

# Good Government

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## Viewpoint

### THE TRUCKERS' BLOCKADE

The truck drivers in their forceful display of frustration with their dwindling incomes made no pretensions to any understanding of the economic causes of their problem when they blockaded the main access roads to Australian cities. Such lack of pretension was not shared by the politicians who attempted to resolve the impasse or to embarrass other politicians nor by the academics from whom the media sought comment. In all the useless babel there was no mention of the federal government's import duty of up to 50% on the price of prime movers and its other taxes on tyres, spares and fuel. The road maintenance tax was one of the grievances raised by the truckers and, although at the conclusion of their talks with the Premier they said that he had agreed to remove this tax, Mr Wran was most ambiguous about it and it seems most likely that it will be retained in some different form.

The 'expert' economic commentators were the champions of this tax and, of course, there was no consideration given to replacing it by taking any of the immense real estate values attributable to public expenditure on the highways.

The upshot of the blockade was that the truckers received a stone instead of bread and were fobbed off with the offer of legislative assistance in forming their own co-operative, in effect a trades union.

#### THE WEAKNESS OF UNIONS AND WAGE TRIBUNALS

The exercise provided a modern insight into the origin of trade-unionism, which was a natural reaction from the tendency of the returns to workers to shrink under the pressure

of too many competing for the available work opportunities, based on a common belief and hope that collective discipline and bargaining would suppress competition and raise wages. The truckers are attempting to apply unionism to a group of self-employed workers, and the NSW legislation will empower the Industrial Commission to fix the rates and conditions for all owner-drivers in the transport service and to provide for the Transport Workers' Union to represent them before the Industrial Commission.

All this is yet another instance of the prevailing public ignorance of what wages are, and of the causes of low wages and unemployment. It is quite tragic, because the truckers have lost their independence of the boss-employee relationship but have no real ground for their hope that the traditional methods of trade-unionism will achieve more for the truckers than they have done for the masses of wage-earners. The harsh facts are all against them. All the expensive 'wage fixing system', with its legalism and confrontations, are in the last resort paid for by the wage-earners but have no tendency to raise wages generally.

#### THE REAL QUESTION

The real question which is so widely ignored is What are Wages? The true answer is: Wages are the product of labour, not paid by employers to employees but produced by the employees themselves. Legalism still dazzles the unionists, but it produces nothing. It is merely another unproductive exercise which pays handsome dividends to the legal profession and union officials at the expense of the producers. And the truckers have fallen into the same trap.

#### THE PRINCIPLES OF GOOD GOVERNMENT

1. The true function of government is to maintain peace and justice. This does not include interfering in national or international trade or commerce, or in the private transactions of its electors save only as these threaten peace and justice.
2. A democratically controlled and just revenue is available to governments by the collection of all site rents as their sole and proper revenue, at the same time abolishing 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.

THE PROPER REVENUE OF A NATION IS THE SITE RENT OF ITS LAND

### THE DOWNWARD TREND OF WAGES

Historical legislative, legal or illegal, processes, inherited in Australia in our laws and customs, brought independent producers like the truckers to their knees and converted them into a proletariat. Under the pressure of these processes, now mostly forgotten or at best not recognized, labour felt constrained to try to protect itself by forming unions but such causes of unionism are ignored in modern union activity, the target of which is not low wages in general but rather the attempt to win a few extra dollars for this or that group in spite of the evidence that such apparent gains are promptly overwhelmed by much more powerful downward forces.

### GREAT INCREASE IN REAL WAGES

The effectiveness of labour in producing goods and services (real wages) has been increased immeasurably by invention and technology in the post-war years. Every economic activity has become easier and more profitable but, in spite of the expensive and often flamboyant activities of trades unions, wages have lagged behind to such a degree that the average wage-earner must still pay quite as large a proportion of his earnings to buy, for example, a home or a motor car as he had to 40 years ago. The cost of living, or the range of goods and services that wages will command, not the monetary amount that a court says an employer must pay to an employee, is the real measure of economic advancement.

When costs rise, as generally happens after unions are successful before the court or in direct bargaining, the apparent gains are offset by higher prices and, whatever temporary advantage the successful workers might secure, is at the expense of other workers. Of course these other workers must then in turn go through the same performance and in the outcome wages remain where they were before the whole wasteful charade commenced.

### WHY WAGES DECLINE

It requires the factual common sense of basic economics and some awareness of the long historic processes of perverted and irresponsible government to understand, not only how wages were reduced and labour simultaneously robbed of its elasticity to seek relief in alternative opportunities, but also who reaped the rich benefit of all the increased production that should have progressively enhanced wages. Instead, the increased production has been misappropriated by privilege, i.e. by powerful non-producers, leaving labour as an indigent suppliant at the arbitration court.

### THE NATURE OF THE ECONOMY

The economy principle is part of the nature of human beings who are, without exception in their economic activities, motivated to action by needs and desires as multifarious and diverse as

hunger and curiosity to explore the moon and planets. This motivation but not the diversity and range of desires is shared by other animals. Man is distinctive in having the capacity for ever-increasing aspirations and the perception and ability to convert them to reality by the efficient use of effort.

This efficient use of effort, operating in specialist production and the exchange of products in contrast to the limited possibilities of self-sufficiency, causes the free, natural, beneficial co-operation called the economy. It is a robust organism, rooted in man's nature, and it functions according to its own laws in spite of the caperings and pretensions of governments to 'manage' or 'control' it. Governmental interference invariably consists of taking from some producers the results of their efforts and giving them to non-producers, and the response of the economy to this type of interference is to influence production away from the affected areas, because they have become less profitable, with resultant shortages, unemployment and rising prices. If, as in fact happened a few years ago, the government in its uninformed display of appearing to be doing something, applies what it has taken in taxes or levies from some producers and given as a bonus to farmers for greater wheat production the farmer is diverted from the normal production which the undisturbed market dictates into such a super abundance of wheat that a large proportion of it cannot be sold profitably or even stored and is wasted by rats and mice.

### WAGES AND THE MARKET

The economy (as its name indicates) is an efficient means of indicating and limiting the necessary work that is called for by society through its market demands for goods and services. This economy of effort means that as some occupations will be reduced or made unnecessary and that all occupations will be subject to technological changes, its concomitant necessity, therefore, is freedom for producers to be able to move into alternative opportunities according to the demands of the market. It is this freedom, not 'welfare' and artificial 'employment creation' provided by plundering other people's wages, that producers need. This freedom can be restored only by abolishing the bad laws which suppress it.

These bad laws have given to land, which encompasses the sites and opportunities indispensable to labour in production, such staggering prices that they act as a great inhibiting barrier to the natural expansion and redeployment of producers. It has done this by legally recognizing the right of the holder of land to retain its rent which he does nothing to produce and which as an unearned income (i.e. an income taken from producers) is capitalised into land-values.

These values spiral to billions of dollars, particularly in urban areas and offer such an unequalled field for frenzied speculation and over-night riches that they largely dominate our so-called securities 'industry'. Their basis is wages that are diverted by bad laws from those who produce them to non-producers and they continually rise to offset any productive gains achieved by workers.

