LAND&LIBERTY

No 1242 Spring 2018

PO Box 6408, London, W1A 3GY
+44 (0) 800 048 8537
editor@landandliberty.net

Editor
**Joseph Milne**

Managing Editor
**Jesper Raundall Christensen** a·m·m

Graphics and Production
**Jesper Raundall Christensen** a·m·m

Publisher *Henry George Foundation*

To receive Land&Liberty or support the work of the Henry George Foundation contact us at the address above.

Land&Liberty has chronicled world events for over 100 years. It has offered a unique perspective with its reports, analysis and comment on the core issues of political economy. And that uniqueness remains. Land&Liberty aims to explore how our common wealth should be used - and to demonstrate that this is the key to building the bridge of sustainability between private life, the public sector and our resources - between the individual, the community and the environment. Land&Liberty - putting justice at the heart of economics.


Land&Liberty is produced by the Henry George Foundation and printed by Premier Print Group on 100% recycled paper.

ISSN 0023-7574

HENRY GEORGE FOUNDATION

The Henry George Foundation is an independent economic and social justice think tank and public education group with offices in London and members throughout the UK. The Foundation deals in cutting-edge ideas, exploring and promoting principles for a just and prosperous society and a healthy environment.

The Henry George Foundation of Great Britain is a company limited by guarantee, registered in England, no. 00956714, and a charity registered in England under the Charities Act 1960, no. 259194.

www.HenryGeorgeFoundation.org

www.landandliberty.net
follow us on Twitter @landandliberty

# message from the honorary president

In the opening paragraphs of *Progress and Poverty* Henry George puts his inquiry into this compact form: "Why, in spite of increase in productive power, do wages tend to a minimum which will give but a bare living?"

Before developing his own theory George considers the insufficiency of the then current doctrine of wages: The wage fund theory. This theory asserts that the subsistence wage bill for employed labour must be drawn from a pre-existing stock of capital and that the number of labourers that may be gainfully employed in an economic community is thus limited by the size of that capital stock divided by the subsistence wage. George demonstrated the errors that supported this dominant theory and, whilst today, few seek to defend the wage fund theory in its original form the misguided thinking upon which it is based continues to mislead political economists and politicians. One of its most obvious effects is the predominance of the idea that the national economy, industries, and businesses, stand in need of external sources of capital investment if they are to prosper. This idea colours the economic policies promoted by the main political parties across the left/right spectrum.

In refuting the wage fund theory George demonstrated "that wages, instead of being drawn from capital, are in reality drawn from the product of the labour for which they are paid". The value that labour adds to production is commensurate with the quality and quantity of the labour rendered. Production naturally *follows* the rendering of labour, and this is reflected in customary arrangements where wages are paid after work is done. In societies where small scale agriculture predominates and little capital is involved, much of the wealth produced is consumed directly by the producers and their families. In a developed economy however, production and exchange is on a scale that few of the items produced are consumed directly by their producers. Rather, people's products are sold into a market, usually several times, before being purchased by a consumer. At every stage in the production process a producer adds value to something they have purchased before selling it on. The product, and all its constituent parts, is clearly wealth being used to produce more wealth and thus, until it is in the hands of its ultimate consumer, it falls under the category of "capital". Given that throughout a whole economy the production of wealth in society is continuous and, by exchange, the various forms of wealth are interchangeable, it follows that the employers of labour and capital i.e. producers as a whole, produce their own capital and do not stand in need of an external source of capital. All that is required of enterprise is that an appropriate portion of its earnings are reserved for maintaining and, if desired, expanding its fixed and working capital. This is however only possible where those earnings exceed the subsistence requirements of the producers concerned. Where, as a consequence of monopoly land rent charges and/or taxes the earnings of labour and capital are reduced to near subsistence level self-funding of capital becomes impossible. Nations, industries and companies become obliged to resort to external sources and increasing numbers of individuals have to rely on benefit payments.

It would be difficult to estimate the damage to society and the economy by elevating the role of investors, their profits, and unearned income compared with the benefits that would arise if those who actually employed labour and capital were to receive their full earnings. Linked as it is to land, public revenue, money, credit, banking, gambling, debt and justice issues, it would however be a worthy research project.

**David Triggs**
Honorary President
Henry George Foundation

henrygeorgefoundation@
googlemail.com