

Contrasting Philosophies of East and West

by
R. J. RENNIE

*

Introduction

I WISH to try to forecast future political development in the light of the fundamental laws of political economy and to deduce from these the policy most likely to steer future development in the right direction.

Most present day economists devote their energies to analysing, in great detail, the mass of statistics now available on production, employment and trade, but do not offer any guidance on how the prevailing economic malaise can be cured. The right direction for future progress must be precisely defined, and I submit the ideal towards which mankind should strive is that given by Herbert Spencer—that every man should be free to act as he pleases, provided that in so doing he does not interfere with the equal right of his fellows—or, in other words, the maximum possible freedom for the individual and the minimum interference by the state.

It is axiomatic that this ideal of personal freedom can never be attained without first achieving *economic* freedom and equity in the production and distribution of wealth.

Observation of the working of natural economic laws and of the political upheavals which have occurred since the beginning of this century lead one to the conclusion that the Western world must either adopt Henry George's solution for the social ills which have afflicted most societies for nearly two thousand years or be submerged in a flood tide of communism. Succinctly defined, Henry George's philosophy may be stated thus:

- (a) The revenue of the state for all social purposes must be the whole economic rent of land.
- (b) There must be no interference by government with legitimate trade, either external or internal.

Definitions

The social systems I shall consider are those broadly described as (a) free enterprise (b) socialism, and (c) communism.

There are today no social systems employing modern methods of production to any appreciable extent that rely on private enterprise to provide all wealth and services. Nevertheless, a free enterprise or "capitalist" society may reasonably be described as one in which all goods and services, apart from such requirements as defence forces, police, roads, postal services, etc. are provided by private enterprise.

Similarly, a socialist society can be defined as one in which all public services, including transport, education, health, water, electricity, gas, and much residential property, are owned and operated by national or local government.

Despite many minor differences among them, one common characteristic distinguishes all communist societies, namely, that the state, or local authority on its behalf, owns and manages virtually everything: the ordinary citizen is permitted to own nothing but such personal property as clothes and furniture.

Fundamental Principles

Appraisal of the arguments considered in this paper will be assisted by re-stating the basic principles of political economy:

- (a) Land, labour and capital are the three factors of production between which the wealth produced is apportioned: rent to land, wages to labour, and interest to capital.

-
- (b) Increasing population intensifies the demand for land, tends to lower the margin of production and so increases, at the expense of wages, the proportion of wealth appropriated as the rent of land. Speculation in land has the same tendency. Most of the increased wealth resulting from improvements in methods of production is ultimately absorbed by the rent of land.
 - (c) Wages are determined by what labour can earn at the margin of production. Where land monopoly exists, wages always tend towards subsistence level and some degree of involuntary unemployment arises.
 - (d) Labour employs capital and not *vice versa*. Interest, which is the share of wealth going to capital, depends on the amount of capital available and the demand for it. Interest rates remain fairly constant, any tendency towards a rise in rates being corrected by more capital becoming available.
 - (e) Any legislation such as tariffs, subsidies, etc., which impedes or distorts the operation of economic laws, will inevitably impair the efficiency of wealth production.

Since labour's share of wealth can be increased only by raising the margin of production, poverty can never be remedied unless land is made more readily available to labour and on terms equal to all. Communism achieves this by confiscation: the alternative is the collection of the rent of all land by taxation, irrespective of how the land is used or whether it is used or not. This simple fiscal reform would make more land available, since it would then be unprofitable to withhold land from use.

Private Enterprise

In his book entitled *Economics*, Professor Paul A. Samuelson writes: "Perhaps nineteenth century America come as close as any economy ever has to that state of *laissez faire* which Carlyle called 'anarchy plus the constable.' The result was a century of rapid material progress and an environment of individual freedom." Though still regarded as the leading exponent of the advantages of a free economy, the United States has now followed the example of the majority of democratic nations in adopting many legislative measures designed to alleviate the worst effects of the mal-distribution of wealth. Despite these measures, it is estimated that in the

U.S.A., by common consent the richest nation in the world, one family in seven exists at subsistence level.

Socialism

Nearly every industrialised country in the world, in largely futile endeavours to abolish poverty, is adopting the so-called remedies advocated by socialism, namely the "welfare state" with all its ramifications in the fields of health, housing, family allowances, national assistance, etc. It should not be forgotten that all such legislation designed to deal with the effects and not with the causes of the inequitable distribution of wealth and opportunity has serious economic and social disadvantages. For instance, differential income tax, national assistance, subsidies and grants, all discourage effort and enterprise, while subsidised housing, at least as operated in Great Britain, also reduces the mobility of labour.

In a number of countries some revenue is raised by levying a tax on the annual value of land, but in nearly all cases the rate of tax is too small to be effective in reducing land prices. A British Labour government in the 1931 Finance Act, provided for land-value taxation amounting to 1s. 8d. in the £ of annual value. Unfortunately, in the same year, this government was replaced by a "National" government, dominated by Conservatives, which immediately suspended the valuation of land and in 1934 finally repealed this section of the 1931 Finance Act.