#### TAXATION PILLAGES WHAT IS LEFT

In part this robbery is at the expense of the direct 'take home' earnings, which the advance of production should, as a matter of course, bring to producers but, more importantly, it also misappropriates the socially-produced wealth which belongs to society and which is properly public revenue. A minority is enriched but the process raises such high barriers around productive opportunities that productive occupations like road haulage can appear to become over-crowded when in fact the basic cause of the problem is a combination of the closure of alternative employment-opportunities and burdensome taxation.

Taxation of incomes and goods is the crude and crippling outcome of allowing non-producers to retain the socially-produced revenue of site-rent. It is entirely unnecessary, grossly inflationary and an enormous discouragement to production. As has been made apparent, it at least doubles the debt-commitment of the truckers, a small group whose problems happen to have been publicised.

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#### AN EDITORIAL COMMENT

The history of the leagues and associations, which support the economic and social principles so convincingly put forward by Henry George, has been punctuated by differences of opinion and by controversies.

For the very good reason that these bodies are bastions of individual rights, trying to follow truth in areas of confused absurdity, it would be incredible if robust evidence of individuality did not surface periodically.

The controversies have often refined and stimulated the content and presentation of the movement's aims, but only when the points at issue have been so clarified and explained that they have encouraged acceptance by consensus.

Such consensus has not been achieved in all areas, a typical instance being the discussion as to the nature and cause of the values that presently attach to homesites, i.e. whether or not they arise from the capitalisation of economic rent.

The divergent views have been well ventilated in the past, but letters are still received in which there is little fresh or novel development

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of ideas such as characterised George's illuminating attacks on the fogs surrounding the problems of his day.

It is distasteful not to publish otherwise well presented material, but there is obviously no benefit in mere repetition of stereotyped arguments which have proven inadequate to the task of enlightenment. May we hope for fresh light on this or any other relevant subject however controversial?

We are constantly stimulated by Bacon's famous words 'Lumen Siccum'—dry light, or light without heat, one of the mottoes adopted by the Australian School of Social Science at its foundation.

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#### CENTENARY

#### OF 'PROGRESS AND POVERTY'

#### ENTHUSIASTIC RESPONSE FROM UNIVERSITIES

Professor P D Groenewegen, head of the department of economics at the University of Sydney, and Dr D L Clark of the University of New South Wales are arranging a lunch hour commemorative meeting at the University of Sydney to mark the centenary of the publication of Henry George's masterpiece.

Papers will be presented by Professor Groenewegen and Dr Clark and it is anticipated that the meeting will be well attended by members of the faculties and the student bodies.

Association members and friends and the general public are cordially invited to support this meeting by their attendance and to note the following details:-

Date: Tuesday, 26th June, 1979

Time: 1pm to 2pm

Venue: Merewether Building, University of Sydney

Admission: Free.

#### LIBRARY EXHIBITION

The State Library of New South Wales, Macquarie Street (opposite Hunter Street), Sydney will arrange a display exhibition of Henry George's books in its main foyer over a period of four weeks during June, 1979.

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#### FROM OUR NEW ZEALAND CORRESPONDENT

Many of our local government authorities are using the 'differential' rating system. The basic General Rate is the unimproved value rate. I have some property in a town of 5000 people, and the borough council has introduced eight categories into its 'differential' scheme. Class 1, with one unit, pays the basic rate; class 11, with two units, pays the basic rate plus 20 per cent; until class VIII is reached, the business,

commercial, industrial, garages etc, it is the basic rate plus 100 per cent.

The purpose of the 'differential' is to iron out some of the anomalies that arise from unimproved rating in practice. Not that there is anything wrong with the principle of unimproved values rating, but with local bodies rating on UV and the central government using a variety of systems for raising its revenue, systems often at variance with UV, there is a conflict between the two policies. The one collecting the greater amount, the central government, calls the tune, and unimproved values suffer in consequence. We must come up with the answer to this damaging conflict. We can not have two diverse revenue-raising systems operating in a field that is one and indivisible—the protection of the just rights of the community and its members.

We must recognise that it is wrong that a section with three flats pays no more than a similar section with a single unit. The three-flat unit makes more demands upon the community services. But the differential system is no final answer to the local authorities dilemma.

However, someone has thrown a monkey wrench into the works. An appeal has been made to the Ombudsman to intervene against a classification of a local authority. The Ombudsman seems only too ready to get into the fray. (By the way the existence of an Ombudsman is an admission that our system of justice has broken down.) One authority, not a very big one, has some 300 categories in its schedule; you can almost see the fruitful field the Ombudsman will have for expansion. Like most bodies set up by recent governments his department is expanding. If his decision goes against the local authority, how will it react? We have an interest here.

Another issue claiming our attention is the petrol shortage. All manner of petrol-saving dodges have been suggested. But one thing stands out—everyone is quick to say how important his particular business is to the nation, and for that reason should receive preferential treatment. The fruit-growers of Central Otago fear for their profits because rationing will interfere with their 'at the gate' sales. Listening to these, and other heart-rending appeals for special treatment, makes me think Macaulay was right when he said nearly 150 years ago, 'Government exists for the purpose of keeping the peace, to compel us to settle our disputes by arbitration rather than with blows, to supply our wants by industry rather than by rapine. This is the only operation for which governments are peculiarly adapted, the only operation which wise governments ever propose to themselves as their chief object'. A lesson our modern governments must learn before our whole sundering civilisation collapses.

On every hand we see the incapacity of our governments to deal with this challenge to our way of life. Read the last fifty pages of

*Progress and Poverty*, particularly the last twenty-five, and see there a description of our times. (George laid heavily on Macaulay for this.) 'Whence shall come the new barbarians?' he asks. Read it for yourself.

Let us apply ourselves to saving this crisis-ridden society. Let us stop talking nonsense about taxation being theft. Rather try reforming the taxation system so that government carries out its primary and essential function of protecting the just rights of the community and its members. Plug away at it with a simple message, consistently repeated. We must show the people that we know what is wrong, that we know the answer, and that no one else does. Keep at it year after year, and when the day of reckoning comes we have a chance of appearing as the only possible alternative government. *Justice the Object — Taxation the Means*, said George.

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(Cont. from last issue)

#### LEGISLATIVE COUNCIL REFORM ADOPTED

##### Senator-Elect Colin Mason

Introducing Senator-Elect Colin Mason, Mr Wright said that, after surprising many people by being elected to the Senate in the December 1977 election, Mr Mason had used the occasion of the declaration of the poll to condemn the party-list method proposed by the New South Wales Government for the Legislative Council and to demand the opportunity of voting in a reasonable, civilised fashion.

Senator-Elect Colin Mason said that it would now be possible in the referendum in June to vote in a useful, sensible way when it could have been a disaster of the worst order, a highly expensive, abortive exercise that would have achieved nothing. In a world in which, in some other countries such as Greece, democracy is coming back, we have avoided the derision that would have come if a list system had been adopted for the Legislative Council. He expressed his satisfaction at seeing the two political parties in New South Wales whose normal habit is confrontation coming together in a business meeting, sensibly and rationally, to resolve an intolerable situation. This was part of a change of political climate involving the realisation that the politics of consensus and cooperation rather than confrontation are not only desirable but necessary for our continued prosperity.

