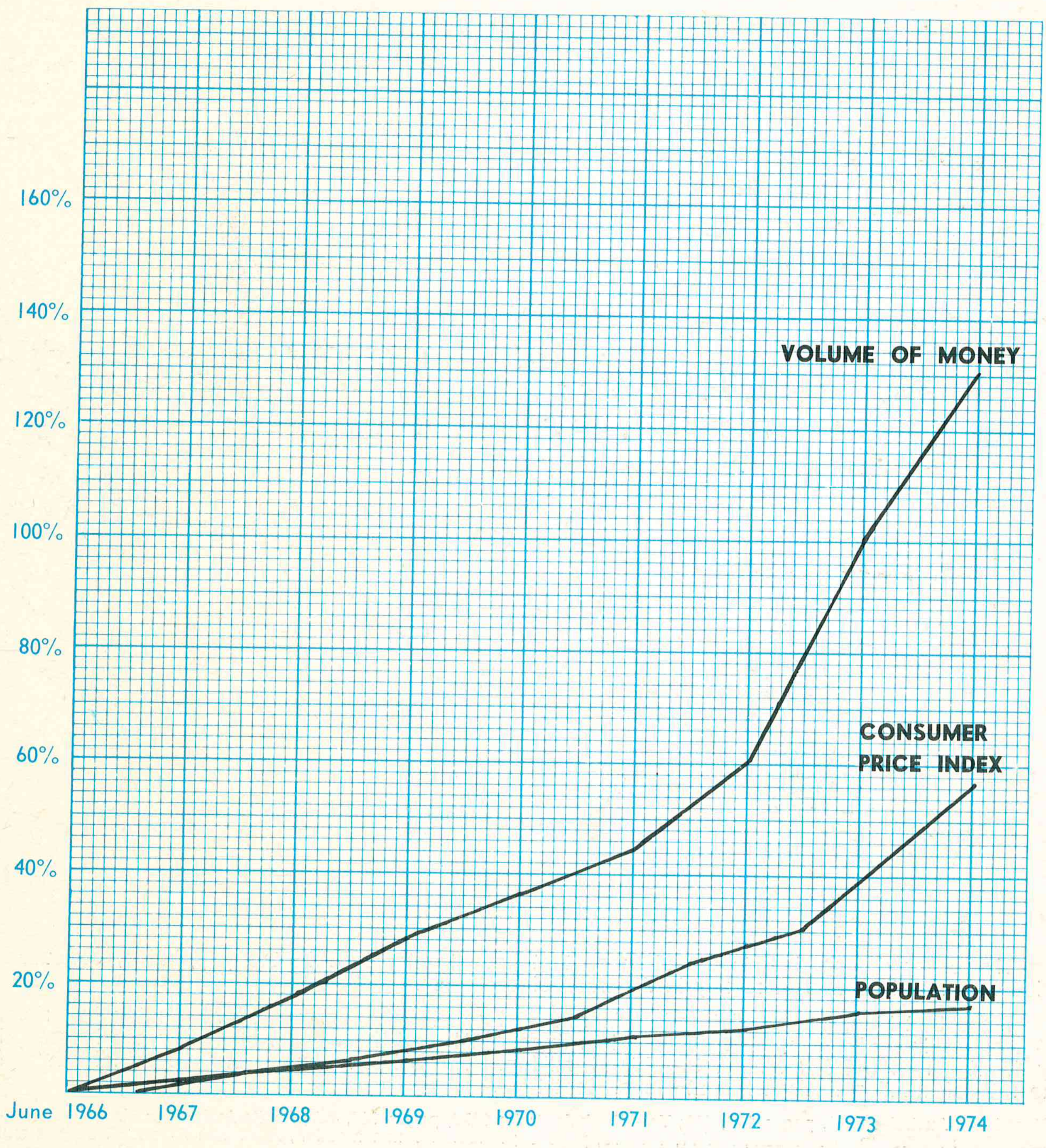
UNEARNED INCOMES AND INFLATION



By L. Hemingway, M.B., B.S.

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PREFACE

Inflation is a world-wide phenomenon at the present time.

This book examines various aspects of unearned incomes—i.e., net incomes derived from rent, interest or dividends, or as capital gain on dealings in real estate or shareholdings. It uncovers the relationship that exists between this type of income and inflation, and reveals the only way in which the socio-economic illness of inflation can be cured.

This book has been written in conjunction with Dr. Noel E. Kirkwood, of Mona Vale, N.S.W. Many of the ideas and attitudes expressed in it originated with Dr. Kirkwood, and his help, guidance and encouragement over the past five years is gratefully acknowledged.

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CONTENTS

INDEX TO SUB-HEADINGS

1. INFLATION IN AUSTRALIA

In Australia the rate of inflation exceeded 14% per annum during 1974, and neither the government nor its economic advisors seemed able to elucidate the basic cause of inflation or find a cure for it.

Nevertheless, the budget brought down in September included a surcharge or additional tax on unearned incomes, and in this way, created a glimmer of light and hope.

Such a tax does not represent a correct approach to inflation, and in the long run it could do more harm than good. All the same, the very existence of this tax suggests that some people have at least recognized a connection between unearned incomes and inflation. It suggests, too, that a close examination of this type of income might reveal the cause, not only of inflation but of other economic ills as well.

2. UNEARNED INCOME

Unearned income, as far as the taxation department is concerned, consists of wealth received as rent, interest or dividends, while capital gains (which also received a mention in Australia's 1974 budget) exist when real estate and shares are sold for more than was paid for them.

It should be noted that incomes received in these ways are not necessarily unearned in their entirety. For instance, shareholders who attend meetings and take an active part in the management of a company earn at least some of the money they receive as dividends, while much of the rent received by the owner of a house or other building merely recompenses him for costs incurred in providing and maintaining the premises concerned. In addition—as will be shown later—inflation reduces the value of assets expressed in monetary terms, and neither interest nor a so-called "capital gain" may compensate an individual for this loss.

Nevertheless, these qualifications do not alter the fact that some persons receive rent, interest or dividends which exceed the rate of currency debasement, or make a genuine profit through selling shares or land.

The work involved in securing tenants or borrowers and in collecting payments from them, or in buying and selling shares or land, is not particularly arduous or time-consuming, so incomes received in any of these ways are rightly regarded as being "unearned". In other words, such incomes are obtained without the continuous expenditure of significant mental or physical effort, and, as a result, they are a somewhat sought after entity.

IS ANY INCOME REALLY "UNEARNED"?

Nevertheless, even though unearned incomes are much sought after, there is, surely, something incongruous about them.

These days, money is churned out in rather excessive quantities from the government's note printing press, the mint, and by the writing of government cheques—of which more will be said later. Even so, money does not grow on trees, and in the ordinary course of events a person cannot obtain money unless he works for it or ministers to human desires in some other way. Consequently, no private income is totally unearned. It may be unearned as far as its recipient is concerned, but someone, somewhere, must have worked for it.

This is so, even when an individual receives income through letting "money make money" for him. In such circumstances, it is not the **money** which is making itself. Instead it is **people,** using things money can buy, who produce all human wealth, and they cannot do this without exerting themselves in one or another way.

Therefore, when any person receives unearned income—i.e., money for which he did not work—then some less fortunate person must share his earnings with the investor, or, in other words, must do at least some work for money he or she does not receive. Alternatively, if he does receive this money, he must pay it out as rent, interest or dividends, instead of spending it on the goods and services he would prefer to buy for himself and his family.

Furthermore—as most people know from their own experience—many families remain quite poor throughout the whole of their lives, because of the amounts they expend as interest or rent. In this way, then, what is "unearned income" for one person may seriously reduce the standard of living of somebody else.

THE EXPONENTIAL GROWTH OF UNEARNED INCOMES

Another peculiarity of unearned incomes is that they are not limited in any natural way.

Thus, whereas earned incomes are limited (a) by the amount any individual can persuade others to pay him as wages, salary, fees, a price for his goods, etc., and (b) by the number of hours he may work in any given period; an unearned income is not so limited. As a result, an unearned income may double every few years, or, in other words, it may exhibit the phenomenon of exponential growth. This can be illustrated by a consideration of interest, which is probably the most familiar way in which unearned income is acquired.

COMPOUND INTEREST

Interest rates vary from time to time and place to place, but nowadays, in Australia at least, 10% per annum would be considered a modest rate of interest.

A person who loaned $1 at 10% per annum could, by reinvesting his interest each year at the same rate, acquire a very considerable sum of money in a relatively short space of time. He would receive $0.10 interest on his $1 in the first year, and at the end of that period would have $1.10 invested. The interest on $1.10 would be $0.11, so the original $1 would have become $1.21 after two years. The subsequent growth of this investment is shown in Table I.

Table I (see next page) shows that any person who can obtain compound interest at 10% per annum may double his wealth in eight years, quadruple it in fifteen years, and thereafter may increase his assets at a rapidly escalating rate. After 25 years, each $1 of the original sum loaned has become $10.92, after 50 years (which is much less than an average lifetime) it has become $118.31, and **in the 100th year, interest on the fund amounts to 1262.64 times the original principal!**

Year	Principal at beginning of that year	Interest	Principal at end of that year
1	$1.00	$0.10	$1.10
2	1.10	0.11	1.21
3	1.21	0.12	1.33
4	1.33	0.13	1.46
5	1.46	0.15	1.61
6	1.61	0.16	1.77
7	1.77	0.18	1.95
8	1.95	0.20	2.15
9	2.15	0.22	2.37
10	2.37	0.24	2.61
15	3.83	0.38	4.21
20	6.16	0.62	6.78
25	9.93	0.99	10.92
30	15.98	1.60	17.58
35	25.74	2.57	28.31
40	41.45	4.15	45.60
45	66.77	6.68	73.45
50	107.55	10.76	118.31
60	278.97	27.90	306.87
70	723.60	72.36	795.96
80	1,876.84	187.68	2,064.52
90	4,868.04	486.80	5,354.84
100	12,626.43	1,262.64	13,889.07

Table I: Compound Interest at 10% per annum

These figures mean that any person who loans the price of a house, a motor vehicle or a farm, with interest at 10% per annum, could acquire the price of ten such houses, motor vehicles or farms after a period of 25 years, and the price of over one hundred such items after 50 years. If his descendants were able to continue investing this wealth at the same rate, then, **after a further 50 years, they would possess thirteen thousand, eight hundred and eighty nine houses, vehicles or farms for every one originally loaned!**

EARNED VS. UNEARNED INCOME

Similar considerations apply to unearned incomes derived from rent or dividends, and, if the person who invests money in these ways is particularly wise or fortunate in his choice of investments, then he may increase his wealth, exponentially, at rates which greatly exceed the 10% per annum described in Table 1. In addition, these investments often increase in value with the passage of time, thereby allowing the investor further to increase his unearned wealth by selling land or shares for more than he paid for them.

By contrast, no person who relies upon personal exertion as a source of income can ever hope to increase his wealth in this exponential fashion. The only way in which the average man can hope to gain the "midas touch" is to save some of his earnings so that he, too, may invest that spare money at interest, or use it to acquire rent or dividends.

BIPARTITE INCOMES

Needless to remark, this is just what many people in the Australian community do.

Their ability to do this is enhanced by the numerous opportunities for investment which exist in modern society. These opportunities are such that, nowadays, a very large proportion of working individuals are also investors, moneylenders or landowners. These people obtain an income as wage-earners or by working at a trade, profession or business. They supplement that income by "letting spare money work for them", or, in other words, they increase their gross income by collecting a little rent, interest or dividends.

The ways in which this unearned income is acquired are many and various. They include savings bank deposits (a means whereby most individuals, at some time in their lives, collect a few dollars interest), the owning of shares in public companies or the holding of title to a block or two of land. In addition to these direct means whereby the average man augments his earnings by "letting money work for him", there are many indirect means whereby the same end can be achieved.

For instance, quite ordinary men and women possess insurance policies, or contribute towards retirement funds and superannuation schemes. The people who administer these funds lend policy-holders' premiums at interest, or invest them profitably in government loans, public companies or land development schemes. Similarly, most people belong to a church, trade union, friendly society or medical and hospital benefit fund, or to a cricket, tennis, football, golf or swimming club. These organizations usually have interest bearing deposits in a bank, or, alternatively, they invest their credit balance wherever it will yield a secure if modest return. Furthermore, many such organizations receive an income by renting land they own and for which they themselves have no immediate use, and, at times, churches and similar organizations have made handsome profits by selling real estate when the price was "right". Finally, in recent years, even the direct ownership of shares and profitable property has been diffused widely throughout society, through the formation of syndicates and unit trusts. These trusts and syndicates allow small investors to participate in major land dealings and shareholdings, and they increase the number of citizens who—directly or indirectly—receive unearned income through "letting money work for them".

As a result of these various phenomena, modern society now contains thousands or even millions of "mini-investors", each of whom receives his income in a bipartite way.

These individuals receive earnings as factory employees or managers, as public servants or council employees, as primary producers, storekeepers, business or professional men, or in a thousand and one other ways. They supplement those earnings by depositing their savings in a bank or by lending spare money at interest in other ways, by owning profitable real estate or shares in public companies (either directly or through a syndicate or unit trust) or—indirectly—by taking out insurance policies or by belonging to a church, trade union, friendly society or sporting club.

FINANCIAL INEQUALITIES IN SOCIETY

A superficial observer might regard these bipartite incomes or mini-investments as a means whereby inequalities in society can be ironed out.

Unfortunately, however, this is not the case. Mini-investments do, admittedly, enable many people to enjoy a little financial security they would otherwise lack, but they do not, by any means, allow the poor to catch up, financially, to their more wealthy and more fortunate fellow citizens.

On the contrary, interest and other forms of unearned income ensure that many people remain poor for the whole of their lives.

People whose earnings barely enable them to "make ends meet" expend a very considerable proportion of their lifetime's earnings as interest—both on the mortgage they usually have on their building block or home, and on the hire purchase agreements they enter into in order to obtain household goods and other necessities. Others in similar circumstances may exchange the expense involved in home ownership for a lifetime of paying rent. In return, a landlord provides and maintains a home for them, but, in most cases, the rent paid over a long period is more than sufficient to meet the landlord's costs. Therefore, in the long run, tenants also provide landlords and investors with an unearned income and, by so doing, reduce the amount of money they have left to spend on goods and services for themselves and their families.

In practice, therefore, the existence of rent, interest and dividends means that some people expend a lot of **earned** income adding to the **unearned** income of others, and, of course, the ones most affected by this system are the poorest members of society. These individuals never "get out of the red", so they spend a large proportion of their working lives, labouring for the benefit of people much better off than themselves.

A second group of people—somewhat better off—are those who begin life in debt, but later discharge their debts, eventually becoming investors themselves.

The ultimate situation of any member of this group depends, mainly, upon his earning capacity and the length of time he takes to discharge his debts. Thus, a working man would consider himself fortunate, were he to retire at age 65 free of debt and with a few hundred dollars in the bank. By contrast, a doctor or other professional man of the same age would probably possess investments worth many thousands of dollars, and his income from these investments could **exceed** that paid to the working man throughout his active life.

In this way, many people who receive a reasonably high income in exchange for whatever work they do, increase their personal wealth and standard of living dramatically, while others who work just as diligently have a struggle merely to survive.

Many comfortably established business or professional men—and others in similar financial circumstances—earn more than enough to keep themselves and their families. Consequently, once they have become free of debt, they may easily augment their not inconsiderable income by lending spare money at interest, buying shares in public companies, or by buying land which they may cheerfully hold idle while its price rises, so they are able, eventually, to sell it at a profit to some would-be home owner, farmer, businessman or factory manager. Therefore, through saving and investments, well-paid people may increase markedly the gap that exists between their wealth and that accruing to the less well-to-do members of society. One cannot blame them for this, but neither can the poor be blamed if they feel there is something unjust or iniquitous about the way in which wealth tends to be distributed in modern society!

A third and final group of individuals are those who begin their adult life free of debt.

The ultimate financial situation of these people also depends upon their earning capacity, but it is influenced to a much greater extent by the amount of spare money they possess at the beginning of their lives. If those born into wealthy families exercise ordinary business prudence, then their wealth must inevitably increase, both rapidly and exponentially.

This fact explains the origin of most of the world's extremely wealthy families. These people were "born with a silver spoon in their mouths". They had only to make intelligent use of it to acquire ever-increasing quantities of wealth, and the fact that they are numbered among the most wealthy members of humanity shows that they have not wasted their opportunities.

No one can blame them for this, but we are entitled to wonder why such relentlessly progressive financial inequalities occur, and to ask if there is any way in which these inequalities could be prevented or minimized. After all, **every** human person comes into the world naked and with empty hands. There seems something improper about a system which enables some persons to acquire more wealth than they could possibly use on themselves and their families, while others work diligently all their lives for bare necessities.

