

the terms are technical and do not always bear their colloquial meanings. And in economics even the technical terms are comparatively simple.

So the challenge to the teacher, writer, and student of economics is to clarify the meanings, especially of rent which provides the key to the understanding of all economic phenomena and also to the solution of the world's great social problems which are all ethical and political.

Rent is one of the two natural channels of distribution. To understand it completely is to understand economics. Most writers on economics confine their attention to different aspects of production, such as trade, money, growth, or the G.N.P., become switched over into politics and endlessly discuss the misconceived idea of 'correcting mal-distribution'. They therefore misunderstand economic distribution. Yet it is only by overcoming the confusions and understanding economic distribution - a process of nature, not of politics - that economic and politics become mentally separated and good government becomes possible. This is a great challenge indeed.

Among the many illuminating explanations of rent is Chapter II of Book IV of Henry George's "The Science of Political Economy" and the reader should not delay reading and mastering the Chapter.

CHAPTER 8

MORE ON DISTRIBUTION

66. To recapitulate: 'distribution' means 'division among'. Wealth is *produced* by labour (which includes capital and exchange), and is *simultaneously distributed* (i.e. divided, not by labour or by human will but by natural economic law) into rent and wages. Both rent and wages are explained later.

The three most prevalent misconceptions of distribution are:

- (a) that it means the transportation of wealth, by rail, van, shops, etc.. In reality all these three processes are labour, and form part of production (from land through to customer);
- (b) that it means the taking of wealth by taxation from the producers and the rich and giving it to 'the poor'. (This is popularly known as 'redistribution'); and
- (c) that it can be effected and affected by human law, i.e. by legislation.

These are three basic errors, all part of pseudo-economics. Nos. (b) and (c) are specially dear to socialists, and are very widely held.

The main step in shedding these errors, and progressing from pseudo-economics to economics, is to realise that the whole economic world, like all the rest of the universe, is governed by natural law, not by human law which is the field of politics. Science is ordered mental knowledge by which the mind grasps the realities of nature, i.e. the universe.

The Law of Distribution is unalterable so long as co-operative production exists. It is never political, and the popular belief that governments take a part in the economic distribution of wealth is a mere superstition. Governments take from some producers by taxation after the production and economic distribution are finished, and give by complicated, expensive and often corrupt political processes to non-producers. Their misguided and ignorant intentions often appear plausible to the ignorant, but their actions are harmful and achieve more and more poverty, which continues to grow in spite of the massive sums spent on combating it.

J. S. MILL

67. John Stuart Mill's classical assertion that productivity is governed by physical law and distribution by human law is demolished by Henry George, who makes it abundantly clear that both are governed by natural law, unalterable by man.

However, even George has partially acquiesced in Mill's error by stating that the natural law which governs production is physical, and that which governs distribution is moral, each being natural and immutable. In fact, however, both production and distribution are governed by the unalterable *economic* law of nature. Man cannot decide that wealth and services can be produced in any other way than by labour, nor can he decide that distribution shall ever be other than between rent and wages.

68. George did not mean, of course, that moral, or ethical, law is a matter of human choice. But he did to some extent confuse economic law with the moral law. With him it was a surface confusion only, and he did much to rectify it in the same Book IV by showing the true difference between economic law and moral law. (see par. 65).

Man can alter neither the economic nor the ethical law nor any other natural law. Because of man's unalterable economic nature it is not possible to disobey the economic law, and though because of man's ethical nature, which is both good and bad, it is possible for him to disobey the ethical law, and to suffer the consequences, the ethical law remains unaltered. This book is not a treatise on the ethical law, but it demonstrates (I hope) that governments, who after all are only individuals, are unalterably governed by it, and that all our social evils arise from disobedience to it.

Henry George did temporarily confuse (economic) distribution with (ethical) ownership by saying, at the opening of chapter IV of the same book: "Since the distribution of wealth is an assignment of ownership (!!!) the laws of distribution must be the laws which determine ownership in the things produced". But he also said, on p.326, "appropriation can produce nothing."

George's Second Error

69. George also made a second error in the same Book IV by saying that production precedes distribution - "the purpose for which production began is concluded when it reaches distribution" (p. 330-1), and "distribution is in fact a continuation of production - the latter part of the same process of which production is the first part." In fact, however, they are simultaneous. Every crop, every plank, every shirt, is distributed already, at every stage of the production, into wages and rent. The mere ploughing of the field, the mere felling of the tree, are stages in the production of the crop and the plank, which at that stage have already been distributed. This is evidenced by the increased price of the field or the tree after the ploughing and the felling have taken place.

The purpose of production is indeed distribution, not continuous but simultaneous. See par. 71.

Distribution into wages and rent is effected by economic, not moral or ethical, law. In the productive process both wages and rent normally come into the hands of the producer, after which the rent is handed over to the land-holder, and then ethically should be handed by him to the community treasury (all done, of course, through money).