Mr Mason said that he expected that proportional representation in multi-member districts would be voted into Australian Democrat policy. He said that he believes in the idea of citizen initiative as in Switzerland and some American States. With modern technology, it seems possible for important decisions to be put directly to the people by

referendum and something like Athenian democracy could operate again. These and many other ideas for change in the working of the Parliamentary system are being discussed by the Australian Democrats.

Dr George Howatt

Mr Wright introduced Dr George Howatt as one of the best-informed people in the world on electoral methods, and in particular, on proportional representation. Dr Howatt had come to Australia from the United States some years ago to study our electoral methods, and had stayed, being now based at the University of Tasmania. He is undertaking research on a range of topics, and in particular, some relating to the use of the Hare-Clark system for elections of the House of Assembly since 1909.

Dr Howatt said that, because Australian standards of conducting elections are so very far in advance of other countries, and because Australian voters have become accustomed to these superior methods, it would be difficult if not impossible for Australians to appreciate adequately the enormous, far-reaching significance of the adoption of proportional representation for the Legislative Council. He showed samples of American ballot-papers and pointed out how the electoral practices in the United States often lead to unsatisfactory results.

With first-past-the-post voting, there are, on one hand, frequent cases of drastic fluctuations in party representation in many States and cities. On the other hand, this faulty method of voting often results in so grossly over-representing one political party in State legislatures (commonly giving a near monopoly of all seats to one party) that these States are frequently referred to as 'one-party States'. American political scientists are aware of these failings, but generally are not attracted to an obvious remedy, namely, proportional representation, because to them, said Dr Howatt, "this is generally taken to mean the European party-list systems, with their many defects, which you members of the P.R. Society of NSW and other perceptive thinkers have pointed out so effectively ever since the party-list method was proposed last June for electing the Legislative Council."

Dr Howatt referred to the introduction of proportional representation in NSW for the Legislative Assembly in 1918 (with some technical faults), in Armidale for local government in 1928, in the Federal Senate after 1948, and in 1953 for local government elections throughout NSW, later dropped but more recently re-introduced. He said he believed that the introduction of proportional representation for the Legislative Council would help to advance electoral reform in the United States, where Australia is already known as the first country to adopt the secret ballot, referred to in the USA as the Australian ballot. Although the Hare-Clark system has been in use in Tasmania

for many years, it is not well known overseas. On the other hand, because Sydney is one of the great cities of the world, a change here would attract attention more quickly.

Referring to the special features of the Hare-Clark system, Dr Howatt explained some of its merits by reporting views expressed to him by the former Tasmanian Premier Sir Robert Cosgrove. Regarding the wide choice of candidates available to the voter by this system, Premier Cosgrove said, "The Hare-Clark system saves us from our mistakes". He explained that some aspiring candidates might not be a credit to their party or the state but might be able to obtain party endorsement through having friends in the endorsing bodies. Cosgrove commented, "On the Mainland, if such candidates gain endorsement for a safe seat they necessarily get a place in Parliament. Here, in Tasmania, the voters can retire them on polling day". In answer to Dr Howatt's question to Premier Cosgrove for his view on a claim, sometimes made by persons not acquainted with the Hare-Clark system, that proportional representation unduly assists minority parties and Independents, Cosgrove replied, "If we do our job as we should, we don't need to worry about the election of Independents or minor party candidates". Dr Howatt pointed out that there have been fewer minority party and Independent Members in the Tasmanian House of Assembly than in other Parliaments in Australia and that this is a result of voters having a wide choice of candidates within parties and therefore less need to look for candidates elsewhere. Another point mentioned by Sir Robert Cosgrove concerned competition between Members after they were elected. He considered this desirable, 'because it kept Members on their toes'.

Dr Howatt mentioned a Bill before the Tasmanian Parliament to provide for the rotating printing of names on ballot papers. This would mean that every ballot paper would be different from the one before it so that numbered how-to-vote cards would be impossible. A recent change, used for the first time in the last Hare-Clark elections, provides that party groups may be identified by party names on the ballot papers. This has not impaired the well-established practice of Tasmanians to pick and choose candidates within parties.

Dr Howatt again stressed the significance of the New South Wales adoption of proportional representation and its importance in telling people of other countries about actual applications of the method.

Discussion

After comments and questions from those present, the speakers were thanked by the President, who also reminded supporters of proportional representation that it was important to support the case for a Yes vote in the referendum and to continue to press for the introduction of proportional representation for the House of Representatives and the State

Legislative Assembly, and the removal of the requirement for showing preferences for all candidates in Senate elections.

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## Letter to the Editor

### INTEREST — SOME EXPLANATIONS

Sir—Two replies to my article on interest (G.G. Aug.) appeared in your December issue. The first is from Mr Middleton, in which he indicates what appears to be a contradiction between two paragraphs. One is on page 6 and reads—'In the latter stages of a boom, land titles rise faster than any other factor of economic consequence. This creates an elevating effect upon the interest rate. No only do land speculators enter the loan market as competitive borrowers, but they are able to pay high and rising interest rates. This lifts the rate above what competitive industry can afford and here, economic stagnation sets in. If allowed to continue, it spreads throughout all industry'.

The other paragraph is the last one of my article. It states—'However, no matter what the rate of interest is, under such circumstances, it will always be less than what the majority of entrepreneurs can afford and not subject to the influence of land speculators'.

Mr Middleton is quite right. The second paragraph, quoted ex-context, does contradict the first and also, as he suggests, the reason lies in the phrase—'under such circumstances'. The circumstances are found in the second last paragraph with the words—'The effect of the proclamation of social justice'. This means the inauguration of the Georgian program of rent collection etc. After this, land speculation will no longer be there to boost interest rates. Consequently, they will settle at a position within the capacity of entrepreneurs to pay. My first paragraph described what sometimes happens before rent is collected for public purposes. My last showed what will happen afterwards.

The second reply is from Mr Donohue and is in the form of an article. He agrees with certain aspects of my analysis, but not with others and there is much that neither endorses, nor contradicts it. I will reply to contentious issues only.

He compares me to the economists of the 19th century, who discarded the word 'wealth' because they could not agree how to define it. The comparison has no bearing in fact. I wrote on the subject of 'interest' and I did not have, nor do I have any intention of dropping the word from my vocabulary. All I did was to examine some theories of interest and, by process of elimination, come to that which I thought to be the right one.

He states that interest is the reward for 'investment'—meaning investment in capital concerns only. This implies that premiums paid on sums borrowed for the purchase of such as land titles, Casinos, or consumer goods, is not interest.

Although I consider he has tailored his definition to suit his preconceived theory, nevertheless he has a right to define interest in any way he likes, and, for the sake of debate,

I would go along with him; but, any definition and the logical analysis that flows from it, even though the latter may be perfect, is only of value if it relates to the world of affairs and events. This, Mr Donohue's definition fails to do.