INTEREST AND FINANCIAL INEQUALITIES

The source of this impropriety can be revealed by a study of the nature and genesis of interest. This study will also reveal the cause of inflation, because interest and other forms of unearned income underly and promote the inflation which plagues so many countries at the present time.

3. THEORIES OF INTEREST

In past ages, interest was called "usury". It was regarded with suspicion and, at various times, both Church and state tried to eliminate it. However, neither legal nor ecclesiastical sanctions could prevent people from paying or accepting interest, and, over the years, several theories have been advanced to explain this phenomenon.

Broadly speaking, there are three theories or explanations offered in defence of interest. Interest is considered either as a fee for service, as the reward of saving, or as evidence of the productivity of money. Each of these may now be considered in turn.

THE PRODUCTIVITY THEORY OF INTEREST

The "productivity theory" may be considered first, because this theory throws light upon the amount of interest which may be paid. It depends upon the fact that people can use borrowed money to purchase "productive" or labour-saving tools.

This concept can be illustrated by considering a carpenter who makes furniture and houses. The carpenter can make these things quite well by using only hand tools, but both his work output per man-hour and his gross earnings will be low. He can increase both his work output and gross earnings if he buys a sawbench and other power tools.

The carpenter may not have the money with which to buy these tools. Furthermore, if he works without them, his earnings will remain low, and he may never obtain enough money to pay for power tools.

To overcome this difficulty, the carpenter may borrow money and use it to purchase power tools. The tools, in turn, enable him to increase his income and, in time, should enable him to return the borrowed funds. Therefore, provided the total outlay on the tools (i.e., cash price plus interest paid) does not exceed the increase in income resulting from the use of those tools, it is clear that such a loan permits the carpenter to improve his standard of living or to increase his wealth.

Loans such as this are common. Many people borrow money to buy tools, instruments, equipment and machinery with which they hope vastly to increase their output of goods and/or services—thereby increasing their income, standard of living or wealth.

To the superficial observer, such loans represent one way in which money can become "productive" in the modern world. To the average person, then, this "productivity theory" seems to provide an adequate explanation for interest.

However, although arguments based on this theory appear plausible, they do not stand up so well to critical examination. In fact, the productivity theory does **not** provide an explanation for interest, because power tools and similar labour-saving devices are just as productive when bought for cash as when their purchase is financed with a loan. A carpenter who has cash in hand obtains his power saw for a final price much lower than that paid by his poorer colleague, but the usefulness of the machine is the same in either case.

For this reason, all the productivity theory does is illustrate a point made earlier, viz: that an individual may more easily improve his standard of living or increase his wealth if he is out of debt.

Carpenters and others with cash in hand can retain, for themselves, the entire financial advantage associated with tools, instruments, equipment and machinery, whereas their poorer fellow citizens must share any such financial advantage with a moneylender or bank, in order to secure the productive tools concerned.

Therefore, if there is any valid explanation for the phenomenon of interest, it is not provided by the productivity of power tools. Intelligent people would still aim at maximizing satisfactions and minimizing exertions by designing, manufacturing and utilizing power tools, even if there were no interest to be paid.

THE LEVEL OF INTEREST

Nevertheless, despite its weaknesses, the productivity theory does provide some insight into the amount of interest that may be paid.

Thus, if any given power tool permits a carpenter to increase his gross earnings by $1,000 during the tool's working life, then he would not ordinarily pay more than $1,000 in order to obtain the tool concerned.

Consequently, if the cash purchase price of the tool in question were $500, then a carpenter who had to borrow in order to secure it would not pay more than $500 interest on the loan.

From another angle, we see that, if $500 worth of tools enable a workman to increase his earnings by $1,000 then the maximum rate of interest would be 100%—i.e. 100% over the duration of the loan and not 100% per annum.

However, these conditions do not impose an absolute limit to the amount of interest which may be charged. If items bought with borrowed money spell the difference between life and death, or even between employment and unemployment, then the borrower may be prepared to reduce his net earnings and standard of living, in order to preserve the lives and health of himself and his family. In such circumstances, the overall rate of interest might exceed the 100% mentioned in the example given above, and the borrower would become poorer as a result of the loan. It is not surprising, therefore, that most countries limit interest rates by law, to minimize the possibility of such events.

INTEREST AND THE REPRODUCTIVE POWERS OF NATURE

A variant form of the foregoing theory is one which ascribes interest, not to the productivity of machinery but to the reproductive powers of living things.

Those who subscribe to this theory point out that calves grow into cows and that cows provide both milk and calves, that maturing wine increases in value with age, that bees make honey without much help from man, and that sheep provide wool, and, usually, more than enough lambs to replace themselves. They claim that, because natural things grow and reproduce even while the farmer is asleep, the increase obtained is often greater than that earned by the farmer's labour. They suggest, therefore, that a proportion of this increased produce could be regarded as legitimate interest.*

However, those who make this suggestion unwittingly intimate that primary producers get "something for nothing" —a suggestion primary producers would vigorously and rightly refute. Wine, for instance, will not increase in value unless it is bottled correctly and stored in cellars that are properly designed and maintained. Similarly, the increase that results when grain is sown, or when calves or lambs are kept, is the result of the primary producer's labour. The sale or use of the produce provides the farmer with his wages and, if he did not get an increase, he would have no stock or seed with which to carry on.

A farmer would be doomed to disappointment, if he hoped to profit from the reproductive powers of nature without working for it. If, for instance, he turned his calves out onto the range to fend for themselves, he would probably find, at the end of the year, that he had nothing left except a pile of bones. Similarly if graziers do not care for their sheep, the sheep may wander off into the bush or foxes may kill and carry off the lambs; while farmers or market gardeners who do not cultivate their land will find their crops overgrown and choked with weeds.

In other words, farmers earn the incomes they obtain as farmers, and while nature certainly possesses great powers of reproduction, these powers do not ordinarily operate for mankind's benefit unless someone works for it. Consequently, the fact that men can and do increase their wealth through harnessing nature's reproductive powers does not provide an explanation for unearned incomes which exist as interest.

THEOLOGICAL SPECULATIONS—LUCRUM CESSANS

Students of political economy are not the only people who have sought to explain the phenomenon of interest. Others, including even some theologians, have also tried their hands at this.

Theologians who took an interest in this topic generally spurned the arguments of economists, and produced speculative propositions of their own. However, on close examination, these theological speculations appear as little more than variations on the standard economists' themes. Thus, one title to interest recognized by many theologians is **lucrum cessans** or "gain given up". It is described by one theologian as follows:

> "There might be just titles to such compensation, extrinsic to the contract of the loan but arising on the occasion of it. Thus if a man asked me in the long past to lend him $100, and I was really and truly and without

* See for instance, **Progress and Poverty,** by Henry George, 52nd Anniversary Edition. The Henry George Foundation of Great Britain 1943. Pages 125-134.

pretence going to spend that sum on the sowing of a crop of wheat, which I could be sure would yield me a return of at least 5%, . . . then I could quite easily require the borrower to pay me back, not a hundred but a hundred and five dollars".**

In this form the title **"lucrum cessans"** does not differ from theories based on the reproductive powers of nature. If the farmer were to gain a 5% increase on his $100, he would have to sow the crop of wheat and nurture it correctly. If he did not exert himself in this or similar ways, he would get no increase whatever on his pre-existing wealth.

Money stored in old socks or sewn into the mattress does not increase in amount or reproduce itself. Money cannot bear "fruit" unless someone exerts himself to make good use of it. Therefore, in this illustration as in all other interpretations of the title **lucrum cessans,** the lender "gives up his gain", not by lending his money but by sparing himself the exertion which would earn that gain for him. For this reason, **lucrum cessans,** like other modifications of the productivity theory, is not a satisfactory explanation for interest.

INTEREST—AN INDUCEMENT TO SAVING ?

The second type of argument offered in defence of interest regards interest as an inducement to saving, with saving, in turn, being essential to the well-being of society. This argument may be introduced by a brief description of the division of labour and the exchange of goods and services.

THE DIVISION OF LABOUR

If a dozen people were shipwrecked on a tropical island, they would have to subsist, initially, on such things as coconuts and fish.

These people would not all catch fish or gather coconuts. Some of them would perform these most essential tasks, while others would make rafts to facilitate fishing and ladders to simplify the gathering of coconuts. These elementary implements would reduce the amount of time spent gathering food, thus making more man-hours available for the provision of houses, furniture and other comforts or necessities.

This "mini-society" on the tropical island provides a true working model of every modern civilization or society. It is not only an army that marches on its stomach. Every community, wherever it is situated and however it is organized, must have a regular supply of food. No community can thrive for very long without a continuous and adequate food supply.

Thus the first task which must be undertaken in any community is the production and distribution of food. And, just as shipwrecked mariners would make ladders and rafts to increase the efficiency of their food producers, so do more sophisticated societies produce farm machinery, fertilizers, insecticides and hundreds of other devices to reduce the number of man-hours which must be spent at this primary and most important task. In this way they make abundant labour available for the provision of the many other goods and services which contribute so greatly to the quality of modern life.

EXCHANGES

In all communities except the most primitive, a myriad of different tasks are shared among the people as a whole. Some people produce wheat, wool, milk or meat, while others manufacture houses, furniture, motor cars or other consumer durables. Still other persons expend energy in providing education or entertainment or in ministering to the material or spiritual health of their fellow man. Each person then obtains his own daily requirements by **exchanging** goods he has produced or services he provides for goods and services produced or rendered by other citizens.

Such exchanges are an essential part of the division of labour. Without exchanges, no person could increase his output of goods or services by concentrating on the task which suits him best. Exchanges, therefore, allow human productivity to be increased considerably, and the businessmen, wholesalers and retailers who arrange these exchanges are an integral and very important part of the productive cycle of every community. These traders or "middlemen" help each individual to minimize his exertions and maximize his satisfactions, to whatever extent is possible in the society concerned. At the same time middlemen—by permitting individuals to specialize "each to his own trade"—help the community vastly to increase its overall output of goods and services.

"SAVING", DURABLE ITEMS AND PRODUCTIVE TOOLS

When a society can produce goods and services in excess of those required to provide it with food and other basic necessities, then some of its members may be employed in the production of goods which wear out only relatively slowly. These long-lasting or durable goods include roads, railways, bridges, harbours and aerodromes, locomotives and rolling stock, schools, hospitals, office blocks and other buildings, as well as factories and machinery.

These various items represent the "savings" of that society. They are used to facilitate the production and distribution of further goods and to expand the provision of services, and, in this way, saving enables productivity to be increased in leaps and bounds.

Needless to remark, none of the goods produced through saving last for ever. Machinery wears out or becomes obsolete, buildings fall into disrepair, and even roads, bridges, harbours, aerodromes and railway stations require more or less constant maintenance and have to be replaced eventually. Therefore, when a community diverts some of its wealth into these various items it does not forgo the consumption of that wealth. Instead, it merely consumes that wealth over an extended period of time.

SAVING AND BORROWING

What is perhaps less obvious, however, is the fact that the saving under discussion here is not possible unless borrowing also occurs. In other words, no society can save wealth for any length of time unless some members of that society are prepared to **borrow.**

This is so because a large proportion of each community's wealth would be wasted entirely, were it not used within a few days or months of being produced. Yet if this wealth were wasted then it would have to be produced afresh. As a result, less labour would be available for the production of durable goods, and the output of such goods would be reduced.

To put this in another way : No society can produce durable items and productive tools unless all the food required by that society can be produced by a proportion of its members. If everyone were out growing or gathering food, then no labour would be available for the making of roads, railways, etc.

** **The Economic Morals of the Jesuits,** by J. Brodrick, S. J., Oxford University Press, London, 1934, page 123. Quoted by John P. Kelly, in **Aquinas and Modern Practices of Interest Taking,** at page 32.

Virtually all food must be eaten within a few weeks or months of being produced, otherwise it would go to waste and much of the advantage of specialization and the division of labour would be lost. Food is therefore borrowed by those who work on road building and similar projects, because until these things are completed, the artisans building them have nothing to exchange for food.

The loan is finally repaid when the completed road, etc., is either handed over to the community or paid for in other ways. The builders then have money or wealth (the road) with which to repay the loan of food. This fact, and also the mechanics of saving, will become evident if we consider the manufacture of labour-saving devices in a relatively undifferentiated society.

SAVING AND PRODUCTIVE TOOLS

As already noted, if a dozen people were cast ashore on an uninhabited tropical island, some of them would catch fish while others would make rafts to increase the efficiency of the fishermen. These rafts would be true productive implements, and in the primitive conditions envisaged here, the building of each raft could easily occupy a tradesman for a month.

Under such conditions both saving and borrowing would be involved in the manufacture of a raft. If a fisherman wanted a raft, he would catch more fish than he could eat himself, and he would share these fish with the carpenter who was making the raft for him. Fish over and above those he ate himself would be his savings, and these would be borrowed by the carpenter. At the end of a month, when the raft was completed, the carpenter would repay the loan by giving the raft to the fisherman.

In this example it is assumed that a raft and a month's supply of fish are of equal value, and, if both fisherman and carpenter were equally hard-working individuals this would occur in practice. On the other hand, it is not necessary to assume that the diet of both fisherman and carpenter consists entirely of fish. Either or both of them could exchange some of his fish for coconuts or for other food products gathered or grown on the tropical island.

What is important, however, is that the fisherman's catch be more than sufficient to supply his daily subsistence needs. Unless he catches more than enough fish to supply himself with food, clothes, housing, etc., he will have none left over to lend to the carpenter. By the same token, if the fisherman had no fish to lend, then the carpenter would have no source of nourishment during the raft-building period. He would therefore be unable to build the raft and would have to catch fish or gather food for himself instead.

This simple illustration demonstrates several important points regarding saving and borrowing. It shows, first, that productive tools cannot be provided unless some people in the community are prepared to save. The workmen who design and make these tools must be nourished during the entire production period. They obtain this nourishment by consuming the savings of their fellow men.

Secondly, no individual can save unless his daily production—whether it be of fish, fruit, fried eggs, medicine, machinery or motor vehicles—exceeds the exchange value of his daily subsistence needs. People cannot save when their daily production barely suffices to keep them in food, clothes, housing and similar necessities. This is one reason why saving, investment and the production of machinery are not well advanced in underdeveloped societies.

Thirdly, saving involves work, and the work must be of sufficient quantity as to provide a surplus over and above that required to meet subsistence needs. Saving could not occur if every person in the community knocked off working and went sunbaking on the beach as soon as his immediate desires were satisfied. Each community must possess some members who will "spare a thought for the morrow", if it is to produce productive implements, roads, bridges, harbours, etc.

Fourthly, if there were no savers in the community, then the division of labour could not proceed to any great extent. In such circumstances, people who would prefer to design, manufacture or maintain productive tools, roads, bridges, locomotives, etc., would have to seek their own food, and their special talents would not be utilized.

Accordingly, if the people in any community spent all their time producing subsistence needs and enjoying themselves, they would possess very little productive machinery and their standard of living would be low.

SAVINGS AND INTEREST

These powerful arguments in favour of saving could lead many readers to regard the case in favour of interest as closed. "Saving", such readers would exclaim, "is of paramount importance, and people need interest to induce them to save. If they are not offered this inducement they will spend their entire incomes on fine food and clothing, luxurious dwellings, expensive motor cars or holidays, or on that ever-tempting trio of wine, women and song".

On the face of it, this seems a reasonable argument, but, somewhat surprisingly, it is not substantiated by the facts of modern life. On the contrary, experience and common knowledge reveal many things besides interest which induce people to save.

First, there is the age-old aphorism that "No one can have his cake and eat it too". No person can enjoy his wealth tomorrow if he has consumed it all today, and neither can he rest tomorrow if he has frittered today away in idleness. Most people are farsighted enough to realize this, and they cheerfully put wealth aside for later consumption during retirement or on holidays, or for use in periods of sickness or incapacity. They would continue doing this, even if no interest were paid.

Secondly, many desirable items are expensive and their purchase cannot be financed from current expenditure. For instance, the average person has to save for several months or even for a few years before he can acquire a house or motor car—even if he pays only a deposit or down payment and purchases the desired item on hire purchase or with the aid of a mortgage or similar loan. Consequently, saving towards the purchase of such items would still go on, whether interest were offered as an inducement or not.

Thirdly, the very productivity of modern society must be considered. This high productivity enables some fortunate and industrious people to earn very high incomes. Such people often have almost everything they want. They will not buy a new car, stereogram, television set or washing machine unless it is of the latest, ultra-modern design. So they save their money while waiting for these new models to come onto the market. Their savings, in turn, may even be borrowed by the artisans who design and build the ultra-modern appliances concerned.

