CREDIT REFORM OR LAND REFORM?

By Douglas J. J. Owen

Readers of Henry George's work, *Progress and Poverty*, are struck by its anticipation of the problems of the future. Written in 1879, this book spoke not only for its own day, but for our day, too. Some people betray their ignorance of the book by saying they have got beyond Henry George. Among these are the advocates of currency theories and schemes for manipulating credit.

Reform of credit and monetary systems as a cure for poverty is not new. Henry George was aware of these plans and had seen many of them tried and fail in the United States, that land of experiments which was his home. He saw the weakness of these attempts to cure poverty by changing the token of wealth without increasing the production of the real wealth which the tokens represent.

Right at the beginning of *Progress and Poverty* George says: "We have been told that the prevailing depression is due to overconsumption; upon equally high authority that it is due to overproduction; while the wastes of war, the extension of railroads, the attempts of workmen to keep up wages, the demonetisation of silver, the issues of paper money, the increase of labour-saving machinery, the opening of shorter avenues to trade, etc., etc., are separately pointed out as the cause by writers of reputation."

Conscious of a Wrong

We thus see that in George's time, the silver and money questions were considered the causes of distress by many people. The remedy also was sought for in the same wrong direction. Henry George goes on to say: "While professors thus disagree, the ideas that there is a necessary conflict between capital and labour, that machinery is an evil, that competition must be restrained and interest abolished, that wealth may be created by the issue of money, that it is the duty of government to furnish capital or to furnish work, are rapidly making way among the great body of the people who keenly feel a hurt and are sharply conscious of a wrong."

Progress and Poverty shows the fallacies underlying the economic reasoning of that day, which still persist in our own time. "The idea that wealth may be created by the issue of money" is the error at the root of all currency and credit reforms that ignore the land question. What the masses suffer from is the lack of real wealth, not the lack of credit, or even money. This real wealth is continually being produced by the workers, but credit reformers think that by giving the workers a larger credit or a bigger supply of claims upon wealth, the transfer of real wealth will be effected. All experience proves the fallacy of such reasoning.

Not Truly Wealth

Henry George says in his chapter on "The Meaning of the Terms": "Bonds, mortgages, promissory notes, bank bills, or other stipulations for the transfer of wealth, have an exchange value and are commonly spoken of as wealth . . . but they are not truly wealth, inasmuch as their increase or decrease does not affect the sum of wealth. Increase in the amount of bonds, mortgages, notes or bank bills cannot increase the wealth of the community that includes as well those who promise to pay as those who are entitled to receive."

This fact applies to the latest schemes for manipulating credit or the issue of money tokens. Some may benefit from public loans or by the issue of credit instruments guaranteed by the public taxing authority, but ultimately the burden of such schemes will fall upon the already overburdened taxpayer. Henry George, while exposing this fallacy, advocated that existing taxes should be abolished and replaced by a tax upon the value of all land. Such a scheme has none of the defects of Credit Reform.

Furthermore, George pointed out that poverty existed then, as it exists to-day, under conditions that vary widely with regard to currency and credit systems.

"Look over the world to-day," he says. "In countries the most widely differing—under conditions the most diverse as to government, as to industries, as to tariffs, as to currency—you will find distress amongst the working classes; but everywhere that you thus find distress and destitution in the midst of wealth, you will find that land is monopolized."

No Cure for Distress

Therefore, neither currency nor credit causes will cure our distress and give employment and prosperity. The common factor under all social systems is land monopoly, and until that is cured there can be no cure.

There are three fallacies abroad to-day as in Henry George's time, and they are exposed in his work. He speaks of "that fruitful source of economic obscurities, the confounding of wealth with money." George also speaks of "the confusions of thought which arise from the habit of estimating capital in money." This fallacy was the Mercantile theory—that commerce is the exchange of commodities for money, which still underlies our new Protectionism, with its quotas and tariffs. The third fallacy was the idea that capital limited or determined industry; that the possession of capital in the form of bank credits, shares, tokens or other credit instruments gives its possessor power over labour and productive industry; that capital, including credit and currency, employs labour and pays wages. This is the Wage Fund theory, which underlies modern Communism and Marxism as well as the Douglas Credit and other currency movements.

The Only Limit

Progress and Poverty exploded the Wage Fund theory and shows that it is labour that pays its own wages and employs capital, instead of vice versa. George shows in great detail, and with many graphic examples, that the only limit to industry is access to natural resources. Capital is wealth produced by labour from land, and the terms upon which labour can obtain permission to produce wealth is the determining factor in economic life.

Being an acute thinker and exact writer, Henry George does not deny the need for improvements in the mechanism of exchange. In considering the causes of poverty he states: "I do not mean to say that there are not other proximate causes," and he mentions, among others, the essential defect of currencies which contract when most needed, and the tremendous alternations in volume that occur in the simpler forms of commercial credit, which to a much greater extent than currency in any form, constitute the medium or flux of exchanges, and he says these and other similar causes undoubtedly bear important part in producing and continuing what are called hard times.

The Unjust Cause

"Both," says Henry George, "from the consideration of principles and the observation of phenomena, it is clear that the great initiatory cause is to be looked for in the speculative advance of land values." As long as speculation in land values remains, no reform of currency or credit can do more than patch up the damage done to the body politic. When as a first step, by the taxation of land values, land speculation and the withholding of land from use is prevented, then the need for many credit reform schemes will pass away.

Unemployment, low wages and poverty existed long before the modern banking and currency systems were invented. Banking and such credit instruments as cheques and bills of exchange were wonderful inventions and improvements, but, like all improvements, they have not alleviated poverty. They have increased the land values that go into private pockets.

If such reforms as banking and commercial exchange have failed to solve the social problem, no more will any currency or credit scheme, however reasonable or desirable it may be, in itself remove the fundamental cause of poverty and hard times. That all-prevailing cause is the injustice which allows the earth, which is the source of all forms of wealth, to be regarded as private property.

ERRATUM.—The reduction in the yield of Income Tax and Surtax in 1933-34, as compared with the previous year, was £31,667,000, and not £40,667,000 as stated on page 58 of our last issue.