

BRITAIN'S hospitals and schools have been disrupted, and household rubbish left uncollected, in one of the worst round of strikes ever by groups of low-paid workers.

The Labour Government is setting up a Relativities Board in an attempt to sidetrack what has become a politically embarrassing episode for Prime Minister Jim Callaghan in the year of a general election.

In all the talk about the moral and economic issues involved, there has been little willingness to recognise that some people have to be at the lowest end of the wages ladder. *But need their real wages be as low as they are?*

The theory—or theories—of wages as taught by academic economists means very little in the real world, among capstan operators and typists. In fact, there has been little improvement in the basic principles which Henry George refined in *Progress & Poverty* 100 years ago.

AGRICULTURE Using the Ricardian theory of rent, Henry George argued that the basic wage of workers was determined at the margin of cultivation. In a freely competitive system, where monopoly was prevented from distorting the market, workers would receive a wage acceptable to them; otherwise they would employ themselves for an income which they deemed necessary.

Where land was privately monopolised, however, some wages would be below this minimum level; for the speculative advantages of keeping land idle or under-used would force out the margin of cultivation, thereby raising rents and reducing wages. This compression of wages and increase in rents would be reinforced by a restriction in the opportunities for self-employment. Thus, we can predict that the lowest wages will be found in the agricultural sector of industrial societies.

Henry George's formulation of the economic laws governing wage determination was vigorously challenged at the time when *Progress & Poverty* was the subject of the general debate.¹ But the empirical evidence supports the hypothesis.

In Britain, for example, male agricultural workers, at 16%, are the second largest single group of workers having to rely on supplementary benefits for a tolerable minimum income, just 1% behind general unskilled workers.² And the 1.5 billion people described by the International Labour Office as living in "grinding poverty" are concentrated in the Agarian Third World. The effect of land monopoly on wages has generally been neglected by economists, and so it would be worthwhile citing two exceptions. Charles Issawi noted in his study of Egypt:

"A survey of the last fifty years shows that the Ricardian analysis of rents and wages applies remarkably well to Egypt. An increase in population and wealth was accompanied by a considerable rise in the remuneration of the scarce factor, land, and by a fall in that of the abundant factor, labour. Indeed wages seem to have reached the minimum level, described by early nineteenth-century economists, below which they can hardly descend."³

In case it should be suspected that this phenomenon is somehow restricted to Europe or the Middle East, we can quote an authoritative conclusion reached by the editors of an extensive survey of Asian economies:

"As the land-man ratio has fallen, the level and share of rents has increased while the wage share, real wages and the number of days employed per person have tended to fall."⁴

P. E. POOLE ANALYSES THE LINK BETWEEN

Low Pay and Land Monopoly

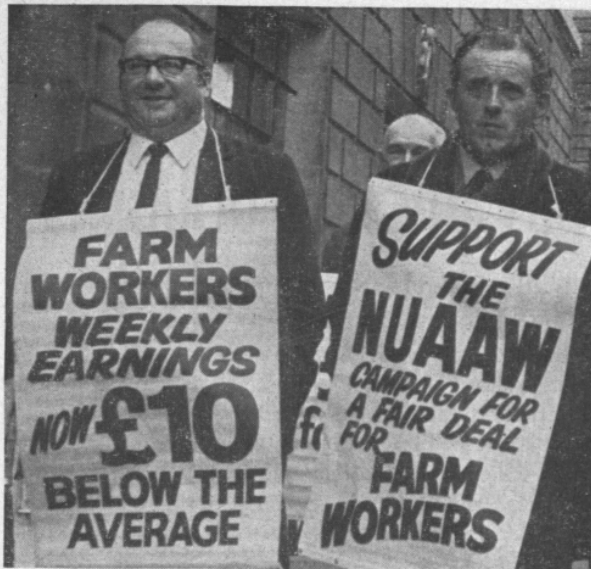
This process of impoverishment was "intimately related to the degree of land concentration. A reduction in the inequality of landownership through a redistribution of landed property in favour of landless workers, tenants and small farmers would contribute directly to the alleviation of the most acute forms of poverty."

INDUSTRY Henry George emphasised that there is an inter-sectoral influence on the wage determination process: low agricultural wages act as a brake on wages in the urban-industrial sector. This effect has been lucidly described in these terms:

"The process of migration results in the gradual elimination of the income differentials which initially provoked it. In particular, the exodus from the countryside tends to undermine income levels in the informal urban sector and reduce them to the levels prevailing in the rural areas. There is a strong presumption, of course, that the migrants benefit from migration, but the benefits are likely to be marginal. In effect, the movement of labour represents little more than a shuffling around of poverty. As long as the economic structure remains as has been described, with its income distribution and resource allocation mechanism intact, the major function of rural to urban migration is to spread the growing poverty of the countryside to the towns."⁵

THE CAPITALIST system enabled man to produce wealth at a rate unique in history. Yet despite the fact that this system was nurtured within a philosophical tradition which lauded the virtues of individual economic enterprise and political liberty, there was a parallel development: the rapid growth of taxation in the 19th century and its metamorphosis into the form of a large and ever-expanding public sector in the 20th century.