This brings us to the fourth point, which concerns the way in which savings are accumulated and utilized in a monetary economy.

In every major city there are literally hundreds of people who want to improve their lot in life. These people put some of their earnings aside so that, in due course, they will be able to afford things they want. Their desires, of course, vary enormously. A working man might save to buy a second hand car, while a wealthy matron may want the latest imported jewellery or bric-a-brac. However, this fact makes no difference to the mechanics of saving.

At the same time, every city contains entrepreneurs and businessmen who wish to increase their incomes by expanding their businesses, or by designing, manufacturing and marketing some product which is better, more useful or cheaper than those currently available. These people borrow the savings of the first group, and use them to pay the wages of their designers and artisans. Some of the borrowed savings are used to purchase productive tools (or to pay the wages of the men who design and make such tools) while the remainder of the borrowed money is paid to the men who make the product itself. Then, when the article in question is finally marketed, it is bought with the savings of the first group and the loan is repaid from the price obtained.

Societies make provision for holidays in a similar way. People bank money throughout the year and withdraw it during their annual holidays. Others accumulate savings over a longer period and spend them on an overseas trip.

These savings are usually deposited in bank accounts and the bank, in turn, grants overdrafts to hotel and guest house proprietors or to others who cater for the holiday trade. These people are then able to build and maintain their hotels and guest houses or to prepare for the influx of tourists in various other appropriate ways.

During the holiday season the various people who cater for tourists receive high incomes, and they usually have a surplus of income over expenditure. This surplus, in turn, enables them to pay off their overdrafts. The banks therefore have funds available when the original depositors wish to withdraw their savings to spend on holidays.

It is therefore apparent that saving and borrowing would go on even in the absence of interest, simply because of mankind's insatiable desires.

No matter what he has, man is never satisfied. Once his basic needs are satisfied, he acquires new desires. For instance, as soon as people have sufficient food, they desire food of better quality and they seek variety in tastes and flavourings. Similarly, when people have sufficient wealth they desire health as well. So they work a little harder and exchange some of their surplus labour for the services of doctors, dentists, nurses and others devoted to healing the sick.

But these bodily or material desires are only the beginning. Once man has satisfied the desires of his body, he experiences desires of the mind, and, because the mind is spiritual and not material, its desires are much more difficult to satisfy. Accordingly, as soon as basic needs are met in any given society, people seek the services of scientists and research workers who will devote their time and energy to unravelling the secrets of the universe, and of teachers who will acquire knowledge of these and other subjects and impart this knowledge to their fellow man.

Man's perennial dissatisfaction with his lot in life is actually a happy fault. His desire for continual improvement is the motive power behind all human progress in both mechanics and the arts. This desire for improvement stimulates people to work hard and save, so that the community can obtain its food processing plants, hospitals, buildings, and equipment used in scientific research, as well as the roads, bridges, aerodromes and other transport systems which enable these various activities to be co-ordinated. These savings are borrowed by contractors and used to pay the wages of those who design and manufacture the community's durable items and productive tools.

Saving for such purposes would still exist, even in the complete absence of interest. No matter what they have, most people want more and more amenities, and, except in rare instances, they cannot gain these amenities unless they are prepared to save. They therefore require no additional inducment to make them save, and interest, if it provides any benefit at all, has, at best, a very marginal effect.

LENDING AND BORROWING

Interest possibly possesses some marginal economic utility as an inducement to saving, but against this doubtful value must be set several positively **uneconomic** effects. Some light may be thrown upon these by a further consideration of the fisherman and raft-builder on the tropical isle.

The raft builder—as already described—obtains nourishment by borrowing fish from the fisherman.

Under the circumstances envisaged here, the carpenter has no alternative but to borrow until he has completed the raft. He must eat to stay alive during the period for which he is building the raft, but, until he completes his task, he has nothing to exchange for food.

Nevertheless, the raft-builder is not the only one to benefit from the loan. The fisherman is equally dependent upon it, because, unless his savings (i.e., fish over and above those he eats himself) are borrowed, there is no way in which they can be saved. Fish stored for a month on a tropical isle would not be palatable !

In other words, the fisherman's very ability to accumulate savings depends absolutely upon the willingness of someone else to borrow those savings and put them to immediate use. Fish could not be saved towards the purchase of a raft unless someone borrowed and consumed them almost immediately they were caught.

It is therefore apparent that both saving and borrowing must go on together, while ever labour-saving tools are being produced. Without both saving **and** borrowing fisherman would have to manage without rafts or make rafts themselves, while raft-builders would have to catch their own fish. For this reason the borrower is essential to the lender, just as the lender is essential to the borrower. Neither fisherman nor carpenter could obtain the maximum benefits from his labour without the other's full co-operation. Both borrowing and lending must go on concurrently, if this mini-society is to make effective use of its labour force and provide its members with labour-saving tools.

Similar considerations apply in a monetary economy, although this truth tends to be masked somewhat in such economies, because money does not decay like fish.

Nevertheless, even though **money** may not decay, most of the things for which it is exchanged are subject to deterioration. This truth can be illustrated by considering a person who has labour or labour products in excess of his own immediate requirements, and who wants to conserve whatever wealth he can so that he may consume it at a later date.

In such circumstances lending clearly involves things which are either difficult or impossible to preserve. For instance, labour exerted in the form of services cannot be preserved at all. A doctor whose services are not required today cannot sell his time twice over tomorrow, and the same applies, not only to entertainers, teachers and all other professional men, but also to postal, telegraph and transport services. Labour which is available only for the provision of services must either be exerted for someone's benefit or be irrevocably lost.

Of course, labour can be preserved as goods, but even these are subject to deterioration or decay. Even quite durable goods such as roads, buildings, motor vehicles and machinery all deteriorate, rust or become obsolete, and the same applies to virtually every form of man-made, material wealth. Only a few forms of wealth—for instance, precious metals, jewellery and rare art treasures—retain their value over extended periods of time. All other material wealth decays quite quickly, and food—the most essential form of wealth—is subject to the most rapid decay.

A person who lends wealth he wishes to consume later is actually spared the expense and bother involved in preserving or maintaining it, and most people recognize this fact. If a man loaned food, or a new car, truck, tractor or piece of furniture to another while he went overseas, he would feel more than adequately compensated if he received an equivalent quantity of new goods on his return. Yet, when people lend others the **price** of food, motor vehicles or furniture, they expect, in addition to the return of the money supplied, something extra as interest.

When viewed in this light there seems to be something incongruous about interest. This incongruity increases markedly, when wealth is loaned for extended periods—as when a person lends wealth he hopes to use on his retirement in 20-30 years time. Most food, motor vehicles and machinery would be worse than useless after this interval, while even buildings usually lose at least half of their initial value in 20-30 years, unless adequate time, money and effort are expended in maintenance. Consequently, a lender would be more than adequately compensated, were he to receive equivalent new articles (or the value thereof) on his retirement, and interest in such circumstances seems quite unethical and anomalous.

4. INTEREST AND UNEMPLOYMENT

We may pause at this point in our discussion of the various theories proposed in defence of interest, to explain why and how interest promotes unemployment, virtually **forcing modern communities to choose between unemployment on the one hand, and inflation or currency debasement upon the other hand.**

Incidentally, what is said here applies equally to rent and dividends, but interest is used in this illustration as it is the form of unearned income with which most people are familiar.

INTEREST AND THE DISTRIBUTION OF PURCHASING POWER

If a poor farmer in India gives one-third of his crop to a moneylender, while a labourer in Australia pays twenty per cent. of his lifetime's earnings out as interest on his mortgage, hire purchase agreements, etc., then the quantity of goods and services each can obtain for himself and his family is reduced by the amount of interest paid.

This interest, and the purchasing power or wealth it represents, passes to a moneylender, and, as shown on page 2, the wealth of moneylenders may grow exponentially—their purchasing power expanding progressively, with ever-increasing annual increments!

The resulting maldistribution of wealth and purchasing power may not produce unemployment in a relatively undifferentiated or unproductive society, because all the goods and services available in that society could be consumed by a small proportion of its inhabitants. In such societies, interest merely keeps borrowers poor and helps increase the wealth of those who have money, goods or services to lend.

However, this does not hold in societies where specialization and the division of labour are highly developed, where a myriad of exchanges take place every day, and where the manufacture and use of labour-saving devices is well advanced.

These developed societies produce truly prodigious quantities of goods and services, and it would be quite impossible for any small percentage of the population to consume them all.

But if goods and services cannot be consumed or utilized, then unemployment (or, at least, under-employment) results. Employers cannot pay staff to manufacture goods or provide services which remain unsold, and there is no point in self-employed persons working, if no one buys the goods they could produce or utilizes the services they wish to provide.

Consequently, if the members of any community are to enjoy the benefits of full employment, then all the goods and services they produce must be consumed or utilized.

THE RICH GET RICHER . . .

People cannot consume goods or utilize services unless they have money, labour or other goods or services to exchange for them, or in other words, unless they possess the requisite purchasing power.

Interest payments keep the purchasing power of borrowers low, but increase **exponentially** the purchasing power available to the moneylenders in the community.

Many moneylenders are already wealthy, and they cannot easily utilize all the purchasing power they acquire through collecting interest on their various investments and loans. After all, even the most extravagant person can only eat one meal, drive one vehicle or live in one house at any given time.

As a result, many moneylenders reinvest the interest they receive, by lending it to someone else, and, indeed, **it is only through being loaned again that this wealth can be consumed.**

Similarly, even moneylenders in the middle or lower income brackets, who may ultimately consume all the goods and services they can acquire, often wish to save some of their wealth for consumption at a later date—on holidays, after retirement, etc. These moneylenders, too, will reinvest their interest, **thereby adding to the quantity of goods and services which cannot be consumed unless and until it is borrowed by someone else.**

But what happens when all the potential borrowers in the community are mortgaged to the hilt? What happens when all the poor people or would-be borrowers have already committed their future earnings—as repayments and interest on loans—to the maximum extent ?

In such circumstances, the supply of borrowers **dries up, purchasing power or wealth in the hands of moneylenders cannot be loaned, goods and services are not consumed, and unemployment results.**

People who are unemployed have little or no purchasing power, so unemployment further decreases the utilization of goods and services, increases the unsaleable surpluses, and leads to further unemployment, thereby potentiating itself, progressively, until a recession or depression occurs.

Interest therefore promotes unemployment by taking money, purchasing power or wealth (call it what you will !) from those who could and would use it on themselves and their families, and giving it to many who either cannot or will not use that wealth themselves.

The goods and services which comprise this wealth cannot be consumed until they are loaned to someone else. However, while borrowers' net incomes (i.e., the amount they have left after payment of interest) tend to remain low, the incomes of lenders may increase exponentially.

Consequently, borrowers tend continually to run out of credit and become unable to borrow more, while lenders tend to hold more and more money for which there are no creditworthy borrowers, and, when this happens, unemployment is inevitable.

SNOWBALLING INVESTMENTS CREATE UNEMPLOYMENT

It is not unearned incomes as such which cause economic troubles in society, because many such incomes are spent as fast as they are acquired—thereby promoting consumption and keeping goods and services upon the move.

Trouble arises and unemployment is promoted when individuals reinvest money they receive as interest, rents, or dividends, in order to secure further interest, rent or dividends.

Yet many people who reinvest in this fashion are acting in a perfectly reasonable way. They may have no intention of getting rich quickly, but, instead, may compound their interest simply because they have no immediate use for it.

Numerous particles of compound interest, accruing to thousands upon thousands of investors throughout society, gradually increase the amount of money available for lending, and eventually provide it with an exponential growth.

The credit rating of borrowers shows no such perpetual expansion, so society must eventually reach a point where the money available for saving and lending exceeds the amount that can be loaned. When this happens, goods and services remain unpurchased and employment opportunities decrease—not because people do not want additional goods and services, but because money they would spend on them is accumulating in banks and safe deposit boxes, waiting for some creditworthy individual to borrow it.

This process is entirely automatic, and it takes place unnoticed by the majority of citizens. It is not, therefore, something for which any one sector of society can be blamed. Instead it is an effect for which there is a cause, and this cause must be determined and removed, if society is to rid itself of unemployment and other undesirable occurrences.

THE DISPOSAL OF SURPLUS GOODS AND SERVICES AT REDUCED PRICES

When goods and services glut the market they usually end up being disposed of for a lower price than normal (unless they are destroyed completely, as has happened more than once in recent years !).

Thus, surplus goods are often sold at bargain basement or end of season sales, for a figure well below their initial listed price, while the prices currently being obtained for beef cattle show what happens when stockmarkets are oversupplied.

The low price obtained for these goods and services means that those who provide them suffer a drop in income, which means, in turn, that their purchasing power has been reduced.

If large quantities of goods and services have to be sold at reduced prices, then the effect on the community will be similar to that produced by unemployment itself. Manufacturers who regularly obtain low prices for their goods cannot pay high wages to their employees, and working men who obtain only low wages cannot purchase many washing machines, refrigerators, motor vehicles or other consumer durables, and they must manage without many services they would otherwise obtain.

Such unwelcome possibilities provide a reason both for trade union actions which, nowadays, usually prevent wages from falling, and for the subsidies and other mechanisms which help stabilize the price of primary produce.

These measures may keep prices high, but, generally speaking, a price is only someone else's wage. The price of fruit provides the orchardist and greengrocer with their wages, just as the price of meat or milk does the same to the butcher and dairy farmer and to the middlemen who market his produce, and, of course, similar considerations apply throughout the entire economy. For these reasons, little or nothing is gained if large quantities of goods and services have to be sold at figures well below their normal price, and measures which keep prices from falling are also instrumental in maintaining full or nearly full employment throughout the community.

DEBTOR-CREDITOR RELATIONSHIP IS A DYNAMIC ONE

It should be noted that the relationship between debtors and creditors is a dynamic and not a static one.

This relationship is influenced by : (a) the rate at which new loans are obtained and old ones repaid; (b) the willingness or otherwise of creditworthy individuals to commit themselves by borrowing; and (c) decisions people with spare money make as to whether they will spend or lend that wealth.

These latter decisions often depend upon the price of goods and services. If a glutted market causes prices to fall, people with spare wealth may take advantage of this and spend money they had intended to save or lend, while creditworthy individuals who lack ready cash may borrow to obtain a similar advantage for themselves.

It is therefore evident that both the amount of money available for loans and the amount which can or will be borrowed must fluctuate from day to day. Nevertheless, this does not alter the fact that wherever interest exists, the amount available for lending tends always to overtake and to exceed the amount that can be loaned.

EMPLOYMENT OPPORTUNITIES AND INTEREST

The relationship between interest and employment may be approached from a slightly different angle, and a similar conclusion is reached.

Most people begin their adult life borrowing money, either to purchase land or a home, furniture, car or other consumer durables, or to set themselves up in a trade, business or profession.

Many of these people eventually get out of debt and in the later part of their lives they may become lenders themselves.

Borrowers therefore tend to be the younger, more energetic members of the community, the sort of people who will set themselves up in a business, trade or profession, or who will expand their businesses to take on more staff, thus providing employment opportunities for themselves and their fellow men. Lenders, on the other hand, have often passed the most energetic phase of their lives. They are more inclined to sit back and let someone else do the work and the worrying, and less likely to expand their businesses or create new job opportunities. Indeed, if they were expanding their businesses, they would have less money to lend!

Interest therefore takes wealth away from people who would put it to the most productive use, and places it with many whose main interest lies in acquiring more unearned income. Interest, therefore, far from acting as oil to keep the wheels of industry in motion (as is imagined by those who regard interest as an inducement to saving, for instance) is a source of friction which tends, always, to prevent the turning of those wheels.

Interest takes wealth from the poor (who are nowhere near the limits of their potential consumption and who would hardly have to extend themselves in order to utilize more goods and services), and from the younger, more energetic members of the community. It places purchasing power and wealth at the disposal of the more wealthy and older people, many of whom have no immediate use for more food, houses, vehicles, consumer durables, services, etc.

Spare wealth in the hands of moneylenders cannot be consumed unless it is loaned. But borrowers reach a point where they have fully committed their future earnings, and when this happens, they cannot borrow more. So goods and services glut the market and unemployment results, with the poor, often, being the first ones unemployed. Unemployment further depresses consumption and potentiates itself, so the government must take steps to right the situation. It does this in one of three main ways.

5. TARIFFS, TAXES AND INFLATION

The three traditional means of dealing with unemployment are the imposition of tariffs to discourage foreign goods from entering the country, the use of taxation (particularly progressive income tax and taxes on luxury goods) to take wealth from the rich so the government can distribute this wealth and purchasing power to the poor, and inflation or currency debasement. The advantages and disadvantages of each of these may now be considered.