But he makes his cardinal error, in referring to the premiums paid on spurious capital outlays, when he states—'The latter are only mutual and legal transactions that are outside the scope of economic analysis'. On the contrary, I contend that, because these are facts of economic life and existence, it is impossible to make a satisfactory analysis of interest, unless they are included.

Unfortunately, borrowers for non-capital purposes enter the same loan market as borrowers for capital purposes and compete with them. With a sudden flash of insight, Mr Donohue, in his own terms, endorses this, when he writes—'The real war is between capital and spurious capital'. If he can carry his logic just one step further, he will see revealed, the truth, that this 'war' must have some effect upon the interest rate, and he will have grasped the main implication of my article. I have no doubt he will be able to work the rest of it out for himself.

A R CANNON

Swan Hill Vic

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### MORE ON ECONOMIC INTEREST

This is a comment on Mr A R Cannon's article on economic interest in the August, 1978 'Good Government'.

After he shows the fallacies in the several 'authoritative' explanations of the cause of economic interest, I expected him to draw the logical conclusion (incredible on first acquaintance) that there is no such separate category in economics as economic interest.

Mr Cannon points out that capital is a combination of two unique categories: land and labor. Should it not follow that what is paid for capital, other than the premium for risk, is rent and wages?

If we measure what is paid for the use of capital in terms of dollars, then we should remind ourselves that all money systems of

record in history have eroded until replaced by new systems. It is generally agreed that this fact is largely due to the interventions of government. The first deduction from commercial interest is the premium for risk and this varies considerably. It is still there even when the commercial interest rate was as low as say 2% per annum. Another deduction is the wage of managing the loan of capital. There is also a cost involved in the liquidity of an investment from the investor's point of view.

What do you think would be the premium charged by a very sound insurance company for a guarantee that you would obtain economic interest from your investment, assuming there was some way of determining the purchasing power at the various times in the future when economic interest and the original amount of capital are returned to you? I think that you will agree that the premium would be more than the economic interest, even before reminding yourself that there has never been an insurance company or even a government whose guarantee is absolute. Variations in yields, after deduction of wages and premium for risk and loss of liquidity, are purely random and unpredictable and akin to gambling gains or losses.

If economic interest is zero, there is a vast simplification in the economic structure erected by Henry George. Whether a home is mortgaged or unmortgaged, or occupied by the owner or a tenant, there is no need to argue whether it is capital or wealth as defined by Henry George. A new machine will not be purchased because its product is worth more than the interest paid on the capital—even if there is no interest, new machines will be required just to be competitive. Wealth is not in short supply—it is always available for purchase or lease (in essence, purchase and lease are equivalent) for those who have the wherewithal or the credit-worthiness, just as in the case of individuals buying or leasing for consumption.

MITCHELL S LURIO

Henry George School of Social Science,  
Brookline, Massachusetts

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#### A VOTE FOR THE KING

(Published in Sydney Morning Herald 17.3.79)

Sir— They compel us to vote for them. Now they are demanding that we pay their election campaign expenses as well. Is there any limit to their impudence?

I have been told that one of my ancestors fought for the Parliament against the King. He was, they say, simple and uneducated; merely a man of his times who had been led to believe that elected persons would make better rulers than heredity monarchs. It's an easy bait to swallow.

But if he lived now he would, I am sure, be a King's man through and through.

L COSTER

Glebe, NSW

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Sir— In today's 'free' society, production, distribution and exchange are first obliged to meet demands that hold them to ransom. Tariffs levied against the free exchange of goods are effectively just such a demand. They damage efficient primary and secondary Australian industries with the raised costs added to their raw materials, thereby restricting opportunities for both investment and employment, and by restricting his choice of occupation, undermine the bargaining power of the wage-earner. Land price and tariffs make a great pair!

Sharebrokers may rejoice, wage earners complain vaguely about the cost of living, and Arbitration Court advocates have a field day; for goods are dearer than they need be, the range of goods a paypacket will cover is reduced, and again opportunities for employment are reduced.

It is often claimed that tariffs are necessary in order that some local industry may have an economic volume of production. But what this all finally costs in consumer prices, Heaven only knows. It would be far better to have help given in the form of bounties over which Parliament can keep control. Let it be quite clear that if tariffs are to be justified, they can only be justified on political grounds and not upon economic ones.

We must examine whether local industry is being hampered by high costs which could be dispensed with—high land price, high duties on raw materials, high rates of indirect taxation which add to overhead.

To attempt to run our economy as a more or less closed shop is to deny ourselves what the rest of the world has to offer. We not only beggar our neighbour; we beggar ourselves too.

K N GRIGG

Melbourne

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## THE SOCIALIST CHALLENGE

A BOOK BY STUART HOLLAND

REVIEWED BY E P MIDDLETON

The author of this book is a top-line member of the British Labour Party and one who has contributed powerfully to the Party's up-dated theory and strategy of recent years. His book is, as the cover-blurb says, 'a blue print for the future', which if adopted could change the political and economic structure of Britain and even of Europe.

To Stuart Holland there is no room any longer for theorising as to whether socialism is a 'good' or a 'bad' thing. He accepts socialism with all the zeal and bigotry of a prophet. The only questions he allows are questions of tactics and timing. His book does not bother with questions of economic theory, only with the measures to be adopted for achievement of the Socialist State of Britain.

These measures are the nationalisation of key corporations in what he aptly calls the 'meso-economic sector', the fully-planned economy, and workers' control of industry, all in the name of 'social democracy'.

But don't let the confusion over that anachronism fool you. Stuart Holland is a brilliant logician who is not in the least confused as to the goal and the way to get there. The only thing wrong is his premise—that there is a basic flaw in the free market system and that the only logical alternative is the socialist planned state.

This is how he puts the case for the socialist 'transformation': 'What is the socialist challenge? Essentially it is the claim that we can transform the injustice, inequality and inefficiency of modern capitalism. In Britain in the early 1970s, the Labour Party shaped a new strategy for the beginning of such transformation. This program for extended public ownership, strategic planning and workers' democracy opened the feasibility of a genuine transition to socialism in a democratic society. For the first time since the immediate post-war period, the socialist challenge moved from theory to the politics of a mass party in government.'

This movement he shows as a normal development from the fundamentals of Marxist theory and the Keynesian 'revolution'. Keynes, he says "clearly saw his theory of macroeconomic intervention as a means of bringing the capitalistic organization 'into its own'. The power of his insight into the public management of *demand* was dramatic. It both swept academic thinking and challenged the socialist claim that only public management of *supply* could ensure economic efficiency and social justice. It implied that, subject to the general role as spender, umpire and planner, and within the general framework of progressive taxation, the state could achieve the ends of socialism without the traditional means of public ownership and control of production, distribution and exchange."

But disillusionment with the Keynesian 'revolution' began to set in among the more advanced thinkers in the Labour Party after 1970. They had seen the failure of both Labour and Conservative governments to avert the steady erosion of the economic life of Britain. 'Ten years of respectively progressive and reactionary Keynesianism found the economy in even greater crisis and less susceptible to state control.'