By the mid-1970s the ratio of tax revenue to GNP in the UK was over 35%, with an average of 39.2% in Western European countries. This tax/GNP ratio is a crude measure, but if anything it grossly understates the point we are here making—the scale of public appropriation of privately-created wealth for the



◆Farm workers protest about the size of their pay packets: could their wages be higher?

purposes of redistribution. Ivor Pearce, Director of Research at Southampton University's Econometric Model Building Unit, has reached the following conclusion:

"As long as the question is what proportion of GNP is spent or redistributed by committees the answer remains more than 70%".⁶

For many people this avariciousness is explicable in terms of make-work bureaucracies seeking to enlarge their budgets and therefore their spheres of influence. This is too tenuous an explanation, given people's general reluctance to part with hard-earned income.

In the 19th century, Poor Laws were financed in part out of the pockets of landowners. They did not like it, and since they controlled Parliament they had the power to transfer the burden onto those who earned their incomes. As Thorold Rogers put it:

"One of the ways in which the owners of land have striven to maintain artificial rents has been, first, by starving the peasant, next by putting the cost of his necessary maintenance on other people."⁷

In other words, state subsidies administered by a bureaucracy are simply a way of increasing rental income. For if everyone received a living wage—attainable only in a system shorn of monopoly power—the economic surplus (rent) would constitute a smaller percentage of GNP. But landowners take into account the fact that their labourers receive benefits transferred from other people's income, so the lowest wage levels can be allowed to float down and the difference absorbed by the appropriators of rent.

British farm workers illustrate this. A substantial number of them receive rent and rate rebates, family income supplement, child benefits, free school meals for their children and other benefits which are related to their low incomes. They are in what is termed the "poverty trap": an increase in wages results in a reduction in the benefits transferred through the state apparatus, leaving them no better off!

Public subsidies are the substitutes for the private wealth which the imperfect market system prevents many people from acquiring directly for themselves. Thus, people in need turn to the holders of power and, by exercising ingenuity in the promotion of their case, compete for a share of the public purse.

The growth of taxation and social services, was a structural development, a rational response to the perceived deficiencies in the system. Marx, because of his ideological commitments, failed to appreciate how the system would resiliently preserve itself, even if it had to reduce post-tax profits and wages.

If my analysis is correct, then it would seem that conservative politicians, like Tory leader Mrs. Margaret Thatcher, who promise to reduce taxation and the size of the public sector without concomitant structural adjustments—which would free more people to create independent forms of employment—are misleading their constituents. For once in power, they are bound by the logic of the present industrial system to buy social and economic stability through income transfers.

For the creation of poverty is an intrinsic part of the present imperfect market system. As Jack Boddy, General Secretary of the National Union of Agricultural Workers, said at last year's Tolpuddle Martyrs Memorial Rally: "It will seem incredible to many people that in 1978 many of the people whose work keeps the nation fed cannot afford to keep their families fed." Only a radical restructuring of the economy will remove the conditions which perpetuate that poverty. The principles outlined in *Progress & Poverty* are as relevant today as when they were written in 1879.

REFERENCES:

1. Fred Harrison, 'On Wages', in R. V. Andelson, editor, *Critics of Henry George*, forthcoming.
2. Supplementary Benefits Commission Annual Report, 1977, p. 129.
3. C. Issawi, *Egypt in Revolution*, London: OUP, 1963, p. 155.
4. *Poverty and Landlessness in Rural Asia*, Geneva: ILO, p. 23.
5. *Ibid.*, p. 25.
6. Ivor F. Pearce, 'Taxing the Dole', in *The State of Taxation*, London: IEA, p. 96.
7. J. E. Thorold Rogers, *The Economic Interpretation of History*, London: T. Fisher Unwin, 1888, p. 181.

THE LAW OF RENT

"Finally I must insist that the crux of the land question is the classical theory of Economic Rent, dubbed by Lassalle the Iron Law of Wages. Like the roundness of the Earth, it is unfortunately not obvious. It is the pons asinorum of economic mathematics. Our politicians cannot draw their conclusions from it any more than Shakespeare could draw his from the okapi or the axolotl: they simply do not know of its existence. Karl Marx, by an absurd reference to it in 'Das Kapital', proved that he did not understand it. John Ruskin, after a very promising beginning as an economist by his contrast of exchange values with human values, was stopped dead by it. Yet Marx and Ruskin had had more brains and keener interest in social questions than three or four million average voters. It is the rock on which Liberal Cobdenism has been broken and Socialism built in the struggle between plutocracy and democracy."

George Bernard Shaw, quoted in *Everybody's Political What's What?*, 1944, p. 22.