TARIFFS

Tariffs and customs duties are levied upon goods entering a country from overseas, and they tend to limit the inflow of such goods.

Tariffs may help prevent unemployment in Australia first, by protecting its infant industries against competition from well-established overseas suppliers, and, secondly, by preventing other countries from dumping their unsaleable surpluses upon the Australian market, thereby providing employment for their citizens at Australia's expense.

However, tariffs achieve these ends (a) by increasing the price of certain goods, thereby restricting employment opportunities by reducing the overall amount of goods and services which poor people, particularly, can buy; and (b) by limiting the quantity of goods exported to Australia by other countries, most of whom have similar problems—as unearned incomes and the unemployment they spawn exist in many countries of the modern world.

Yet if citizens of other countries lose their livelihood or become unemployed because they cannot sell goods in Australia, then their purchasing power must decline and Australia's exports to those countries will be reduced.

This produces rebound unemployment in Australia, so, while tariffs may provide some local and temporary benefits, they really represent a "non-solution" to the problem of unemployment in the world community. In the long run tariffs merely shift the burden of unemployment about from one country to another with—generally speaking—the poorest and most underdeveloped countries suffering the most serious ill-effects.

"ROBIN HOOD" TAXATION

The second way in which governments deal with unemployment is by taking wealth from the richer members of the community and redistributing it to the poor.

This is the basic rationale behind taxes on luxury goods, probate and succession duties, gift taxes and progressive income tax.

There is no doubt that these taxes, and the modern welfare state with which they are associated, do help the situation considerably. Government schools, hospitals and business enterprises provide employment for many citizens, pensions and unemployment or sickness benefits place purchasing power in the hands of the underprivileged, while state schools, government financed health services, etc., reduce the drain on the pockets of the poor and leave them with more personal disposable income to spend on other goods and services.

Nevertheless, modern taxation and the welfare state have many disadvantages including the following:

First, incomes which grow exponentially can only be redistributed effectively by a very savagely progressive income tax. Such taxes may be tolerated in wartime, but no government which wishes to remain in office can impose them upon its citizens under normal circumstances. Consequently, progressive income tax usually leaves very considerable amounts of unearned wealth with those who cannot use it themselves, and it does not, therefore, remove the spectre of unemployment from the community.

Secondly, a lot of unearned income acquired in Australia is transported overseas. Many companies operating in Australia are owned by overseas investors; private citizens, firms and governments borrow money on foreign loan markets, and large tracts of Australia are owned by citizens of other lands. The rent, interest and dividends payable on these investments cannot be redistributed by taxes levied upon Australia's citizens.

Thirdly, many people "pass on" their income tax, either in their prices or fees, or in the wages they secure from their employer.

Professional or business men are often able to increase their prices or fees, thereby ensuring that their net incomes (after payment of tax) remain sufficient to keep them in the manner to which they have become accustomed, and many well-paid individuals secure wage rises to achieve the same effect. In the long run, the better-off members of society usually have their tax paid—indirectly—by their clients and customers, while the lowest-paid workers (those whose bargaining power is also low) end up bearing the brunt of everybody else's income tax.

Fourthly, progressive income tax is a very clumsy instrument for redistributing wealth, and it cannot easily differentiate between those who have acquired a high income through industry and initiative, and those who acquire it through being "born with a silver spoon in their mouth".

But if hard working and enterprising persons have their net incomes reduced through progressive income tax, then they have less money left to spend on any buildings or machinery they require in order to expand their businesses. Many such persons, having paid large sums of hard-earned wealth into the treasury, must then borrow (at interest !) in order to finance their reasonable business ventures or to set themselves up in a trade, business or profession.

Alternatively, progressive income tax decreases the amount of money businessmen, tradesmen and professional men have available for amortization, thereby increasing the period for which such persons must remain in debt.

These two factors obviously increase the amount of wealth passing to moneylenders, thereby increasing both the likelihood of unemployment and the need for government action to prevent such a calamity.

Fifthly, once a government begins redistributing income or handing out benefits to its citizens, the process tends to perpetuate itself. This occurs because :

(a) Most of us like to exercise some control over the destinies of others, whether we are qualified for this or not. Government officials and elected representatives are no different from others in this regard, and, once they are granted some power over the lives and activities of the citizens, they usually try to increase that hold.

(b) Most people hope to obtain more from the common pool of funds than they pay into it through taxation. As a result, many petitions are addressed to the government for aid for this, that and the other project or deserving cause. Governments, being composed of ordinary fallible humans, like to try and please people, so they tend to grant these requests, or at least to grant the requests of those who make the most persistent demands (or who seem most likely to ensure one's re-election). This, too, leads to a progressive increase in government influence over the lives of citizens.

(c) The government's success at alleviating poverty and unemployment leads people (and governments) to imagine that social services can eliminate **all** such suffering from the community. This misconception leads to a proliferation of government welfare programmes, a growth in bureaucracy, and a progressive increase in the number of public servants in the community. These factors, in their turn, lead to an ever-increasing need for government funds.

The citizens would complain most bitterly if all of these funds were obtained through **direct** taxation, so the government resorts to **indirect** taxation—sales tax, petrol tax, taxes on motor vehicles, etc. etc.—in order to balance the budget. But indirect taxes can be passed on to the consumer even more readily than income tax. The existence of such taxes therefore ensures that even the lowest paid workers and poorest people in the community contribute a share of their meagre incomes to the treasury, and these taxes end up defeating the very purpose of the welfare state.

A SURCHARGE ON UNEARNED INCOMES

The Australian government recently tried to overcome some of these well-known disadvantages of modern taxation, by imposing a surcharge or additional tax on unearned incomes, i.e., on net incomes received as rent, interest or dividends.

However, this tax is of limited value, because it cannot differentiate between unearned wealth which is spent on goods and services, and that which is invested in order to secure more wealth—only the latter type of unearned income being a cause of unemployment, as already described.

At the same time, this surcharge is sometimes unjust, as it cannot differentiate (a) between incomes received from a property or investment which represents a lifetime's savings, and those received from wealth left to the individual by his predecessors. (Just as probate and succession duties, which were devised for similar reasons, fail to distinguish between estates aggregated through hard work and initiative and those resulting from a fortuitous choice of ancestors). (b) between investors who pass the surcharge onto others—by increasing their interest rates, rents or dividends—and those who bear it themselves; and (c) between "unearned incomes" which are not even keeping pace with currency debasement, and those which represent a genuine increase in the investor's wealth—an important thought which leads naturally into a discussion on inflation, its effect upon savings, and the way in which this tends to ameliorate unemployment by transferring purchasing power from lenders to borrowers.

SAVINGS AND INFLATION

There are many occasions when human persons do not wish to consume, immediately, all the goods and services they can acquire, or, in other words, people often desire to save.

For instance, a young man may wish to save towards the purchase of an engagement ring, building block, house or motor car, a father may save to meet the cost of his children's education or weddings, a middle aged person may save to provide himself and his wife with a retirement fund, and anyone may save towards the cost of consumer durables, holidays, etc., etc.

Such people do not usually attempt to save by storing perishable goods or evanescent services. Instead, they exchange goods and services for money, and store the money in a bank or safe deposit box.

When people save money, they rightly expect it to retain its value with the passage of time. Money, to most people, represents a certain amount of hard work, and no one likes to see his earnings disappearing or losing value before his eyes.

Nevertheless, when inflation exists, this is precisely what occurs, and, in modern times, money may decay more rapidly than the goods for which it is exchanged. Thus, if the rate of inflation is 14% per annum, then money loses more than half of its value in five years, and, even at 3% per annum, a similar decay would occupy only 25 years.* Consequently, if a man aged forty put money aside, then—even with a so-called modest inflation of 3% per annum—he would receive less than half the value of his savings on retirement at the age of 65.

Inflation is, therefore, clearly deleterious to people who are trying to save money, but for all that it is not an entirely unmitigated disaster as far as the community as a whole is concerned. On the contrary, while **interest** provides financial benefits for savers and creditors, **inflation** provides a similar service to borrowers whose debt is measured in monetary terms.

Thus, if a man borrows $1,000 when his wages are $100 per week, he actually borrows the equivalent of ten weeks' work. However, if inflation drives his weekly wage to $200, then he need only work for **five** weeks in order to repay the loan.

Consequently, in the absence of interest, inflation benefits debtors at the expense of creditors. This being so it is apparent that debtors, on the whole, need not wring their hands or weep crocodile tears over a process which makes it easier for them to discharge their debts.

WAGE RISES COUNTERBALANCE INTEREST

These considerations reveal that perpetual wage rises or cost of living adjustments provide a counterbalance to the various forms of unearned income which exist in society.

Rents, interest and dividends restrict the borrowing capacity of the average working man, and eventually lead to unemployment by decreasing the amount of goods and services purchased by the community as a whole. This factor is counterbalanced by repeated wage rises, which enable debt-ridden workers to keep on buying goods and services—thereby preventing the unemployment which would otherwise occur.

Those of us who employ staff may sometimes think that wages are too high, and that wage rises are an altogether too frequent event. We might view the matter differently if we realized that (a) employees—on the whole—need high wages because of the amounts they expend (from their earnings) as rent, interest or dividends, and (b) if workers did not receive recurring wage rises, then there may come a time when they would be unable to afford **our** services.

INFLATION AND THE PUBLIC DEBT

It may be worth noting that inflation is certainly not an unmitigated disaster for most modern governments—because governments are more often debtors than creditors.

For instance, Australia's commonwealth government owed a total of $3,800.9 million in 1971**, and this debt has probably increased somewhat since then.

Australia's current inflation rate of 14% per annum would effectively reduce this debt by $532 million per year, so the commonwealth government is not exactly on the losing end of the inflation which is occurring in Australia at the present time.

THE REDISTRIBUTION OF INCOMES THROUGH INFLATION

Interest, as already noted more than once, may lead to a gross maldistribution of wealth—with lenders' incomes growing exponentially while the net income of borrowers remains small and often inadequate.

Inflation partially compensates for this maldistribution of wealth, by writing down the labour value of debts, thereby making it easier for the borrowers in the community to become creditworthy again. Inflation therefore enables farmers, home owners, factory managers, professional and businessmen to pay out their mortgages more rapidly—making it possible for them to borrow more money in order to purchase machinery, furniture, motor vehicles, etc.

In other words, inflation permits borrowers to return to the loan market for funds more rapidly, and enables lenders to find borrowers for funds which, otherwise, would not be loaned.

Looking at this from a slightly different point of view: Interest and other forms of unearned income cause the wealth of many fortunate investors to exhibit the phenomenon of exponential growth—thereby taking wealth continually from the poorer members of the community and granting it to those who do not wish to spend it all.

Progressive inflation counteracts this phenomenon, by causing money to exhibit an exponential decline in value, and, in this way restores wealth and purchasing power to the borrowers in the community.

For this reason, inflation is not an entirely unmitigated evil. It quite clearly has some beneficial effects.

Moreover, these considerations show that it is futile for citizens to blame the government for allowing at least **some** inflation to occur—even though it is correct to criticize them for the excessive government spending which, nowadays, is aggravating inflation to a marked extent.

The effect of government spending on inflation will be dealt with later. For the moment we may note that, were it not for inflation, then—in the presence of unearned incomes—the government's only other alternative to unemployment would be a savagely progressive income tax. Such a tax would be unpopular, it would put far too much money in the government's hands, and it would suffer from other disadvantages as already described. It is not surprising, therefore, to find governments opting for inflation—as this alternative is much easier to introduce. However, before describing the way in which inflation is usually produced, we should look at some other features of this world-wide phenomenon.

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* After 5 years with inflation at 14% per annum, $1,000 would decline in value to $470.43, while after 25 years at 3% per annum, it would equal $466.98.

** Year Book Australia 1972, page 595.

6. INFLATION AND INVESTMENTS

Where inflation exists, money loses value progressively, and, even with inflation at 3% per annum, savings lose half their value in a little over twenty years.

When this occurs, people do not try to save money by keeping it in old socks, under the mattress or in safe deposit boxes. Instead, they deposit it with savings banks, hoping thereby progressively to increase their total holding of money so that their wealth—as measured in terms of goods, services or purchasing power—will not decrease.

However, as savings bank interest rarely exceeds and often does not even equal the rate of currency debasement, people fight a losing battle when they try to preserve wealth in this way.

Furthermore, as most people pay tax on any interest they receive, it becomes apparent that unearned "incomes" received as interest on savings bank deposits usually end up as a minus quantity. It is, therefore, clearly unjust to impose an additional tax or surcharge on such negative quantities of wealth, and several economists and political commentators have drawn attention to this fact.

BEATING INFLATION

Many people are dismayed at the prospect of losing hard-earned money through trying to save it. They therefore try to protect their savings against the ravages of inflation by lending money to finance companies, housing societies and other organizations which offer more interest than banks, or they seek investments which may either increase in value with the passage of time or provide a return which exceeds the rate of currency debasement.

The two means of saving which may possess these qualities are investments in property or real estate, and shareholdings in public companies. The nature of each of these may now be considered.

COMPANY FORMATION

Proprietors who wish to expand or initiate a business without plunging themselves into debt, may overcome the problem by forming their enterprise into a company. To do this, they issue "shares" and the people who purchase these become shareholders in the company.

Money obtained through share issues is used to purchase building sites, factories, office blocks, machinery and other equipment needed either to initiate the company or to expand its operations as the case may be. The company's employees then use this plant and machinery to facilitate the production and distribution of whatever goods and services that company produces or provides.

A company therefore consists of wage and salary earners and management on the one hand, and shareholders on the other hand, with the company's earnings being shared between these two groups of individuals. The employees of the company receive their share as wages, salaries and other allowances, while the proportion received by shareholders is usually called a dividend.

This arrangement has three advantages from the point of view of the proprietors and employees of a company. First, it enables them to obtain machinery and plant without having to borrow and repay its purchase price. Shareholdings do not have to be repaid by annual instalments, as happens with a loan.

Secondly, there is no predetermined rate of interest in the contract, and, if the business is unprofitable, the shareholders will not receive a dividend. Thirdly, should the business fail completely, the shareholders will lose the money they have invested in the company, but the company's employees will not suffer bankruptcy on this account. Shareholders accept the risk of such losses as part and parcel of investment in public companies, and, indeed, they are bound to accept this risk by virtue of company law. This law ensures that no shareholder can sue a company's employees if the company is unable to repay any funds he invested in its shares.

Nevertheless, even the most amicable arrangements are not without their disadvantages, and company formation is no exception to this general rule. If a company happens to be successful, then dividends may well be paid to shareholders (or to their heirs, descendants or assigns !) for evermore ! Over the years these dividends may amount to many, many times the value of the plant and machinery purchased with shareholders' funds, and yet each shareholder continues to draw a dividend as long as the business continues to be profitable—even, sometimes, for years after all equipment purchased with his (or his ancestors !) funds has turned to dust !

Under such circumstances, company formation is rather less attractive to proprietors and employees than is the borrowing of money at interest.

Shareholders' dividends, like interest, represent money which wage-earners cannot spend on goods and services. However, whereas interest payments cease once a loan has been repaid, the payment of dividends continues throughout the whole of a company's working life. As a result, company proprietors can never look forward to the day when their entire earnings may be spent on wages, raw materials, and plant or machinery. Instead, they must set aside, every year in perpetuity, a sum (often called the company's "profit") with which to pay the shareholders' dividends.

In some cases profit is estimated after provision has been made for the purchase of additional plant and machinery, whereas in other cases all additional plant and machinery is financed through the issue of further shares. However, whichever method is adopted it is clear that dividends, once they exceed the cost of the shares issued, represent a never-ending charge against the gross earnings of the company concerned.

Of course, what may be a disadvantage for company employees and proprietors represents a virtue from the investor's point of view. If an investor can acquire shares in a successful company, then he may not only protect his savings from the ravages of rust, rot and inflation, he may even receive an income which exhibits exponential growth.

As a result, shares are bought, sold and exchanged, with the price paid for any share depending upon the likely future profitability of the company concerned.

INFLATION AND THE RETURN FROM SHAREHOLDINGS

The market price of shares tends to rise with each fall in the value of money, so shareholdings provide a means of preserving the value of savings intact.

Nevertheless, many factors influence both company profitability and share prices, so to be a successful shareholder one needs a lot of good judgment and a certain amount of luck. Returns received by investors who lack these qualities may not even counterbalance inflation, some investors receive less than bank interest, and still others lose the money spent on shares.

By contrast, as with many other things in life, the more potentially lucrative opportunities are often grasped by those who have the most money to spare. This being so, the share market not only provides small investors with a means of beating inflation. It may also provide the rich with opportunities markedly to increase their already considerable wealth.