Their mistake was in not properly analysing the cause of this failure of the Keynesian 'revolution'. Blind to the fundamentals of political economy through the general myopia of the socialist ethos, they argued from effects instead of from causes. The 'injustice, inequality and inefficiency' that surrounded

them they ascribed to capitalism as a system, instead of to the factors inhibiting the natural features of true capitalism which their own and other theorists (of all political allegiances) had introduced, in attempts to correct basic errors in the system they had inherited from the post-liberal era.

In accepting the Marxist dogma instead of the enlightened logic of Adam Smith and the masterly analysis of Henry George, they were easy victims of the Keynesian mythology, until they found that it only led them further adrift in a sea of confused and conflicting economic 'policies' the only escape from which was into the socialist utopia in which mankind could be 'planned' into behaviour inconsistent with his natural instincts and capacities.

Holland's book is essentially a 'challenge' to the general policy of the Labour Party as evolved since the post-war years, the leading exponent and designer of which had been Anthony Crossland who believed in Keynes and that the existing capitalist system could be 'reformed' by judicious intervention by government at strategic points without the full application of the Marxist policy of complete public ownership and workers' control'. As Holland puts it 'in Crossland's groping towards statism, he missed the fact that the future he advocated was state capitalist rather than socialist'. Whereas Crossland may be seen as representing the original Labour concept of 'social democracy' which stopped short of the Marxist class-war theory, Holland stands squarely on the basis of the class-war and the need to wrest power from those still 'produced for profit' as opposed to 'production for use'. In other words, his vision of the future society is of one in which production is not for the satisfaction of the multifarious desires of its individual members as evinced in the free market, but the satisfaction of 'social needs' as prescribed by the socialist managers and planners.

It is in the 'mesoeconomic sector' that Holland sees both the challenge to the socialist ideal and the means by which the challenge can be met. One of the major frustrations facing socialist strategists has been the lack of inside information on how the great corporations organize their internal structure for the achievement of power in control of markets, and on the cost-profit relationship which is of course 'classified' information, and which is the basis of their success. So the way to meet the challenge is by 'taking into public ownership' one or more key corporations in order to learn the secret of this success and apply the same technique in the interests 'of the public as a whole'.

The great flaw in this idea is of course that the publicly-owned enterprises will no longer have the incentive of profit-making as their basic motivator, and will be run by bureaucrats



(however much they may be called 'managers') and workers' committees, in conformity with the Planning Boards' concept of 'public need'.

This whole approach to solving the problem of the growing power of the multinational corporations is clearly an attempt to tackle the problem from the wrong end. It ignores the fact that the very existence of the multinational corporation stems from the growth of modern mercantilism, in the system of tariff barriers and all forms of 'protection' and from the institution of taxation as a political weapon — part of the Keynesian legacy.

Holland has no complaint with the principle of taxation, only with the ease with which the big corporations manage to avoid it. It does not concern him that company taxation and more especially indirect taxation is a large contributor to cost inflation, a major factor in the wage-price spiral. Somewhere he makes critical reference to investment policy which prefers 'real estate' (large office blocks) to industries, but has nothing to say about Rent. As one would expect, the word is not to be found in the book's index. There is one passing reference to 'protection', but not in relation to government policy, only to its manipulation by the multinationals; as though they invented it.

The subsidisation of ailing industries is another aspect of state policy fostered by both Labour and Tory Governments in Britain which Holland does not condemn. On the contrary, he sees in it an opportunity for blackmail of the big corporations to induce them to locate their factories in areas of 'regional depression' and high unemployment. Questions of the suitability of such locations in relation to costs, such as in the transport of raw materials or the distribution of products, or the housing of employees, are ignored.

Similarly, the question of the morality of exchange control, the political manipulation of exchange rates, deflation and reflation, never arises, only its desirability as a weapon in the warfare of international economic relations. Trade of course means exports and, reluctantly, 'import replacement', controlled by 'trade agreements'. The concept of the free market is as much anathema as that of *laissez faire*.

And so, inevitably, the European Economic Community is a candidate also for 'transformation'. Not directed at achieving the original Treaty of Rome dream of a free-trade area which was to become the pattern for international trade relations, but at the consolidation of existing trends towards greater concentration of existing trends towards greater concentration of socialist management.

It is in the EEC that the multinational corporation has had its greatest opportunity and

made its greatest killing. Holland commends the French writer, Servan-Schreiber and his best-seller *The American Challenge*, for his well-documented description of the development of American multinational control of European markets. He overlooks the more recent trend, described by a *Newsweek* Special Report (Nov. 27, 1978) towards the 'Buying of America' by European and British entrepreneurs and corporations, accounting for billions of dollars of capital transfers, prompted by this very trend to the greater socialisation of the EEC.

So we reach the conclusion that *The Socialist Challenge* is a challenge only to the laggards and conservative thinkers within the socialist movement to press on to the final goal. It is not a challenge to serious thinkers in terms of political economy. It starts from a basic error, the concept that the economy is an invention of economists to be organized and sustained by politicians through and by the mechanism of government, instead of being a living organism born of man's natural propensity to satisfy his material desires with the least expenditure of effort which has led him to exchange the products of his labour in the market, subject to no inhibition other than the fundamental one of the *mutuality* of his relations with his fellows, by which Adam Smith's 'invisible third hand' works to produce the truly 'free society'.

The real challenge facing the world today calls for the removal of the shackles man has clamped on his own limbs, the blinkers over his eyes, and the lightening of the load of political expedients under which he staggers with ever-weakening steps towards the abyss of serfdom. The capitalism that Stuart Holland would 'transform' is as far from the ideal system of that name as is the state capitalism of the USSR from true communism. The liberal ideas on which it was founded have been so eroded—by the inundations of socialist theory and policies—that what is left is a kind of half-world, called the 'mixed economy', a sheer anachronism in terms of pure economics.

The transformation needed is the freeing of the economy from the grip of politics, the emancipation of the market from monopoly control, the destruction of inflation by the ending of the blood-sucking by taxation and of the 'protection' racket, and, finally, the restoration to society of its rightful revenue, the Surplus Product, which now sustains monopolies to the impoverishment of the rest of society through the ransom exacted by the owners of land.

Mr Holland's book is a brilliant exposition of the mechanism for the destruction of what vestige of the free society is still left us. As such it is a profound warning to all liberal thinkers. It is published by Quartet, London, 403, U K price £2/95.

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# REPORT TO THE BUILDING INDUSTRY ADVISORY COUNCIL JUNE, 1978

By S G HART, Western Australia

## FACTORS AFFECTING PROSPERITY IN THE BUILDING INDUSTRY

### 1. STATISTICS

It is agreed that there is some marginal value in preparing statistics and plotting graphs to indicate trends in the building industry for housing construction and for buildings other than residential. In general the object of such exercises are:

- (a) To enable forecasts to be made in order that labour and material requirements may be marshalled in advance.
- (b) To support representations being made to governments drawing attention to 'down turns' and 'recovery' periods, in order that such stimulants or restraints that are within the scope of government may be applied to restore and maintain prosperity within the industry.