There can be no conflict between ethics and economics. The breach of ethics occurs when the economically distributed rent is retained, because of political corruption, by the land-holder as though it were his individual income.

This political breach of ethics is necessarily followed by another, when governments are obliged to make up the loss of their rent by imposing taxation on private property and incomes.

What Economics Reveals

The study of economics reveals that the rent is produced by the community, and that wages are produced by individuals. Distribution is effected by economic law through price in the market. This is explained later in pars. 75 and 80.

What Ethics Reveal

The study of ethics reveals both the law of property and the duty of governments. What is produced by individual labour belongs to the individual producer by ethical law, and what is produced by the progress and activities of the community similarly belongs to the community. The law of rent in the market, and that alone, determines which is which - a feat which no men or governments, however clever and learned, can perform.

Ownership is dealt with on p. 353-4 of "The Science of Political Economy", and also in Chapter 1 of Book VIII of P&P, and in par. 73.

70. In normal distribution, wages have the first claim. In production, usually the physical products come first into the hands of the labourers at every stage. The excess or surplus, i.e. the rent, is taken by the holders of the sites used. If the sites are government-held the rent is taken directly by government; if privately-held the rent, after being received by the site-holder, should be collected from them by government, using present methods of collection or any other appropriate methods. It must then be applied in liquidation of the government's liabilities and costs.

After the rent is regularly collected by government, and land-holders are no longer liable to income-tax or other taxes, the most economical methods of collection of the rent will of course be devised. And many other great and beneficial changes and economies in society will certainly take place.

Rent is not a Tax

Rent must never be confused with taxes, which are a forced levy on private property or incomes. Rent is a channel or category of the distribution of wealth. Taxes are not even remotely related to economic distribution, but are a seizure by governments of wealth which has already been both produced and economically distributed.

The Oxford Dictionary defines taxation as (inter alia) a compulsory contribution to public revenue. This definition is only popularly correct, and is in error in implying that the wealth taken in taxation becomes public revenue. In ethics it remains private revenue, taken by misgovernment and used as public revenue, just as stolen property remains the property of the true owner, though used as the property of the thief; no legal or logical chicanery or alchemy can ever transform it into the property of the thief.

By using rent instead of taxes as the public revenue there will not only be a restoration of ethics and of the true concept of property but also a great increase of production due to the elimination of taxes. No great perception is required to see that this will also be a demonstration that economics and ethics are in complete harmony with each other. "Thou shalt not steal" is both economic and ethical truth. Stealing is the misappropriation of private property. The economic consequence of 'rent instead of taxes for revenue' will be that the vast surplus fund will be available for public purposes, namely for the wages of all who are employed by government, the relief of poverty and destitution, and for such public projects as may from time to time be necessary. It is difficult to over-estimate the benefits which will flow from the release of rent into its proper channel.

71. Rent and wages thus divide the whole production between them: there is no other category in distribution, Rent is the community product. The rent is received by the land-holder, whether he has leased the land to a tenant or is himself the producer on his own land. Wages include all nature's rewards to the labourers, whether they work directly for themselves or for an employer.

Interest is explained in par. 72.

Production and economic distribution are simultaneous. There is no time-gap. At the instant a crop is sown, or a load transported, or a ton of coal hewn, or a car repaired, that production (if within the margin) is simultaneously distributed into rent and wages. Distribution is, of course, the economic consequence of production, but is instantly effected by natural economic law. This point has been repeated (par. 69) because of its great importance and because it is so different from orthodox "economics".

At the margin there is no rent, and the whole product is wages. This is explained later by diagrams, at pars. 85-88.

We may sum up the progress so far made in our discoveries about distribution as follows:

(a) Distribution is the most important and impressive part of economics.

(b) Economic distribution is instantly effected by natural economic law as the natural consequence and purpose of production.

(c) The scientific understanding of it is very much superior to and more revealing than the concept held in popular circles or in "orthodox" educated circles.

CHAPTER 9

CAPITAL AND INTEREST

72. Interest is not a basic category in distribution. All the increased goods and services attributable to the use of capital are primarily wages, entirely due to labour which both produces and uses the capital. On whether or not interest is a third category in distribution Henry George went partially astray in "Progress and Poverty" (pp. 173-8 and 195-203) by treating interest separately from wages. But he corrected himself on page 203. This instructive passage should be carefully studied, remembering that the point is not basic in economics, although some have believed it to be so.

Capital is not a basic factor in production, the basic factors being land and labour, but it is a major part of *the economy*. And capital must not be confused with monopoly or privilege, as most people, following Marx, do. Monopoly and privilege enable non-producers to receive a share of production without contributing to it, and to masquerade as 'capitalists'.

Capital and labour can never be in any way opposed to or in conflict with each other. True capital is the product and tool of labour, and of labour alone; it enormously increases production and wages. Without labour capital cannot exist. Labour always employs capital, and *capital*