REAL ESTATE

The second method investors may use in order to preserve wealth or enhance its value is to invest money in land or "real estate".

Thus, people who have spare money available often use it to purchase the title to land. Land, in turn, may return an income to the titleholder in the form of rent. Alternatively, its value may increase more rapidly than the currency is debased, thereby enabling the purchaser to make a profit when he finally sells the land to someone else.

LAND—A UNIQUE INVESTMENT

Land possesses many qualities which make its purchase a unique means of saving or investment.

Land is a vastly different proposition to man-made goods and services as far as its preservation is concerned. As noted earlier, the services people render to one another are evanescent and they cannot be preserved, while all goods perish eventually. Even buildings and other durable items do not retain their initial value unless energy is constanly expended to maintain and preserve them in an "as-new" condition or somewhere close to it.

Land, on the other hand, does not deteriorate with age, but retains its value and usefulness for years on end. For this reason, when people purchase bushland, farms, building blocks, flats, houses, industrial land or land for subdivision as a means of saving or investment, it is the **land** which gives their investment its truly enduring qualities. Any improvements on the land—such as buildings, crops, fences or similar man-made objects—may increase the rent the owner receives, but, in most cases, such "rent" merely compensates him for the expense involved in acquiring and maintaining the improvements concerned, with, perhaps, sufficient surplus to counterbalance inflation, at least to some extent.

Nevertheless, the permanence of land is not the only quality which makes land purchase a unique means of saving or investment. A further quality—of inestimable value for investors—arises from the fact that land values may increase at a rate which greatly exceeds the rate of inflation at any given time. Indeed, even in the **absence** of inflation, building blocks bought for one hundred dollars have often been sold again for hundreds or even thousands of dollars after ten, twenty, thirty or forty years.

The reason for this will become obvious if we consider two other features of land. These are (a) the surpassing importance of land in relation to living, and (b) limitations which exist upon the supply of land as compared to the demand for it.

THE IMPORTANCE OF LAND

Any person wishing to set himself up as a farmer or businessman, or to build a house, factory, office or professional suite, is usually advised to "First secure the land", and this, surely, is sound advice.

Land, or at the very least, some sort of access to land, is an essential element in the life of everyone.

No person could stand, sit, lie, eat, sleep or work, without access to land. A human person cannot live his life or conduct his trade, business or profession suspended from a skyhook, so no individual could live or work unless he were able to place his feet or rest his head upon some portion of the earth.

This being so, when people rent or buy land, they are doing something which is virtually inescapable. The only way a person can avoid either buying or renting land is to live apart from human society, and few people go to such lengths to escape paying rent or purchasing land.

SUPPLY AND DEMAND IN RELATION TO LAND

As a city or country becomes more populous and/or prosperous, then the demand for land in that vicinity must increase.

In such communities many business and professional men—each anxious to utilize his talents to the fullest possible extent—compete for sites in or near the centre of cities and towns, as, other things being equal, more potential customers enter premises close to the centre of economic activity.

This fact, incidentally, explains the building of skyscrapers on valuable city blocks. Skyscrapers provide a means whereby the number of people living or working on any particular site can be increased enormously, even though the area of the site remains the same. These skyscrapers, too, bear eloquent witness to the competition which exists for the occupancy of city blocks.

At the same time, numerous primary producers compete for farms close to populated areas, as the farmer's freight or transport costs—both to obtain goods and services for himself and for his household and to transport his produce to the market for sale—increase with every kilometer which separates him from the nearest city or town.

Nevertheless, even though these factors increase the demand for land, they cannot produce an equivalent increase in its supply.

Land is not a man-made entity, and the total surface area of the earth cannot be increased. The only ways in which the supply of land can be increased, in response to any increased demand for it, are: (a) through reclaiming land from the sea or from swamps, quarries, garbage disposal areas and similar situations, and (b) by utilizing previously virgin land. These measures do not add greatly to the total area of land in use, and they make even less impression on the supply of desirable farms, business sites or building blocks.

LAND VALUES AND THE LAW OF SUPPLY AND DEMAND

The quantity of land in use cannot be increased significantly, in response to any increased demand for it.

At the same time, land is essential to the health, wellbeing and even life of everyone, as no person can live or work without access to land.

For these reasons, the value of land in favoured areas increases with every increase in population or prosperity, even in the absence of inflation, and, where inflation exists, the annual rental value or selling price of such land will almost invariably increase more rapidly than does the price of goods and services.

If an increased demand causes the price of any particular goods or services to increase markedly, then the supply of those goods and services, or of suitable substitutes, can usually be increased—thus bringing the price down again.

However, this normal market mechanism cannot operate so effectively with land, as it is difficult to increase the supply of this most important economic entity. As a result, when more and more people compete against one another for the use of farms, building blocks, office or factory sites, etc., then the price or rental value of these sites must increase proportionately, and in virtually all cases, this increase in the price or rental value of land will outstrip any concomitant increase in the price of goods and services.

This being so, investors are in a very fortunate position indeed, if they have acquired choice land in or adjacent to expanding or prosperous cities. The wealth of such investors—who sit astride the trade routes, as it were—may increase exponentially, even while they are asleep or overseas.

SITE RENTS AND THE SELLING PRICE OF LAND—TWO DYNAMIC ENTITIES

All the same, even though many fortunate investors receive a high income from their landholdings, there are limits to what a would-be tenant or purchaser will pay in return for the occupancy of any given site. If a prospective home owner, for instance, feels that too much is being asked in return for the title to any centrally located building block, then he may purchase cheaper land a little further away from the centre of the city. Similarly, if farmers cannot obtain land adjacent to a populated area without paying more than they think they can afford for it, then they will rent or purchase less expensive land a few kilometers further out.

The amounts people pay for land, either as site rent (this being the term usually applied to the sums tenants pay in return for the occupancy of any given site) or as purchase price, depends upon the alternatives available to them. An individual will only rent or purchase any given site if he considers that his net income (after paying rent, or land price plus interest if applicable) will be higher on that particular site than on any other more or less expensive site, or, to put it another way, if he regards the satisfactions available to him on that site as sufficient to compensate him for whatever expense is involved. He will seek a more or less expensive site if he considers that such a choice will increase his net income or satisfy his desires more effectively in other ways.

Consequently, both land price and site rents are dynamic entities, and, in the final analysis, the price or rental value of any site is the maximum amount the owner can induce a purchaser or tenant to pay. This price or rental value will be high in prosperous and populous societies, particularly if they are experiencing any growth in population or in the use of modern technology. It will be even higher in societies where inflation exists, as can be shown by considering the behaviour of the real estate market in an economy bedevilled by inflation.

7. INFLATION AND THE DYNAMISM OF THE INVESTMENT MARKET

Reasonable people seek to satisfy their desires with the least exertion or—in more popular parlance—most individuals like to gain the maximum possible quantity of wealth for the minimum possible amount of work.

With this end in view, people who have cash in hand seek an investment which will yield the maximum possible return, consonant with whatever other qualifications they wish to impose. Thus, some investors regard security as of paramount importance, others desire liquidity (i.e., investments which can readily be converted into cash) while still others will exchange either security or liquidity for a potentially higher return. However, in all cases the investment ultimately chosen will be one which provides whatever that investor regards as an acceptable or optimum combination of security, liquidity and financial return.

SAVINGS BANK DEPOSITS

When a currency is stable, savings bank deposits satisfy the criteria applied by a large number of investors.

However, even so-called modest rates of inflation—especially when taken in conjunction with the taxes levied upon income received as interest—usually ensure that people become poorer through depositing their savings in a bank.

When this occurs, people invest their savings with building societies or finance companies, hoping thereby at least to retain the value of their wealth.

Unfortunately for such investors, most governments limit interest rates by decree, and, in Australia for instance, the interest paid by housing societies and finance companies is much less than the rate of inflation at the present time.

For this reason, investors who are able to do so usually spend their spare money on either shares or land, their choice depending upon the market price and future prospects of whatever shares or land are available to them.

THE DYNAMICS OF THE SHARE MARKET

Thus, whereas a share returning \$2-\$3 per annum would not represent a worthwhile investment if it cost \$100 at the present time (unless its selling price could be expected to rise considerably over the years) the same share could be a bargain if its price fell to \$10.

Of course, share prices do not usually rise or fall so dramatically, but they do exhibit day to day variations. These variations are influenced by: (a) any factors which may increase or decrease a company's gross earnings, such as gaining or losing an overseas or local market for its goods or services, by finding some means by which a given article (or some suitable substitute) may be produced or distributed for a lower price, or (in the case of mining companies) by striking oil or ore; and (b) by the action of unions and the decisions of the courts which fix employees' wages, as only that proportion of the company's gross earnings which is not disbursed as wages is available to pay the shareholders' dividends.

Any of these various factors which influence the returns from shareholdings may change at short notice, which shows that the share market, in itself, is a very dynamic entity. These considerations show, also, why a successful investor needs both sound judgement and a certain amount of luck. Investors who lack these qualities may lose all the money they have invested in shares.

THE REAL ESTATE MARKET

The uncertainties which accompany dealings in shares are much less evident in the real estate market.

Thus, while a company failure may cause its shares to become quite worthless, land price rarely collapses to the same extent.

Admittedly, increases in land value may not come up to some investor's expectations, but the ultimate selling price of land usually bears some relation to its original purchase price. For this reason, small and/or inexperienced investors, particularly, usually prefer to save by buying land, rather than by investing in shares.

Every country therefore contains many individuals who hold land for which they have no immediate use.

These people may be holding land against the possibility of future use as their own farm, building block or factory site; for subdivision so they may sell it to others for similar purposes, or in the hope of being able to sell the land later to provide a little money or security for their old age.

In addition, some proportion of every community's land is owned by speculators who have bought land and are holding it in the hope that increases in population or advances in technology will cause its value vastly to increase.

INFLATION AND THE HOLDING OF LAND

When a community is plagued by chronic inflation, then the number of people anxious to hold land for various reasons is markedly increased.

These would-be savers and speculators compete against those who wish to use land immediately, thereby driving land prices upwards to the maximum the market will allow.

This maximum—as indicated earlier—is high in relation to the price of goods and services, because, while people can manage without certain goods or services, they cannot live without access to land. Consequently, if the price of land passes beyond any potential purchaser's reach, then he must usually compromise and rent his factory, farm, flat or dwelling site. In this way he will be spared the expense involved in buying land, but he may condemn himself to a lifetime of paying site rent to a titleholder.

LAND PURCHASE vs. RENTAL

At this point it is worth noting that most people prefer —if possible—to purchase the land on which their home, factory, business premises or farm is situated.

People prefer ownership to tenancy because fences and buildings are required on most sites, in order to provide privacy and to protect the occupants and their belongings against robbers and other unwelcome intruders. These improvements cost time, money and effort, and, therefore, before people will provide them they want to be reasonably sure that their property will not be taken from them arbitrarily. In other words, people will not erect improvements unless they possess reasonable security of tenure on their site.

A tenant does not always possess this security of tenure because, in many cases, his tenancy can be terminated at the owner's whim. Even if the landlord does not possess this power (because of legal restrictions embodied in the tenancy agreement or in landlord and tenant legislation) the tenant is still obliged to pay weekly, monthly or annual sums as rent, and it is always possible that his rent may be increased. Furthermore, tenants must usually secure the owner's permission before they make alterations or add improvements to the property, and, if they were ever forced to vacate the site, they may not obtain the full market value of the improvements they have made.

For these various reasons, most individuals try to purchase their home, farm, factory or business site, in preference to renting it. They save or borrow until they have enough money to persuade the previous owner to part with the title to the site, so that, once the mortgage is discharged, they can live or work on it, free forever from whatever demands a landlord might otherwise make on them.

LAND PURCHASE—A CAPITALIZATION OF RENT

When people buy or sell land, they are not trading in something which—like goods or services—has been produced by human labour.

The earth was here when mankind arrived on it, and men do not move building blocks, farms, etc., about from place to place. It is therefore apparent that land, as such, has no cost of production or distribution, so its price must be determined on some other basis than this.

In fact, the price of any given block of land is determined by its actual, potential or estimated future rental value—this rent being "capitalized" and paid as a lump sum.

The would-be purchaser estimates (implicitly if not always explicitly) the future cost involved in renting that site or any available alternative, and then offers the vendor a sum somewhat lower than this. The vendor, meanwhile, makes his own calculations and decides whether or not he will accept the proffered sum.

In this way land price always contains a certain speculative element, because neither buyer nor seller can be quite certain of the future rental value of any given site.

Thus, the rental value of farmland will rise when seasons and markets are favourable and fall when the reverse occurs, the rental value of mining land will increase if new stores of minerals are found on it, and fall when its contained minerals have been won, while the rents paid for residential land rise if schools, hospitals and similar structures are built nearby, and fall if its new neighbours include an untidy factory, an abattoirs or a garbage tip, or even if adjacent landowners allow their properties to deteriorate unduly.

Annual site rents bear a close relationship to the "here and now" conditions of the land, and it is in terms of **rental** that the value of any given land is really estimated. The "capital" prices people offer or demand for land are determined by their estimates of its rental value at some future "there and then".

SITE RENTS AND INFLATION

In an economy bedevilled by inflation, site rents are calculated in relation to the present value of the currency. They rise when land prices rise, but they are not usually moved up several extra notches to compensate for probable forthcoming currency debasement.

For this reason, tenancy or leasehold presents a viable alternative for those whose financial situation does not permit them to save or speculate. Many such people now rent land, instead of buying their building block, farm or factory site outright, and, in Australia at least, more young people are now renting flats or other dwellings instead of buying land and building homes. Whether or not this state of affairs is desirable is a matter we may discuss a little further on.

WHERE TO INVEST—LOANS, SHARES OR LAND ?

In any given community there is always a certain amount of money available for saving and investment, and those who own it naturally seek the best deal for themselves.

If interest rates are fixed at relatively low levels (in relation to inflation), or if borrowing and lending are restricted by government decree (as occurs during credit squeezes) then more of this money will be spent on shares or land, and the price of these will rise.

Similarly, if wage rises secured by employees—either through negotiation or with the help of the courts—exceed increases in productivity, then company profits and dividends will fall, less money will be invested in shares, and more will be available for the purchase of land.

Consequently, of the three avenues available to investors, landholding is the most stable, the least prone to arbitrary fluctuations, and the least likely to have its profitability eroded by government decree.

At the same time landownership provides investors with something which (a) requires no maintenance, (b) cannot be significantly increased in amount, and (c) is essential to the life and health of everyone.

Small wonder, then, that in any inflationary economy, it is the price of **land** which first begins to rise.

These rising land prices then initiate an inflationary spiral, by producing the unemployment for which inflation is the remedy usually applied.

LAND PRICE AND THE CONSUMPTION OF GOODS AND SERVICES

Money spent on land cannot also be spent on goods and services—as anyone trying to buy a building block at today's inflated prices can testify. Couples who pay thousands of dollars for a building block are fully aware that those dollars will not be available for the purchase of a home, a motor car or furniture. Indeed—in recent years—many young couples have had to forgo their dreams of home ownership, because of the escalating price of land.

Yet, as shown in Chapter 4, if goods and services are not bought and utilized, then there is no work for those who would produce such goods and services, and unemployment results.

Of course, vendors may spend—on goods and services for themselves and their families—money they receive in exchange for land, but this will not occur in every case. Many land sellers try to invest any sums they receive, in order to secure more wealth—thereby adding to the volume of funds which an inelastic investment market is struggling to absorb—and when this happens the government must either redistribute money through taxation or find some other means to combat the resulting slowdown in economic life.

INDIRECT EFFECTS OF THE LAND PRICE SPIRAL

This direct action is not the only deleterious effect rising land prices have upon consumption and employment—there are also indirect effects.

Thus, if sites can be sold within a few months of being purchased, for far more than was paid for them, then the prospect of "easy money" will lure funds towards the real estate market, and reduce the amount available for lending or for the establishment or expansion of companies.

This will tend to produce unemployment by reducing the number of new employment opportunities created, so it must be counteracted (a) by allowing the price of goods and services to rise, in order to increase company profitability and encourage people to invest in shares again, and (b) by lifting the ceiling on interest rates, to coax money onto the loan market and away from land.

But when prices and interest rates rise, wage earners can no longer purchase all the goods and services they produce, so wages, too, must rise, or unemployment would result again.

When wages and prices rise, many borrowers can discharge their debts more readily, thereby becoming creditworthy again. These price and wage rises also increase the amount of money which the better-paid members of society, particularly, have available for investment, and, to a superficial observer, these two factors might seem to cancel out. However, as an investment income can grow exponentially, while borrowers' incomes grow only by arithmetic progression, the money available for investment will always show the greater increase.