Difficulties from over reliance on statistical information are:-

- (1) The preparation of statistics is a burden on industry, imposing costs and embarrassing demands on the time of operatives, many of whom are hard pressed to manage their businesses under highly competitive conditions.
- (2) The employment of government Statisticians increases the cost of taxation, very often out of proportion to benefits arising.
- (3) The use of legal force to obtain reports from industry is incompatible with the concept of a free community.
- (4) Figures produced are generally in retrospect, often 'dated' to an extent that reduces, considerably, the value of information tabulated.
- (5) Statistical information is intended to indicate trends but the continuance of such trends can not always be relied upon.
- (6) In a non-socialist, free enterprise economy, governments often do not have or should not have the necessary powers to carry out the functions expected of them.
- (7) The industry should examine the factors upon which a soundly based community should function and act accordingly, rather than rely on direct government action, which, under present conditions can only be financed by one or all of three factors generally inimical to the best interests of the community.
  - (a) Tax increases including new forms of taxation.
  - (b) Inflation.
  - (c) Public borrowing.
- (8) People requiring statistical information have access to firms which conduct market surveys and may participate in the collation of information by trade associations.
- (9) The Council should never lose sight of the fact that increased spending on public buildings necessarily involves liability for maintenance

and staffing costs at taxpayers' expense in perpetuity. This could be dangerous in a community with a static or declining population or with declining rate of productivity.

(10) The foregoing is intended to direct the Council to more appropriate researches upon which a soundly based and prosperous building industry could be established without reliance upon government intervention.

(11) The factors upon which a soundly based economy depend are listed hereunder and will be dealt with briefly in the order stated.

1. Population
2. Land and Land Values
3. Taxation
4. Productivity -- Industrial Relations
5. Capital Investment
6. Inflation
7. Public Debt

A prosperous economy must result in a prosperous Building Industry and it is fruitless to endeavour to superimpose a prosperous building industry upon an unsoundly based economy!

### 2. POPULATION

The Building Industry in Australia is geared for population growth and therefore cannot be compared with its counter parts in older communities which have relatively stable populations. Europe for example, in which the industry is based to a greater extent on maintenance, replacements and modernisation.

For some years, in the writer's opinion, because of bad government, the population of this country has been advancing in a declining ratio and is rapidly approaching an actual decline.

The birthrate is falling for reasons that would take too much space to cover a comprehensive examination, but it may be stated with assurance that most causes relate to an unhealthy economy, the rising cost of goods and services, near prohibitive land prices, increasing taxation, inflation and in general to instability and the destruction of incentive.

Migration has been deliberately restricted by governments in the mistaken belief that unemployment otherwise would increase. There is a strange belief that every man or woman in employment deprives some other person of a job. This has given rise to near insane policies of restricting output, shortening hours, premature retirements, wages fixed above earning capacity, sacking of married women etc., etc.

It is not known by many politicians and economists that wages are paid from production and that the policies under reference have the reverse effect of worsening unemployment, pricing exports off the market and retarding the building industry accordingly. Full employment generates employment and unemployment the reverse.

### 3. LAND AND LAND VALUES

Land is the passive factor in production, it is the source of all wealth, capital and sustenance for the human race.

Any unnatural interference restricting access of labour and capital (the active factors in production) to land will result in restricting production and employment. The Building Industry is particularly vulnerable in this regard, depending not only upon the availability of land as a source of materials but also and most importantly, to provide a site for each and every building structure to be erected.

Unlike all products of labour, land is limited and fixed in extent. It has no cost of production and therefore is neither wealth nor capital. Its value depends entirely upon community growth. The value of land would disappear if there was total emigration. It may therefore be described as 'people value'.

The services of government are necessary for the construction of road and rail services, water and electric supply etc., without which community growth would be impossible.

It is significant that as population increases and technology advances, that land values increase correspondingly and if collected on behalf of the community responsible for the growth of land value, would provide for all the necessary costs of the services, which support the population, which gives rise to the land value. In other words, efficient government can be self supporting.

Community development under proper accounting, would be a wonderfully balanced self financing arrangement, free of debt and social disorder. In contrast we find that land has become the subject of monopoly speculation, producing increased rewards for some, depriving the community of its natural revenue and in the process giving rise to a taxation system which acts in all its forms as a penalty on production and depriving many of the right to work.

It is highly significant that during the last fifteen years that wages have increased by 370% while taxation has increased by 600%.

The conditions of land tenure are not uniform throughout Australia, therefore it is difficult to assess land values on a national basis. The following figures however are most interesting. During the same 15 year period, land prices in New South Wales and Queensland increased by 670% and the capital value of land and buildings in Victoria advanced by 780%

Since, in New South Wales and Queensland, the whole of Local Government revenue is based on land values, which is not the case to the same extent in other States, land valuations per head of population would be higher in the other States and the figures therefore conservative.

If one were to go back for say 60 years (prior to World War 1) it would be found that residential land in the Perth Metropolis had increased about 200 times while wages have increased about 16 times. The former figure would have to be adjusted for the cost of internal services which must now be provided by the developer, whereas formerly such costs were paid by the government from rates and taxes. It would, therefore, be reasonable to state the increase as approximately 100 times or six times the rate of wage increases.

It is only a matter of deciding how far back retrospective comparisons with current land values should go. Before community settlement began, land had no ratable or capital value and the difference, therefore, would be infinitely great.

It will be found that the rewards of capital investment as a percentage have barely increased at all. Pre World War 1 mortgage finance was quoted generally at 7% brick and 8% wood construction. After adjusting for inflation, it would be difficult to prove that there had been any real increase except to account for the difference in money value. If taxation also were to be accounted for, there would, undoubtedly, have been a positive decline in the rate of return.

### 4. TAXATION

In general, it can be stated that the justification for taxation falls according to three basic canons.

#### (i) Ability To Pay

This is based on the Communist dictum of 'from each according to his ability...' It presupposes that there must of necessity be a wealthy class and a poor class and that the former should pay the expense of government on behalf of the latter. There is no concept that if justice were to be restored to all men and women in respect of their rights to use the earth, all monopolies abolished, incentives restored to the producer, and hand outs to the idle and improvident abolished, that the existence of a wealthy class living in abundant luxury alongside a lower class living in degrading poverty would no longer be a permanent feature of society.

Taxes imposed according to presumed ability to pay include income taxes, company taxes, payroll tax, rates on property, stamp tax, taxes on wealth in their various forms, including death duties, capital gains tax, wealth tax, value added tax, etc., etc. In the main all such taxes add to the cost of production and are passed on to the ultimate consumer in the form of price increases. The costs of collection being added at each stage. It is obvious therefore, that the amount paid by the taxpayers is considerably more than that received by the Treasury.

A further problem is that governments are the

largest purchasers of goods and services and their costs increase as higher taxes increase prices. In effect, governments are buying back their own taxes. It is just like a dog chasing it's tail. There can be little, if any, advantage from high taxation policies, because such a large part of government expenditure is non-productive and therefore, inflationary pressures are generated.

On the other hand, a large part of any substantial reduction in taxation would be used for speculative investment in land, because it is difficult to find avenues for comparable profitable investment in industry. Just to give one example, BHP used to be considered Australia's most soundly managed and profitable investment. It's share values have declined during recent years from a peak of \$24.00 to about \$7.00, not to mention the further effects of inflation.