Dimly realising that something should be done about the continual increase in land value, a Labour government in 1947 passed a Town and Country Planning Act, which, *inter alia*, provided for development charges payable by the sellers of land where a change of use was intended, *e.g.*, from agriculture to building. In addition, the sum of £300 million was allocated as compensation to land owners for loss of development rights. The only significant result of this Act was to restrict development (precisely the opposite effect to that which would have resulted from the taxation of land values). These development charges were abolished by a Conservative government in 1953. The present Labour government's Land Commission Act 1967 provides for the assessment and collection of a betterment levy on any additional value attaching to land realised by sale or development, and confers wide powers of compulsory purchase. It is apparent that this measure will be as

ineffective in bringing down land prices, and as harmful to development, as its predecessor of twenty years ago.

Thus nearly all governments, faced with the dismal failure of socialistic legislation to eliminate poverty and privilege arising primarily from land monopoly, turned to inflation of their currencies in their efforts to ward off unemployment. This can be illustrated by the following examples giving the average annual rates of depreciation of currencies for the decade 1955 to 1965: U.S.A. 1.7 per cent.; Canada 1.8 per cent.; West Germany 2.2 per cent.; Australia 2.3 per cent.; Great Britain 3 per cent.; Denmark 3.7 per cent.; and India 5.4 per cent. One result of inflation, combined with a fixed foreign exchange rate, has been the recent inevitable devaluation of sterling, the effects of which on the British economy have still to be felt. Lenin is reported to have said that the surest way to wreck a capitalist system is to debase the currency. The end of this policy may well be chaos and ruin for all who have embarked upon it.

Communism

As it can be seen in practice today, communism fails completely to satisfy man's essential desire to be free to find his own living as he chooses. Where the state owns and controls all land and capital, individual freedom is impossible. Even under a democratically elected administration such a concentration of power would be intolerable, but in the hands of the executive committee of "The Party," it becomes a monstrous tyranny. The history of communism during the last fifty years has provided many examples of this. For instance, the ruthless elimination of the peasant farmers in Soviet Russia, the savage suppression of the Hungarian revolt and the atrocities committed at the Berlin wall. Despite these fundamental faults, and many other lesser failings, it must not be forgotten that in communist countries the whole economic rent of land goes automatically into the coffers of the state. Further, enterprise is not stifled as it so often is in non-communist countries, by the heavy cost in wealth and time spent in acquiring land for development or any other purpose. In this important respect communism possesses a marked advantage, which compensates to some extent for its lower efficiency in organisation and production.

Future Trends

In countries such as Spain and Portugal, in the continents of Africa, Asia, India and South America, there are extremes of poverty

and privilege comparable with those in Russia and China prior to the communist revolutions. Under such conditions violent revolution, with its attendant bloodshed and misery, appears probable, and the subsequent establishment of communist regimes inevitable. To millions of the downtrodden in the world, emancipation and communism are synonymous terms.

Countries with democratically elected governments and long histories of evolution towards some degree of social justice may well drift towards communism gradually, but none the less surely. Indeed, under successive socialist governments Great Britain seems to be steadily sliding down this slope. The present Labour government is accelerating the pace: steel was first nationalised, transport has followed, insurance and banking may be next, and there are persistent demands for more nationalisation of industry from many socialists both inside and outside Parliament. The Government's intention to take power to control prices, wages and dividends bears a close resemblance to the rigid control of all prices and wages maintained in communist countries. The time may not be far off when it may require only the nationalisation of land to make the social system in Great Britain communist in fact, if not in name.

Conclusion

From all the foregoing considerations it seems conclusive that if the free world is to avoid another "dark age," imposed by universal communism, there is no choice but to follow the fundamental economic and ethical principles laid down by Henry George. It may be that those countries where production and services are still largely in the hands of private enterprise will yet turn to the right remedies before those countries where socialistic legislation has obscured and distorted the laws of economics and the principles of social justice.

Were land rent to be appropriated entirely by the state, and all present taxation ultimately abolished, the resulting increase in wealth would make capital more readily available and so tend to reduce the rate of interest. This, combined with the greater proportion of wealth accruing to wages, could in time result in the capital of most undertakings passing into the hands of those employed therein. Thus the true partnership of labour and capital would be achieved naturally: virtually all attempts to establish this partnership in the past have ended in failure.

The history of communism in Soviet Russia and its more recent development in Eastern Europe seems to show that the initial fervour for, and devotion to, communist theory may gradually be giving way, under the pressure of economic laws and of mankind's inborn desire for individual freedom, to a more liberal type of social structure. If this apparent trend continues in these communist countries the state may ultimately retain possession only of land and its rent, leaving ownership and management of industry to those employed therein.

The roads to the perfect partnership between labour and capital will assuredly be long and arduous, but it is conceivable that both free enterprise and communist societies may eventually attain something akin to this ideal by different routes. The most important lesson to be learned is that man-made and natural laws must be in complete harmony if each individual in society is to have the opportunity to attain the best that life has to offer. It seems reasonable to hope, that, some day, this may come to pass.

Paper presented at the Twelfth International
Conference on Land-Value Taxation and Free
Trade. Caswell Bay, Wales, September 1968