Consequently, when wages and prices rise, more money becomes available for investment, and, as shown earlier, a very substantial proportion of this must invariably be invested in land.

This, in turn, will increase the market price of land, thereby initiating a further phase in the inflationary spiral.

TOO MUCH MONEY CHASING TOO FEW GOODS ?

We may note at this point that inflationary price rises are not usually due to "too much money chasing too few goods", as some economists claim.

Were this so, then inflation could readily be overcome by the removal of all tariff and customs barriers, and by the institution of a world-wide free market in goods and services.

However, such measures have been tried quite often, but as they usually lead to local pockets of unemployment, the tariff barriers tend to be erected again quite rapidly.

This should not really cause any surprise. Changes in supply and demand exert only a temporary effect on prices, but inflation is a chronic socio-economic disease. Were it really due to the demand for goods and services constantly outstripping their supply, then modern society's huge advertising expenditures would be wasteful and largely unnecessary. In such circumstances businessmen and industrialists would, surely, convert the time, effort and money now spent on advertisements into goods and services to satisfy their customers' demands.

ADVERTISING TO PROMOTE CONSUMPTION AND BORROWING

In actual fact, the vast structure of modern advertising supports the thesis being advanced in this book.

Advertisements on radio and television, in newspapers and magazines and on buildings or hoardings constantly exhort the public to "buy now, for cash or with low deposit and the easiest of terms". Surely, this advertising suggests that manufacturers are seeking desperately to have their goods and services consumed, while savers and investors are seeking borrowers for their wealth? It does not suggest that too much money is chasing too few goods.

TOO MUCH MONEY CHASING LAND

In practice, if prices rise due to an excess of money or a shortage of desired articles, then more goods and services are either produced or imported, and their price tends to fall. Alternatively, the few goods and services available go to the highest bidders, and others make do with substitutes.

However, as far as land is concerned, it is not possible markedly to increase its supply in relation to demand. Furthermore—because land is essential to the life and health of everyone—the only alternative available to any individual who cannot be numbered among the highest bidders, is to rent land instead of buying it.

It is therefore apparent that the **real cause of the inflationary price spiral is too much money chasing a relatively fixed amount of land, because no one can live without access to land, and there are limits to the quantity of new land which can be brought into use.**

It should be equally apparent that, if the inflationary spiral is to be arrested, then some means must be found to prevent or to inhibit the investment of money in land.

Such a means may dawn upon the reader's consciousness, if we return, briefly, to a study of interest and uncover the underlying cause of this familiar form of unearned income.

8. IS INTEREST A FEE FOR SERVICE?

Interest is a phenomenon of very doubtful economic utility. It is often regarded as an inducement to saving, but the fact that people borrow at interest, and then work doubly hard to pay off the resulting debt, surely proves that human persons will strive to better themselves without the inducement of interest.

On the debit side, interest produces a maldistribution of wealth and also inhibits both the utilization of goods and services and the provision and expansion of employment opportunities—thereby forcing many advanced societies to choose between unemployment on the one hand and either confiscatory taxation or inflation upon the other hand.

Yet, despite these disadvantages which cancel out any doubtful benefit interest may confer upon society, interest persists and neither Church nor state has ever managed to eliminate it.*

The cause of this somewhat anomalous situation is revealed by a study of the "fee for service" theory of interest.

The "fee for service" theory is perhaps the most popular explanation offered in defence of interest. Interest is widely regarded as a legitimate payment for services rendered—the service in question being a loan.

Most people consider that an individual should be prepared to pay for money if he wants more than he has earned himself, and this payment, of course, is interest. By the same token, these people imagine that interest rates are fixed by the law of supply and demand. In other words, they believe that interest rates rise if would-be borrowers are numerous and loan funds scarce, and fall when the reverse occurs. This simple theory, then, appears to explain both the phenomenon of interest and the way in which interest rates can rise or fall.

In point of fact, though this theory does explain some features of interest, it is not the whole story. Furthermore, the fee for service theory contains some fairly obvious fallacies, and these must be disposed of before the theory's real connection with interest can be revealed.

The first of these fallacies concerns interest and the law of supply and demand. Although the supply of loan funds in relation to the demand for them is important, especially in relation to hire purchase contracts and similar types of loan, it is not the only factor which influences interest rates. The ratio of borrowers to lenders is also important.

If lenders are few and potential borrowers numerous, moneylenders can usually obtain plenty of interest, regardless of the amount of loan funds available. What is more, this situation is all too common wherever interest can be charged, because of the way in which interest promotes and fosters an alarming maldistribution of wealth. Therefore, once established, interest tends to perpetuate itself. The number of people able to lend money may remain small, relative to the population as a whole, and so the charge money-lenders make for their services can remain high or even increase.

A second objection to the fee for service theory arises from the fact that borrowers are not the only people who benefit from loans. On the contrary, the service of lending is usually balanced by the service of borrowing—especially with regard to long-term loans.

Human wealth cannot be preserved indefinitely and only a few items — jewellery, precious metals, rare antiques, masterpieces of art or sculpture, first editions of literary works and similar objects of historical importance (none of which are essential to human health and well-being)—retain their value for extended periods. The services human persons render to one another cannot be preserved, all goods decay eventually, and food, the most essential form of wealth, decays most rapidly.

This being so, what is called "saving" is really an extended exchange, the borrower using the "saved" yet perishable wealth, and returning its equivalent to the lender at the termination of the loan.

How does it come about, then, that wealth which perishes can be converted into debts which endure and bear interest?

The answer to this conundrum lies in the fact that—in most societies—perishable wealth can be exchanged for

* The Catholic Church tried for centuries to eliminate interest. Among the Church's pronouncements on the subject was the encyclical **Vix pervenit,** issued by Pope Benedict XIV on November 1, 1745. In this encyclical, Pope Benedict condemned all interest as "against the law of loan, which necessarily consists in an equality between that which is given and that which is restored." He stated that "any profit of this type which goes beyond the capital is illicit and has the character (nature) of usury." **(The Papal Encyclicals in Their Historical Context,** ed. by Anne Fremantle, Mentor Press, 1963, pages 107-8.)

Nevertheless, theologians soon began providing speculative arguments in defence of interest—like those based on **lucrum cessans,** see page 4—and it was not long before Catholics were taking interest like everybody else who had the opportunity.

land. This land may then be used by the owner, rented to tenants, or retained for later sale or use; and it may even, if the owner is wise or fortunate in his choice of site, increase markedly in value with the passage of time.

These features of landownership, particularly the fact that **land can be owned by one person and rented to others,** endow mankind's perishable wealth with powers of exponential growth.

LANDOWNERSHIP AND INTEREST

Land is permanent, stable, and not subject to deterioration or decay. Land, furthermore, may provide its owner with a regular income in the form of rent, and, moreover, both the land and the rents obtained from it may increase in value with the passage of time.

Land possesses all these admirable qualities (from the investor's point of view) and land may be exchanged for perishable wealth. Thus, as long as the legal formalities are met (verification of ownership, transfer of title deeds, etc.) wealth in the form of goods, services or money is virtually interchangeable with land.

Under such circumstances, a loan of anything of value is virtually the same thing as a loan of land, and it is this which provides the fee for service theory of interest with a logical basis.

Wherever goods, services or money can be exchanged for land, a person who loaned anything without charging interest would be making a free gift to the borrower. The borrower could invest whatever he borrowed in land, and thereby obtain, for himself, a substantial increment upon the loan.

In other words, the borrower could obtain an increase on the lender's savings, while the lender—who may have worked hard to acquire those savings—would receive back no more than he had loaned. Borrowers can hardly expect such generosity from people with hard-won savings to lend !

Accordingly, interest will persist as long as land can be purchased by one person and rented to others. At the same time, while ever these conditions persist, entrepreneurs and businessmen will resort to the share market whenever they wish to form or expand a company without having to repay borrowed funds at interest.

THE SATISFACTION OF DESIRE

Interest and dividends exist in modern society, simply because reasonable people seek to satisfy their desires with the least exertion, or in other words, because people will not work hard for a living if they can obtain it in any less arduous way.

Consequently, when individuals possess wealth they wish to enjoy at a later date, they naturally seek the best deal for themselves. They do not save or store that wealth in a manner which will allow it to deteriorate, if there is an alternative means whereby its initial value can be preserved.

Accordingly, if people with spare wealth can find borrowers willing to use it now, in return for an equivalent amount of wealth in the future, they will loan the wealth upon these terms.

By the same token, people will not be satisfied with the mere return of wealth, if there is any means whereby they may receive, in addition to the return of the loaned wealth, a further quantity or "unearned increment".

Therefore, **if there is any one way in which saved wealth can be made to increase in value for the benefit of its owners, then, eventually, all saved wealth can be made to provide its owners with a similar increase.**

Landownership provides a means whereby stored wealth can be made to increase in value for the benefit of its owners. It would seem, therefore, that the financial benefits of landownership provide the foundation on which rests the practice of interest taking.

Where there are no financial benefits attached to landownership—as in some primitive societies where land is communally owned—interest taking is practically unknown. On the other hand, wherever land may be bought, sold and rented to tenants by private individuals, man-made wealth becomes interchangeable with the land which no man made.

In such circumstances, perishable wealth can be made to yield an income to its owners in the form of interest or dividends, just as land yields an income to its owners in the form of rent, and the amount of wealth received as interest or dividends will vary in direct proportion to the amount of wealth landowners receive as rent. These facts can be illustrated by considering the way in which site rents, interest rates, dividends and the price of land or shares are fixed in human society.

THE LEVEL OF RENT, INTEREST AND DIVIDENDS AND THE PRICE OF SHARES OR LAND

Site rents, interest rates, dividends and the price of shares or land are all fixed by competition, although, as mentioned in Chapter 3, interest rates are also fixed by law.

COMPETITION AND SITE RENTS

The first entity we may consider in this connection is site rent.

Site rents are high when land is in demand and lower when the land is less desirable and fewer people wish to occupy or live adjacent to it. Thus, tenant farmers in Australia may pay from $5 to $30 per acre per year for good dairying land—rents rising when seasons and markets are good and falling when the reverse occurs. By contrast, businessmen pay thousands or even millions of dollars annually in return for the lease of a few acres in the centre of a large city. Specialization and the division of labour are well advanced in large cities, and millions of exchanges take place in them every day. These myriad exchanges provide employment for hundreds of traders or middlemen—none of whom could conduct his business to perfection in a paddock miles from anywhere.

Large or densely-populated cities also provide (a) employment for specialists in virtually every trade, business and profession, for entertainers and theatre proprietors, and for hotel keepers, caterers and others who provide food, drink and lodging for visitors and inhabitants, and (b) a satisfactory setting for hospitals, houses of parliament and insurance offices, or for retailers and wholesalers of many kinds.

As a result, hundreds of people compete with one another for the occupancy of city sites, and the rents they are willing to pay rise in proportion to the desirability of any given site.

At the same time, entrepreneurs and landowners accommodate more tenants by erecting multi-storey buildings on selected city sites, thereby adding enormously to the amount of rent the lucky landowner can receive.

Site rents therefore vary from place to place, but, in the final analysis, it is competition which fixes the rental value of any given site.

UNEARNED INCOMES FROM LAND

The site rents payable by tenants provide land with its rental value, and this rental value, in conjunction with competition in the real estate market, then establishes the returns available from land—or, at least, from land which is offered for sale.

Thus, if many would-be purchasers compete for the ownership of a few sites, then prices will be high in relation to rental values, and the returns from land will be low.

If competition amongst potential purchasers was stiff enough, landowners could conceivably pay $100 for land on which a tenant paid $1 per year rent, and in such circumstances the return or unearned income obtained from land would be only 1% per annum. (That is, the return would be only 1% for those who had to **buy** such land. In these circumstances, any fortunate person who already **owned** land which was let to tenants could be receiving quite a substantial unearned income from his site.)

If less people were interested in land purchase, or if more sites were on the market, then similarly valuable land could sell for $50—giving the purchaser or investor an annual return of 2%—and so on, any decrease in competition or increase in the number of tenanted sites available increasing the unearned income obtainable from land, by decreasing the amount paid in return for any given rent-bearing opportunity or site.

LIMITS TO RETURNS FROM LAND

This process does not proceed to infinity, because if land becomes cheap enough, then most people buy their sites and few purchasers obtain a tenant for their land.

In other words, when cheap land is readily available, most of the land in use is owned by the person using it, and, generally speaking, only the more desirable sites are occupied under leasehold or other forms of tenancy.

In such circumstances, investors usually purchase land more as a means of saving than as a source of rent. At the same time, competition among investors keeps the price of rent-bearing sites high, and the only people who obtain a substantial unearned income from land are those who received a valuable site from their ancestors or as a gift in some other way.

RETURNS FROM LAND LIMITED AT BOTH ENDS OF THE SCALE

These considerations show that the returns from land are limited at both ends of the price scale. If land is expensive, then the percentage returns from it are low, and if land is cheap, then tenants are rare, and—in either of these circumstances—only a few fortunate landowners or investors receive any substantial unearned income from their land.

INTEREST RATES

In the first instance, interest rates are calculated by working backwards from the returns available from land.

Thus, if an investor's $100 would provide him with a site on which a tenant paid $4 rent each year, then he would not ordinarily lend his money at less than 4% per annum.

However, this is not the only factor which influences interest rates, because the productivity of modern machinery also plays a part.

PRODUCTIVITY AND INTEREST

If a man can add $2,000 to his earnings by employing labour-saving tools which cost $1,000 and have a working life of ten years, then he may pay up to $1,000 in interest, in order to secure those tools.

This amount would be spread over ten years, so his average yearly interest payment would be $100, and he would not ordinarily pay more than 10% per annum in order to secure such tools.

Nevertheless, this consideration provides only a general guide to interest rates. If the individual in question were able to pay cash for his machinery, then no interest would be paid, while if certain equipment makes all the difference between life and death, or between employment and unemployment, then some borrowers would pay more than 10% per annum if they could not secure a loan on any more generous terms. This, then, is one reason why interest rates are often limited by government decree.

INTEREST PLACES A CEILING ON LAND PRICES

Once interest is established and accepted in a community, then it tends to place a ceiling on the price of land.

Investors will not pay $100 for land with a rental value of $4 per annum, if they can deposit their savings in a bank and receive interest at 4%. Indeed, as bank deposits possess greater liquidity than land, most investors would pay considerably **less** than $100 for such land.

The existence of interest therefore keeps land prices down somewhat, by reducing the number of savers and investors who are interested in buying land.

INTEREST AND THE LAW OF SUPPLY AND DEMAND

By the same token, the availability of land as a means of saving and investment often prevents interest rates from falling as they normally would, when the supply of money available for lending exceeds the demand for it.

Thus, if investors cannot lend money at what they consider an acceptable rate of interest, they often spend it on land instead. As a result, if the amount of money available for investment exceeds that which can be loaned, then competition for land increases. This increases both the price of land and the demand for loans, because most home buyers, factory owners, businessmen and farmers who pay large sums for their sites must increase the size of their mortgage proportionately. These factors, by increasing the demand for finance, tend to prevent or counteract any impending fall in interest rates.

CEILINGS ON INTEREST RATES

A similar effect may occur when interest rates are fixed by law.

In such circumstances, competition for land will increase and drive land prices up, if investors are not satisfied with the returns obtained through lending money at approved rates of interest.

This will place landownership beyond the reach of many would-be purchasers—thereby forcing numerous people to rent a site instead of buying one.

A rise in the number of tenants will increase rents, thereby increasing the returns available from land. This, in turn, will lead to more money being invested in land and even less being made available for the provision of improvements and the purchase of plant and machinery, so that job opportunities decrease and unemployment may result. The government is then obliged to lift the ceiling on interest rates, to encourage investors to lend money instead of buying land with it.

INTEREST DEPENDS UPON RENT

These considerations suggest that (a) the returns available from money as interest depend, primarily, upon the returns available from land as rent, and (b) if land were not available as a means of saving or investment, then interest would tend to disappear.

Thus, if interest rates were low, or if money could not be loaned at interest, then a lot of wealth would be saved by investing it in land. This would increase both the price and the rental value of land, and, by so doing, would ensure that the percentage returns from land remained at least equal to those obtained through lending money at interest.

This would be a progressive process, and it could eventually lead to a nation of tenants—with landownership being the prerogative of a privileged few—were it not arrested either by a rise in interest rates or by some other means of diffusing landownership throughout society.

A TEMPORARY EFFECT

High interest rates turn moneylending into a profitable means of saving or investment, thereby increasing the amount of money loaned, and decreasing the amount invested in land.

