus value, and his rate of profit would be 20 per cent on his total capital. It would, therefore, appear that, if the Marxian theory were true, capitalists would endeavour to reduce the amount of constant capital and increase the amount of variable capital employed, and we should expect also that competition would lead to the ratio of variable capital to constant capital being uniform throughout all branches of production.

(Cont. in next issue)

*** ***(Cont. in next issue)*** ***(Cont. in next issue)***

The just revenue of government, i.e. the economic rent, will be applied to far higher and wider purposes than merely defraying the cost of government (see 'Progress and Poverty' Book IX, Chapter 4).

*** ***(Cont. in next issue)*** ***(Cont. in next issue)***

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