This latter condition worsens as the technological advances and specialisation increases—the division of labour is the term used by economists. The number of taxes involved in the production of goods in every day use is enormous. For instance, in 1938, the prices of items named below included taxes as indicated (from computations of California Taxpayers' Association):

In the price of:-	Number of Taxes	In the price of:-	Number of Taxes
Bread - - - - -	52	Suit of clothes -	105
Canned Fruit - - -	32	Cotton dress - -	125
Sugar - - - - -	45	Shoes - - - - -	126
Beef - - - - -	127	Overalls - - - -	148
Bar of soap - -	154	Wire fencing - -	191
Automobile - -	145	Milk of magnesia -	172
Gas and oil - -	205	Some other drugs -	378'

(Extracted from an American Publication *Antidote for Madness* by Wylie Young, p.20.)

It is for reasons stated above, that governments can seldom balance budgets and bridge the deficit gap even by inflating the currency which is, in reality, only an insidious form of taxation; negotiating huge loans at heavy expense for interest to be borne by posterity and are continually looking for new taxing devices. This is confirmed in the *West Australian* 1/7/78, which states that a value added tax is under consideration. This was accompanied by the usual disclaimer which has seldom been honoured in the past, 'that the Government was not seeking to increase the overall burden of taxation'.

The V.A.T. is notoriously expensive to administer and has caused wide dissatisfaction in Britain and Europe. The building industry would be seriously affected by such a tax if imposed. Steadily increasing taxation, however, is inevitable under the present system.

(ii) Need to Consume

This pretext in many respects conflicts with the Canon "ability to pay" because it often falls with the greatest severity upon poor people. A working man with a large family must

buy more food and clothing and hire a larger house than a couple without children. Taxes which fall under this category include sales tax, customs duties and excise. All costs are passed on to ultimate consumers plus the costs of collection.

(iii) Payment in Return for Benefits Conferred by the Community

This principle is the only method used in private industry (payment for services rendered according to values determined in the free market by the law of supply and demand).

Imagine any business enterprise attempting to charge for its services on the basis of what management thought customers could afford—high prices charged to the wealthy and below cost to the poor. The wealthy most assuredly would transfer their custom elsewhere and the company would soon become insolvent.

Politicians and empirical economists do not appear to understand that the government is only a huge business undertaking which should engage only in those special functions which are beyond the scope of private enterprise, e.g. constructing highways and water supply services etc., which involve the use of land generally for reticulation and communications and, therefore, must necessarily function as a monopoly.

Taxes which fall under this classification are land taxes and rates if levied on a basis of value without discrimination, royalties and licenses, if assessed uniformly according to the value of monopoly rights conferred.

Such 'taxes' which more correctly should be called land rentals, royalties and licenses, unlike taxes levied in whatever form, which bear directly or indirectly on labour and production, cannot be passed on to the consumer as price increases. This is admitted by contemporary economists, though seldom featured or taken into consideration when advising governments.

In a nutshell, taxes levied under clauses (i) and (ii) cause price increases, act as disincentives to produce; goods and services become either dearer, scarcer or of inferior quality.

Taxes levied under clause (iii) have a directly opposite effect. Land becomes cheaper to buy because it is no longer profitable to withhold valuable land from use for speculative gain in anticipation of community growth increasing values and yielding a handsome unearned return. Land is fixed in extent; its supply cannot diminish or quality be impaired by taxes levied according to value. On the contrary, improvements must increase as land is forced into use. The full value of any monopoly is always exploited by the owner. A tax or rental imposed, lowers the value of the monopoly and therefore cannot be passed on.

The rental or use value is not affected by being taxed or collected, it is only a matter of

transferring payment from a claimant owner to the community which created the value. The capitalised value of land however would fall in proportion to the amount of rental collected. The capital value of land, discounting the effect of inflation, has usually been about twenty times the rental value after deducting charges which bear upon the land.

For example, a land plot with a rental value of \$1,000 per annum, if unencumbered by rates and taxes would sell for \$20,000. If rates and taxes were to be levied at \$500 per annum, the capital value would be  $(1000-500) \times 20 = 10,000$  dollars.

If the whole or nearly all of the rental value were to be taken as revenue, land would be available to the builder almost without capital cost. The ultimate user would pay the normal rental value to the government on a pay-as-you-earn basis, thus saving the enormous cost of interest pledged often for half a lifetime and ultimately compounding to double the capitalised land value, and in addition, all or nearly all taxation which about doubles the building cost, could be abolished.

Governments in receipt of their rightful revenue could function more efficiently at about half the cost in a buoyant economy without the need to borrow or inflate the currency or spend enormous sums in support of the misnamed 'welfare state', alleviating poverty and unemployment generated by a stupid disincentive taxation system.

## 5. PRODUCTIVITY AND INDUSTRIAL RELATIONS

Subject to the foregoing, very little need be said on the subject of productivity.

When about half of total earnings is absorbed to pay for land rental, 'interest' bearing land prices to fortunate people who add nothing to the sum total of wealth in their capacity as land 'owners' (land holders is the more correct title since in British law all land is held in 'fee simple' subject to the prior right of the Crown) and in support of a vicious disincentive tax system made necessary because governments fail to collect their natural revenue, it is idle to plead with Unions not to become militant.

Because of the superior position of the land holder as compared with the 'labourer' and the 'capitalist' the combination of workers, through trade unions, have become necessary to create monopoly conditions, enabling wages to be forced artificially above market value. Combinations of employers (so called capitalists) have endeavoured to perform similarly for their own protection, but without the same measure of success, except in isolated cases.

Industrial chaos is inevitable when land, the passive factor in production, is held partly idle in support of speculative unearned gain, and labour, the active factor, is partly idle

because production is legally prohibited except at wage rates marginally above what consumers are willing to pay.

A further problem is that the returns to capital cannot in general compete with the rewards from 'investment' in land. The latter also is a hedge against inflation and attracts the additional competition of those who operate in the land market especially for this purpose. Insufficient capital, therefore, is available to industrial enterprise or would be if consumer demand also was not restricted by land monopoly, taxation, Union activities and legalised monopolies. The land holder is able to keep 'his' land idle under present conditions with little disadvantage to himself and this is compensated for by future gains.

The 'labourer' cannot remain idle for anything like the same period. He and his family must eat, be clothed and sheltered, and very often is liable for fixed commitments—mortgage interest and principal repayments, hire purchase and school fees etc.

The capitalist must pay rent and interest on his plant and stock in trade, which will deteriorate if not used and maintained, together with the loss of customer good will and the usual obsolescence factor on machinery etc.

For such reasons the land holder is in a favoured bargaining position as compared with the active participants in production. The position would change dramatically if the community created value of land was taken for revenue and taxes and restrictions on production abolished. Labour and capital would then receive their full rewards without the necessity for militant action.

## 6. CAPITAL INVESTMENT

Capital may be defined as that part of wealth which is used for the production of more wealth—machinery, industrial buildings etc., also wealth in the course of exchange—goods on the wholesaler's floor or in transit etc.