This causes land prices to fall, and, although it does not help individuals who must finance land purchase through borrowing at interest, it does at least keep land prices within the reach of those who have the necessary cash in hand.

In this way, high interest rates tend to decrease both the number of tenants and the number of investors who can enrich themselves through owning land—factors which encourage more and more people to lend money instead of investing in land.

These factors, in their turn, should ordinarily cause interest rates to fall. But any fall in interest rates—by decreasing the profitability of moneylending—must increase the amount of money invested in land, thereby increasing rent, land prices and the demand for loans, and enabling interest rates to regain their former levels again.

In other words, whether interest rates are high or low initially, it seems to be landownership—and the financial benefits attached to it—which prevents them falling when the supply of loan funds exceeds the demand for them. For this reason it is unlikely that interest would persist for very long, in any society wherein land did not provide a means of saving or investment for private individuals.

SHAREHOLDINGS AND DIVIDENDS

The returns available from shareholdings are determined in ways similar to those which determine the returns available from land or loans.

Thus, dividends are influenced by (a) the many factors which influence gross company earnings, such as the number of companies competing against one another for any given market, the spread of automation and mass-production methods within these companies, particular technical expertise or experienced personnel one company may possess and others lack, etc., and (b) by the proportion of gross company earnings disbursed as wages for the working force —this, in turn, being influenced chiefly by union action and the decisions of workers' tribunals and arbitration courts.

The dividends paid by various companies give each share a certain value, and this value, taken in conjunction with competition in the stock market, determines the percentage returns available from ownership of any given share.

If investors expect any company to pay high dividends for many years, then few of its shares will be offered for sale, many people will compete for them, and their price will be high. By contrast, if a company seems likely to collapse, many of its shares will be offered for sale, few people will want to purchase them, and their price will fall.

SHARES, LOANS OR LAND ?

Of course, people who have money to spend on shares could just as easily spend it on land or lend it at interest. Consequently, investors will not buy shares unless the return from those shares is likely to equal or exceed the returns available from land or loans. As a result, if union action, arbitration court decisions or price controls decrease company profitability and shareholders' dividends, then less money will be invested on the stock market. This may not influence established enterprises, but it would certainly inhibit the formation of new companies and the expansion of existing ones.

It is therefore apparent that company profitability cannot be limited by price controls, without, at the same time, restricting employment opportunities, which is one reason why price control is rarely persisted with, and why prices almost invariably rise when wage increases exceed increases in productivity. If these things did not happen, then unemployment would almost inevitably occur.

MANY FACTORS INFLUENCE RETURNS FROM LAND, LOANS OR SHAREHOLDINGS

In summary we may note that the amount of wealth distributed as rents, interest or dividends (with rents and dividends both including, at times, amounts described as "capital gains"—as when land or shares are sold for more than was paid for them) depends upon (a) the productivity of society, (b) the general level of wages and prices, (c) the number of people who have money to lend or to invest, (d) the amount of spare money available, (e) the number of landowners in society, and (f) any rates or taxes which discourage people from owning land for which they have no immediate use.

In a populous society which makes abundant use of modern technology and labour-saving devices, a lot of wealth will be produced, but whether it is distributed as wages for the working force or as unearned income for investors depends upon all the factors listed under (b) to (f) above.

If wages are high enough to absorb the greater proportion of company earnings, then only a relatively small proportion of the community's total wealth will go to investors. This proportion will be further decreased if large numbers of people have ample funds available for saving and investment, while societies which include a large proportion of landowners make further inroads into the profitability of investment funds—especially if they obtain substantial amounts of government revenue through charges levied against the value of sites.

If many people have a lot of money available for saving and lending, then they will not be able to obtain high interest upon it, regardless of the productivity of society. In such circumstances, people who hold out for higher interest may find borrowers obtaining satisfaction elsewhere, leaving them (i.e., greedy money-lenders) with funds they are unable to invest profitably.

By the same token, when landownership is widely diffused throughout society, it is not easy for landowners to obtain exorbitant rents. If any landowner did attempt to rack-rent his tenants in a society where landowners were numerous, then tenants would either rent land from someone else, or induce a landowner to part with the title to a site by making an offer he could hardly resist.

This parting, in its turn, would be less painful for the existing landowner, if he was paying rates and taxes on his site and had no further use for it.

Such charges therefore tend to diffuse landownership widely throughout society, thereby decreasing (a) the cost of occupying land, (b) the returns obtainable through landownership, and (c) the amounts people must outlay in order to obtain a site. These factors increase the amount of money available for lending or for the formation and expansion of companies, and further decrease both interest rates and dividends.

INVESTMENTS IN LAND THE BASIC SOURCE OF UNEARNED INCOME

The returns from land, loans or shareholdings are interrelated and they all tend to rise or fall together.

Nevertheless, investments in land provide the basic or primary source of unearned income, because, while more wealth can be produced for lending and borrowing—thereby reducing interest rates—the same method cannot be used in order to induce site rents to fall.

Land is limited in amount, and men cannot reduce its market value by producing more of it. As a result, if the wealth available for lending exceeds the amount than can be loaned, then more wealth is invested in land, and both its price and its rental value must increase. This increases either the demand for loans or the returns available from land, and thereby tends to counteract or prevent any impending fall in interest rates.

This fact can be brought home a little more forcibly, if we consider the relationship that exists between inflation, unemployment and the progressive aggregation of wealth.

9. INFLATION vs. UNEMPLOYMENT; THE AGGREGATION OF WEALTH

Every society wherein land may be bought, sold and rented to others, consists, initially, of two classes of people —those who own land and those who must rent or purchase it.

The landowners in such societies possess a very definite advantage over their non-landowning fellow citizens. Those who own the land on which they live and work receive (for an equivalent amount of exertion) an income higher than that received by non-landowners—as the latter must pay out some proportion of their gross earnings either as rent or as the purchase price of land.

For this reason, when land comes onto the market, it is more likely to be purchased by existing landowners than by non-landowners, because, other things being equal, the former individuals will be able to exchange more wealth for it.

Of course, other things are not always equal. Some landowners will increase their holdings at every opportunity, while others will utilize their financial advantage to provide themselves and their families with additional leisure or other comforts of life. In addition, whereas some landowners are both talented and far-sighted, others lack these qualities and may sell their land to more able and industrious, non-landowning neighbours.

In consequence, there will be no clear cut line of demarcation between landowners and non-landowners, and those in what may be called the border zone or transitional area will change places frequently.

However, as time goes on, this situation will gradually change. The more industrious, talented and/or acquisitive landowners will gradually enlarge their holdings and, as they do so, their ability further to increase their wealth and landholding will also increase.

This occurs because, as any individual's landholding increases, so must his unearned income—as rent or from land sales—also increase. His ever-increasing wealth, in turn, enables him to outbid more and more competitors in the real estate market, so that both his wealth and his landholding tend to increase exponentially.

As more and more wealth passes into the hands of acquisitive land holders, then other citizens will seek to borrow this wealth—either to finance land purchase, to set themselves up in a trade, business or profession, or to expand an existing enterprise.

Needless to remark, landowners will not lend except at interest, because they could just as easily invest their spare wealth in land and obtain a further unearned increment on it. In this way, therefore, interest taking and (probably a little later on) company formation will appear in society.

In due course, people will realize that land and money are more or less interchangeable and then any person (landowner or not) with wealth to spare will be able to acquire unearned income as interest or dividends.

Once this occurs, two distinct groups may be recognized in society : those who possess wealth or land, and those who must rent or purchase land, and/or borrow wealth, in order to secure the things they need in life. For simplicity these two groups of people may be designated as lenders and borrowers respectively.

The two groups are not mutually exclusive. Many who are borrowers in early adult life become lenders later on, while others may be both borrowing and lending at the one time. Thus, wage-earners may borrow plant and machinery from shareholders, while loaning to others via a savings bank deposit or even as company shareholders themselves. In addition, many people with a mortgage on their home, farm or factory receive interest on bank deposits or through owning insurance policies, or they belong to a Church, social or sporting club, trade union, etc., with the organization's spare funds being invested or loaned.

BORROWERS AND LENDERS IN BALANCE

Most people must borrow to get a start in life, and, at the other end of the scale, many individuals save to provide themselves and their families with security in their later years. Therefore, society always contains numerous savers and lenders with borrowers to balance them.

THE IMBALANCE OF PURCHASING POWER

Borrowers may spend, on goods and services, only such income as they do not have to outlay as interest, rent or dividends. Lenders, on the other hand, possess this interest, rent and dividends, in addition to any income they earn. They are more likely, therefore, to possess wealth in excess of their own immediate requirements. This, in turn, permits them to invest that wealth in order to secure more wealth, and so wealth tends to flow, continually, from the borrowing to the lending sector of society.

In addition to this primary imbalance, lenders—particularly the more wealthy ones—tend continually to improve their position, because (a) they are able to offer higher prices for the most potentially lucrative investment opportunities, and (b) they often have cash in hand (i) for lending when a scarcity of loan funds forces interest rates up or (ii) for buying land or shares when adverse economic conditions cause the price of these to fall.

Lenders also, by bidding against one another and against borrowers for a limited supply of land, force the price of this most essential economic entity beyond the reach of many borrowers. Borrowers are then obliged either to reduce their consumption of goods and services in order to pay an excessive price for sites, or to submit to a lifetime of paying rents much higher than would apply if society's wealth were distributed equitably.

These factors combine progressively to increase land prices, site rents, interest rates and company dividends, thereby reducing, progressively, the quantity of goods and services which may be purchased by the borrowing sector of society, and increasing rapidly, the likelihood that lenders will be unable or unwilling to consume immediately, all the goods and services they can acquire.

Wealth which lenders possess in excess of their own immediate requirements cannot be consumed unless it is either loaned or transported overseas—as part of a favourable balance of trade.

But no would-be borrower has an inexhaustible credit rating, and if any one country has a favourable balance of trade (which means that it exports more than it imports) then some other country's balance of trade must be **un**favourable. In other words, juggling with the trade balance only shifts unsaleable surpluses from country to country around the world, and eventually, all unsaleable goods and services which cannot be loaned must be sold cheaply, given away, dumped or allowed to decay.

Regardless of which of these several fates befall those goods and services, the net result is that someone, somewhere, suffers a drop in earnings, and the amount he has available to spend on goods and services is correspondingly reduced.

Needless to remark, the "someone" is more likely to be poor than rich, and the "somewhere" is usually located in an under-developed country—which suggests that it is the poor people of this world who bear the brunt of economic blows.

UNEMPLOYMENT—THE ONLY POSSIBLE OUTCOME

A progressive imbalance in wealth can have only one outcome—**chronic mass unemployment**, which even today, persists in many parts of the world.

Unemployment benefits no one—not even the rich. These people acquire wealth as unearned income, but, as pointed out in Chapter 2, no income is really unearned. **If one person receives wealth without working for it, then some other person must work without receiving wealth.** But if few people are working because of mass unemployment, then very little wealth is being produced, and even the rich cannot increase their wealth in that event (though they may certainly increase their **potential** wealth, by snapping up the cheap land and shares which invariably appear upon the market when unemployment is widespread).

Governments, generally speaking, are aware that chronic mass unemployment is an utter disaster. They therefore try to prevent it by (a) confiscatory taxation and the redistribution of incomes through the welfare state—measures which might prove effective if they took wealth only from lenders and redistributed it only to borrowers but, of course, neither taxation nor the welfare state could ever quite manage this; or (b) through currency debasement, which helps restore balance by decreasing the value of lenders' assets and improving the financial standing of borrowers. The way in which this latter end is achieved can be made obvious by a brief consideration of a country's currency supply.

CURRENCY SUPPLY OR THE VOLUME OF MONEY

The volume of any country's money is the sum total of notes and coin in the hands of the public plus deposits of the public with banks.

This is common knowledge, and, as most people only keep sufficient cash in hand for day to day requirements, and store the rest of their money in a bank, bank deposits usually comprise the greater proportion of a developed country's currency.

Less well known, perhaps, is the fact that bank deposits do not always exist as notes and coin. Instead, the bulk of a bank's deposits are only book entries—each one recording the state of a customer's account.

This occurs because most large payments are made by cheque or bank draft, and even if the government printed notes or minted coin for every dollar and cent in the country, most of this money would spend its life needlessly occupying space in vaults. Claims against bank deposits would still circulate by cheques and bank drafts—as these do not become lost or stolen as readily as notes and coin—and the considerable expense involved in producing large quantities of notes and coinage would be a total loss.

For these reasons, the government only produces the notes and coin required for hand to hand use and for those who require their currency in this form, and allows the remainder of the country's supply of money to exist as mere book entries in various banks.*

* In June 1971, for instance, the total volume of money in Australia was $15,851 million—of which $1,336 million was notes and coin in the hands of the public and $14,515 million was deposits of the public with trading and savings banks. At the same time, the total face value of Australian notes in circulation was only $1,369 million, while the total value of decimal coin issued up to that time was only $129 million. Even allowing for the existence of pre-decimal coins, it is still unlikely that the total value of notes and coin in Australia at that time would have reached $2,000 million. In other words, no more than one-eighth of Australia's currency exists as notes and coins. (**Year Book Australia**, 1972, pages 485-7, **Year Book Australia**, 1969, page 612.)

THE CREATION OF NEW MONEY

As a country's population and volume of trade (both internal and external) increase, there must be a concomitant increase in the volume of its monetary supply. Otherwise, money would become relatively scarce and each dollar and cent would increase in value (which, of course, is an effect **opposite** to that produced by inflation). This would cause the price of goods, services and land to fall, but at the same time it would produce unemployment unless wages also fell.

In addition, a relative scarcity of currency actually promotes unemployment (a) by increasing the value both of monetary savings and of interest, thereby restricting consumption by causing wealth to pass from borrowers into lenders' hands even more rapidly than usual, and (b) by limiting the funds available for the creation and expansion of employment opportunities; so it is obvious that any expanding or developing community requires an equally expanding monetary supply.

In practice, any additional currency required may be created quite simply, as money is constantly passing back and forth between the government and the citizens. If the government wishes to increase the volume of the country's currency, it simply spends more money (in the financing of its various endeavours) than it receives as taxation, and the difference constitutes an addition to the monetary supply.

This new money is brought into being partly as notes and coin, and partly as bank deposits. The former are created by minting more coin or printing more notes than are required to replace those worn out by constant use, while the latter is created through the issue of government securities in excess of those repurchased or redeemed**.

This latter process is somewhat akin to the writing of cheques against a non-existent or overdrawn bank account, but despite this, new money thus created eventually finds its way into various people's bank accounts, where it constitutes a genuine part of the community's supply of currency.

CURRENCY DEBASEMENT

If the amount of new money created in any year were just sufficient to balance any increases in the population and volume of trade, then the general level of wages would not change very much. Prices, on the other hand, would tend to fall, as increasing use of technology and labour-saving devices would reduce the cost of production of many articles.

Therefore, as both prices and wages are rising dramatically, new money is evidently being placed into circulation in amounts which **exceed** those needed to balance increases in population and the volume of trade.

** **Year Book Australia** 1973, pages 547-8. It is also worth noting in this connection that there are certain conditions under which private banks may create overdrafts with new currency (**Encyclopaedia Britannica** 1968, 3 : 104-9). However, the available data relating to the volume of money in Australia does not distinguish between new money created by the government and that brought into existence by private banks, so it is not possible to determine the exact extent to which each of these processes is being utilized at the present time.

These excessive quantities of new money pass into circulation in the form of cheques which the government hands or posts to people who are ill, elderly or unemployed, or to those who have some other claim upon the government.

Some of these cheques return to the government's bank to be exchanged for notes and coin (which are produced as required) but most of them remain as mere book entries in one or another bank.

However, regardless of the form in which it exists, the excessive quantities of new money being created nowadays soon find their way into the public's pockets or bank accounts—diluting the money already there and reducing the value and purchasing power of every cent of it.

MODERN MONEY—A TWO-EDGED SWORD

It is therefore apparent that, while modern money is convenient, as well as being both cheaply and easily made, these very features make it all too easy for governments to debase their currencies. At the same time, the very ease with which new money can be created nowadays provides governments with a source of funds to augment those obtained through taxes, rates and other charges levied against the citizens.

In 1972-73, the volume of money in Australia increased by $4,583 million†, this amount representing a 26% increase on the figure for the previous year. As the country's population increased by only 2%‡, it seems that most of this vast sum of money was a bonus to the government !

RISING PRICES AND THE VOLUME OF MONEY

It is worth noting that every inflationary rise in the general level of wages and prices must of necessity be accompainied by an infusion of new currency into the country's economic veins. Otherwise, employers would have insufficient money with which to pay the higher wages, and consumers faced with higher prices would have insufficient cash in hand.