Land is not either wealth or capital but under present monopoly conditions will exchange for such. Land cannot be wealth because labour is not involved and there is no cost of production.

The volume and value of money and other negotiable instruments are increased enormously when land has a capital selling price, and the fortunate holders of land are able to command a share of production without making any contribution thereto.

Also because of the tax structure, building prices are much higher than otherwise would be the case.

On the other hand, potential home buyers together with industrialists and those who engage in commerce for the same reason must borrow to satisfy their requirements.

An unnatural demand for credit is thereby generated, which together with the fiduciary currency issue and inflation, increases the builders demand for finance and at the same time increases the rate of interest.

Payments for the use of fiduciary credit strictly speaking are not true interest since such are not based on the earnings of capital. The subject is too involved to be dealt with in this report. Suffice it to say that the subject would be clarified if taxation, inflation and public borrowing, generated only to stimulate the economy, were to be abolished.

Not all people who gamble in land make unearned fortunes. Second or third generation legatees who hold large tracts of land in densely populated areas and those who are able to buy rural land, which is later rezoned for urban use, make tidy fortunes without contributing wealth in exchange.

Latecomers however, and those without sufficient resources to 'ride out' a temporary recession, often overreach themselves and do little more than contribute to the fortunes of former owners. The fact that not all land investors make unearned profits serves as a 'cover up' for the whole sordid process of speculating in the peoples' estate and the legality of such anti-social practices.

## 7. INFLATION

Governments continually tell the people that they are attempting to grapple with the problem of inflation; that there is no easy solution; that a measure of unemployment must be accepted in the process of putting restraints on the economy; that the problem is world wide and cannot be resolved unilaterally.

The problem indeed is world wide, because all nations seem to follow the same economic policies, but this apart, there is little truth in such claims. Inflation is caused by issuing paper money and other forms of currency for the purpose of settling debts incurred by governments without the backing of gold or other negotiable assets of intrinsic value.

The Federal Government has complete control of the issue of currency and the process can be stopped at any time regardless of what other countries do. A freely convertible exchange would automatically adjust the relative value of the Australian dollar in relation to the currency of other countries to adjust for any difference in their policies with regard to inflation.

It is true that the over issue of currency has an initial stimulating short term effect on the economy, creating in the process buoyant conditions of employment. To be sustained however the rate of inflation continually has to be increased and a point is soon reached where matters get out of control; prices increase; external markets are lost and industrial unrest is accelerated as living standards decline.

Although the Federal Government has complete powers to stop inflation at any time it desires, action is not taken because of inflationary pressures which are of a highly political character, the disturbance of which might lead to loss of popularity and perhaps an electoral reverse.

These inflationary pressures are summarised as follows:-

- (i) Land monopoly and speculative investment in land is supported by all political parties.
- (ii) The near impossibility of balancing budgets because of purchasing power residual in land rent and land price unbacked by productivity.
- (iii) Labour monopolies inbuilt within industrial awards, which prohibit employment except at rates which are marginally unacceptable to consumers and which in conjunction with Clause (i) cause unemployment, loss of productivity and taxation increases.
- (iv) Protective tariffs which oblige consumers to pay higher than world market prices for imported goods.
- (v) Taxation and social welfare policies which destroy incentive and inhibit production.

The building industry suffers to a greater extent than most others, with the possible exception of primary producers for the export market, from inflationary policies, being obliged to pay future values for land, uneconomic charges for labour, inflated by taxation and trade union monopolies, high prices for material, and in addition being obliged to finance the cost of inflation at high rates of 'interest'.

## 8. PUBLIC DEBT

It is obvious that excessive borrowing and an extremely high cost of servicing loans must result from an economy based on conditions and policies described. Government competition with private industry in the money market must have the effect of increasing 'interest' rates.

A bad feature of government borrowing is that funds are not always employed in a manner that will generate interest and support repayment of the principal, which must be refunded and remain a continuing burden on taxpayers.

## THE REMEDY

The question is — What should the Building Industry Advisory Council recommend to governments for the rehabilitation of the Building Industry? The policies now being pursued have a long and dismal record of failure. Left Wing Socialists advocate a further and more drastic dose of deficit financing. Right Wing Socialists make some attempts at living within a balanced budget and frankly admit that higher unemployment is the price that must be paid for checking inflation.

Surely there must be another course. The writer has endeavoured to explain that this involves only the adoption of sound business

principles acting in conformity with natural law upon which the principles of political economy are based.

The Federal Government has at last realised that there must be a resumption of vigorous immigration policies. How to prevent the disastrous decline in natural increase is another matter. This is contingent upon the restoration of a healthy and buoyant economy. Even assuming that by some miracle the population commenced to increase, the net result would be a rise in land prices (people value) which in turn would restrict employment opportunities.

There is no possible alternative but to reverse taxation policies. Progressively abolishing all repressive taxation and substituting a tax on the unimproved site value of land.

The Communist method of basing taxes on 'ability to pay' has been given more than a fair trial. It has cost the community thousands of millions of dollars wasted and misused, together with untold misery and shocking injustice.

The Council should recommend the proven method of charging for benefits conferred by the community. This was the subject of a Public Enquiry in New South Wales and was endorsed completely for local revenue and for water and sewerage charges also. At one time it was advocated by the Building Industry Congress of Victoria.

Results would be, not a slight and faltering improvement, but a spectacular revival as was the case in Denmark when the Justice Party had the balance of power for a few years. Very little legislation was passed but news of intended changes (restoring the peoples' equity in the rental value created by the community) was sufficient to send land speculators scuttling for cover and stimulate a business revival.

#### THE LAW OF RENT

Any examination of this nature would not be complete without reference to Ricardo's Law of Rent, which is the corner stone upon which the Science of Political Economy is founded and the prosperity of the building industry depends.

John Stuart Mill, the only professional Economist of the nineteenth century, whose works have endured and stood the test of time, correctly said that it was not possible to forecast the effect of any legislation without an understanding of the Law of Rent, for upon it not only depends the share of production that land holders can command but also the residual return to Labour and Capital.

David Ricardo, a London Stock Broker, gave prominence to the law and featured its supreme importance to an understanding of political economy. Promulgation of the law which has been

known and endorsed by all economists of note for about a century, ensures that the name of Ricardo will survive in the annals of political economy for as long as injustice in the distribution of wealth remains to disgrace the social relationships of mankind.

The tragedy of our generation is that the law is never spoken of by contemporary 'economists', is almost unknown to politicians and its mention would elicit nothing more than a blank stare from the man in the street. So powerful have the privileged landed aristocracy become that the subject which controls the destiny of mankind is virtually banned by the media,—the schools and the churches (the custodians of morality) alike.

Banned for four generations, during which the world has seldom been free from war in one country or another, including two disastrous conflicts waged on a global scale, totalling almost a decade of time, claiming the lives of tens of millions of people;\* in which major depressions have virtually destroyed the normal lives of as many people again; in which five hundred millions of people live perpetually in semi-starvation; in which the major cities of the world are beginning to decay and in which in some places it is no longer safe for the ordinary citizen to venture after dark without fear of criminal assault.

(Cont. in next issue)

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#### 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)

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