Such rises in the general level of prices and wages also increase the government's costs—not only to meet the occasional salary rises members of parliament grant themselves, but also to feed a hungry army of public servants and bureaucrats. However, as most taxes are calculated as a percentage of prices or costs, and as income tax is usually progressive, the government should ordinarily be able to pay its bills. The fact that it is unable to do so without helping itself to huge quantities of newly-created currency is largely due to excessive government spending, which, in turn, arises partly through extravagance and partly by necessity. The **necessary** fraction of this government spending can be disclosed by a consideration of the production and consumption of goods and services.

† **Public Authorities Finance, Authorities of the Australian Government,** No. 11, 1972-73, page 65.

‡ **Year Book Australia, 1972,** page 129.

10. PRODUCTION AND CONSUMPTION

Each community produces a certain amount of goods and services, and the estimated sum-total of these is usually described as the Gross National Product of the community concerned.

The Gross National Product consists partly of goods and services bought and sold for money, and partly of those consumed by the person or persons producing them, or exchanged directly for other goods and services. Goods in these latter categories include the eggs backyard poultry keepers collect from their chickens, fruit or vegetables grown in home gardens, clothes made by home dressmakers, farm produce consumed by farmers and their families, and the numerous items—from chairs, tables and other furniture to houses, stereograms and electronic apparatus—made and/or repaired for themselves by handymen, tradesmen and engineers.

PURCHASING POWER EXISTS AS BOTH CASH AND KIND

Home produced items are often exchanged directly for goods and services produced or provided by other citizens. Consequently, what may be called wealth, purchasing power or the ability to acquire goods and services may exist as either cash or kind, or as a combination of both. Nevertheless, in the forthcoming analysis, all purchasing power will usually be described as money, because, in practice, purchasing power which exists as goods or services is more or less inter-changeable with that existing in a monetary form.

GOODS AND SERVICES RESULT FROM HUMAN EXERTION

All goods and services are produced through human exertion, and if people could ordinarily gain goods or services only through exerting themselves, then neither unemployment nor inflation need ever occur.

In such circumstances, purchasing power or money could be distributed equitably between the government and its citizens, and among the citizens themselves.

The government could spend its share of this money for the benefit of citizens—by providing roads, streets, bridges and other public utilities, and by granting pensions, sickness benefits, etc., to those in need.

The pensions, sickness benefits, etc., would provide needy persons with spending money, while people working in the public and private sectors of the economy would have their earnings for this same purpose.

The various members of the community would spend their money on food, homes, furniture, household gadgets, clothing, sporting goods, newspapers, magazines and motor cars, offer it in exchange for the services of doctors, dentists, chemists, teachers, ministers of religion, bus, train, tram and taxi drivers, aeroplane pilots, postmen, garbage collectors, etc., etc., or use it to pay for any roads, streets, bridges, sewers, gas, electricity or water not paid for by the government, and, in this way, all the goods and services produced or provided in the community would be consumed.

However, when some people receive money for which they have not worked, while others work without receiving money, this happy state of affairs does not exist. In such circumstances, money, instead of being spent on goods and services, may actually **be invested to collect more of itself.**

Admittedly, money treated in this way will be spent, eventually, on goods or services, because, in the final analysis, this is how all money is spent. However, money cannot be invested to collect more money, unless some would-be consumer borrows it.

BORROWERS FINANCIAL RESOURCES ARE LIMITED

The financial resources of borrowers tend to remain static, while those of lenders tend always to increase.

For this reason, there comes a time when all potential borrowers are "mortgaged to the hilt" or do not want to borrow more, or when lenders cannot find borrowers they consider creditworthy enough. (Anyone who has ever borrowed money knows that he must supply quite detailed information regarding his financial position, before he will receive a loan.)

When this happens, if lenders decide not to spend all their spare money on themselves and their families, then **some, at least, of the goods and services available in that community will not be consumed.** These goods and services will remain unpurchased, not because no one wants to consume them, but because the money that would normally be spent for this purpose is accumulating in banks and safe deposit boxes, waiting for some creditworthy person to borrow it.

MANY RELATIVELY WEALTHY PERSONS IN MODERN SOCIETY

Every wealthy community contains many lenders who do not wish to spend immediately, on themselves and their families, all the money they possess, and no community contains an inexhaustible supply of creditworthy borrowers.

This being so, advanced communities are often faced with a situation where goods and services are produced more rapidly than they are consumed, and, when this happens, unemployment or underemployment results.

In other words, production in advanced societies tends inevitably to overtake and exceed consumption—thereby leading to involuntary and unwanted unemployment***—wherever money can be invested to collect more of itself.

Needless to remark, unemployment aggravates the situation. No one has a very great creditworthiness when he is unemployed, and therefore every increase in unemployment is accompanied by (a) an increase in the amount of money which cannot or will not be loaned, and (b) a similar increase in the gap between the people's productivity and their purchasing power—this latter not being so much deficient as in the hands of those who do not wish to utilize it on themselves. These factors, in turn, lead to further increases in the number of persons unemployed.

When unemployment—due to the presence in the community of goods and services which cannot be purchased—hangs over the heads of citizens like the sword of Damocles, it is no wonder we are exhorted to "Support Local Industries" or "Buy Australian Made".

People publish these slogans, hoping thereby to avert a recession by increasing the consumption of locally manufactured goods and locally provided services. However, their efforts are in vain and, in the end, the government must either accept a disastrous level of unemployment, devalue the currency (thereby writing down overseas debts, in much the same way as debasement of the currency writes down domestic debts) or put spending money into the hands of the people by increasing the monetary supply.

Of these choices, the creation of new money is perhaps the least unacceptable politically, and the easiest to institute. It is, therefore, the choice most frequently made.

INFLATION PROMOTES CONSUMPTION

Currency debasement — i.e., the issuance of newly-created money in excess of the quantities needed to balance any increase in population or volume of trade—promotes consumption by (a) writing down the labour value of debts, thereby enabling borrowers to become creditworthy again more rapidly, (b) by placing spending money—as unemployment benefits, pensions, and other government grants—in

*** This involuntary and undesirable unemployment must be distinguished from the voluntary "unemployment" which results when a person who is satisfied with his present standard of living or wealth decides to take a holiday. This latter form of unemployment or underemployment is a quite desirable entity which does no harm to anyone.

the hands of the poorer citizens, who are only too happy to spend that money on goods and services, and (c) by increasing prices so that society's would-be lenders are obliged to spend more on the goods and services they desire, leaving them with less spare money to lend. However, as borrowers are also faced with higher prices, they, too, have less money left with which to discharge their debts, so this factor tends to cancel itself out.

A TEMPORARY EXPEDIENT

The creation of excessive amounts of new money provides a three pronged expedient whereby goods and services may be consumed and unemployment averted—but, unfortunately, its effect is only temporary.

When inflation is chosen as the alternative to unemployment, then people with wealth to spare naturally try to protect that wealth against its ravages.

After all, many of these people have only limited incomes, and they do not want their hard-earned wealth to disappear before their eyes. So they seek to invest this spare wealth in ways which will enable it to grow at least as rapidly as the currency is debased.

The investment most likely to possess these qualities is a piece of Mother Earth.

As a result, any undue increase in the volume of money must increase competition for building blocks, farms, factory sites, etc. This, in turn, increases both the selling price and rental value of land, as well as adding greatly to the amount of money invested in this way.

EMPLOYMENT OPPORTUNITIES AND INVESTMENTS IN LAND

Investments in land do not provide opportunities for employment unless the land is also improved. But people who have spent a lot of money on land will have little left with which to provide improvements!

In addition, when excessive amounts of any community's spare wealth are invested in land, then less is available for company formation and loans. But if company formation and lending are inhibited, then job opportunities will not be created, self-employed persons will be unable to establish themselves, and unemployment will result.

To counteract this, prices must be allowed to rise (to restore company profitability) and the ceiling on interest rates must be lifted—measures which encourage people to lend money or to invest it in shares in preference to buying land.

Of course, higher land prices and rents, higher dividends and higher interest rates only increase both the size of unearned incomes and the rate at which the creditworthiness of borrowers is depleted or destroyed—thereby leading all the more rapidly to a recession or slowdown in economic life.

To correct this and restore balance, even **more** newly-created currency must be injected into the community's economic veins.

Needless to remark, these fresh infusions of currency lead to a further increase in the number of people seeking to buy land as a hedge against inflation. This forces up the price of land for those who want to use it, and provides the vicious inflationary spiral with a further stimulus.

Inflation therefore begets inflation, and the more rapidly a currency is debased in order to prevent unemployment, the more rapidly must it be debased in the future in order to achieve the same effect. For this reason, alone, inflation cannot possibly provide a lasting solution to the economic problems of the world.

OTHER ILL-EFFECTS OF INFLATION

Inflation not only promotes inflation by driving up the price of land. It also perpetuates and potentiates itself by increasing government expenditure, this, in turn, increasing the amount of taxation which must be extracted from the citizens.

SAVINGS, GOVERNMENT EXPENDITURE AND TAXATION

Inflation reduces the value of monetary savings, and makes it difficult for many people to provide themselves with a retirement fund. Consequently, many people who would otherwise save towards their own retirement, decide to spend their money as they go along. Then when they reach retiring age they accept a pension, thereby adding to the amount the government must raise in taxes and rates.

Any increase in taxation must add further fuel to the fires of inflation—in several ways.

First, if taxes rise, then the personal disposable income of citizens is reduced, debt-ridden individuals take longer to become creditworthy again, and many individuals or companies who would otherwise use accumulated wealth to finance their ventures must resort to the loan or share market instead. These two factors obviously increase the demand for money and the amount of interest paid.

Secondly, when taxes rise, many prices also rise, as business and professional men seek to maintain both their profit margin and their standard of living at an acceptable level. These higher prices erode other people's profit margins and send economic shock waves throughout society, with, of course, further currency debasement being the remedy usually applied.

Thirdly, any increase in taxation must also increase the proportion of the community's total wealth disbursed by the government. But if the government distributes more money, it requires a larger number of employees to do this work. Therefore, the public service sector of the economy must grow with every increase in taxation and government expenditure.

A growth in the public service cannot occur unless senior public servants and other supervisory personnel receive high wages—because the responsibilities of such personnel increase as the workforce under them expands. As a result, whenever the government tries to overcome poverty and unemployment by distributing more and more wealth to borrowers and the poor, it ends up distributing quite a lot of wealth to well-paid public servants who are more likely to be lenders than borrowers.

Thus, for instance, if the government helps the poor by paying their medical and hospital expenses, it must also pay high wages to various hospital administrators, social service department employees, etc. At the same time, the health scheme relieves doctors and chemists of much of the charitable work their forbears did without complaint, and reduces their bad debts (which, however much we may regret it, are a normal part of every business), therefore increasing the income of many who are reasonably well-off already.

Similarly, when the government provides subsidies to help battling primary producers, it almost inevitably also subsidizes many wealthy landowners who have no need for such government largesse, while at least some of the public funds allocated to education serve to augment the assets of investment-minded members of the teaching profession.

It is therefore evident that the government cannot re-distribute incomes from lenders to borrowers without, at the same time, increasing the funds available to many lenders in society.

In this way, high taxation and the welfare state are virtually self-defeating. They do not produce a long-lasting redistribution of wealth, seriously interfere with the exponential growth of the incomes acquired by the lending sector of society, or reduce inflationary pressures. On the contrary, they add to these pressures and help maintain the ever-upward course of the inflationary spiral.

GOVERNMENT EXTRAVAGANCE

In addition to the above-mentioned more or less necessary government expenditures which tend to promote inflation, there are also, unfortunately, all too many **unnecessary** government actions which have the same effect.

The first such extravagance worthy of mention are the various Commissions (Royal and otherwise !) and Committees of Enquiry governments establish nowadays, to investigate this, that or the other aspect of community life. These Commissions and Committees are very costly, and they usually issue voluminous reports, but, in the final analysis, they do very little to ameliorate society's problems, or to reduce the gap between rich and poor.

A second government extravagance which aggravates inflation is the indulgence such bodies often display as patrons of the arts.

The Australian government, for instance, has recently spent hundreds of thousands of dollars on works for exhibition in the country's art galleries. These huge sums of money cannot prevent unemployment in Australia, because they have been transported overseas. Furthermore, most of this money will probably be loaned at interest or invested in shares or land—as few recipients of $100,000 or more would spend it all immediately. These extravagant art purchases therefore tend to aggravate the problems of inflation and unemployment, both in Australia and overseas.

A third factor of this nature are the enormous increases in earnings many senior public servants receive, through a "flow-on" of any percentage increase in margins granted to tradesmen in the community.

Many such individuals have—at times—received an increase in salary which **exceeds** the total earnings of the working man. As they do not usually wish to spend this money all at once, much of it is put aside for saving or investment, thereby adding to the price of land and tending to increase both interest rates and the prices that affect company profitability. The effect these massive wage rises have upon inflation is, therefore, something akin to the effect of throwing petrol on a flame !

SUBSTITUTION OF GOVERNMENT ACTIVITY FOR PRIVATE ENDEAVOURS

Another way in which governments promote inflation is by gradually taking over and absorbing activities which should be undertaken by private enterprise.

This creeping socialism is seen most clearly in health schemes. These are usually introduced to provide the most basic and/or expensive drugs and treatment for pensioners and other disadvantaged citizens. They are then added to year by year until, eventually, they provide medical care either free or at a very much reduced **direct** cost, for virtually all citizens, from the cradle to the grave.

UTILIZATION OF GOVERNMENT-SPONSORED SERVICES

Wherever a government sponsors or subsidizes a health scheme, then people tend to seek medical attention for minor or self-limiting complaints they would normally accept or treat themselves. By the same token, when the government meets some of the costs of hospitals and nursing homes, then many citizens place their aged or infirm relatives in such institutions, instead of modifying the aged person's domicile and managing him or her at home.

People can hardly be blamed for this. They feel that they have paid for the service through taxation, and they consider themselves entitled to take advantage of it. Nevertheless, this perfectly understandable attitude means that the more the government tries to help people by reducing the burden of illness or incapacity, the more people it seems to have to help !

STATE EDUCATION

Similar considerations apply to State education, which usually begins with the aim of providing a minimum amount of schooling for children whose parents cannot afford the cost of private education, and ends up with State-run schools—from kindergarten to university and beyond—being made available to everyone.

State-run schools and universities reduce the sums which parents must outlay—**directly**—in order to educate their children. Such schools therefore (a) encourage children to remain at school for a year or two longer than would otherwise be the case, (b) lead the community as a whole to regard training through prolonged schooling as preferable to training on the job or as part and parcel of one's chosen career, and (c) deny employment opportunities to children who do not or cannot spend extra time at school. Consequently, government-run schooling is a phenomenon which turns a luxury into a virtual necessity, thereby potentiating and perpetuating itself.

PENSIONS, SICKNESS AND UNEMPLOYMENT BENEFITS

Pensions, sickness and unemployment benefits are also subject to being over-utilized.

There are, unfortunately, times when an individual who has a claim to such benefits may accept them, instead of striving to overcome any handicap, indisposition or lack of ability which may afflict him—thereby denying both himself and the community the advantages which self-reliance would bring. At the same time, one wonders how many married couples would choose separation or divorce, were there no beneficient State to accept financial responsibility for deserted wives and children, and how many retired people would spend their savings on a world cruise or similar luxury, were there no pensions (including fringe benefits such as cheap rail travel, free medicine, free hospital and medical care !) to collect ?

GENEROUS UNEMPLOYMENT BENEFITS

This state of affairs is aggravated when unemployment benefits are almost equal to some people's weekly wage—as in Australia at the present time.

Under such circumstances, many persons prefer unemployment to arduous or exacting work and farmers, particularly, find labourers hard to get.

The resulting high level of unemployment, in combination with generous unemployment benefits, cannot be sustained without high taxation. This increases taxpayers' costs and so prices must rise, thereby pricing Australian producers out of world and local markets, and further increasing the number of persons unemployed !

SUPERVISION OF GOVERNMENT-SPONSORED SCHEMES

These various considerations reveal that the government must take steps to prevent its services from being abused or over-utilized. This, in turn, gives rise to a veritable army of supervisors and administrators, all of whom must be housed in suitable buildings and paid.

Money to accommodate these public servants and pay their salaries must be obtained somewhere, and, of course, the government has no private source of funds (except as noted below).

Consequently, taxes must rise to pay for each new government scheme or extension of an existing scheme.

But any increase in taxation reduces the personal disposable income of the citizens, and reduces the number of charitable and business ventures they can finance from their own resources. As a result, the more the government extends its tentacles into areas once occupied by private enterprise, the more it is encouraged to do so. In other words, as the government spends more the citizens must spend less, and the less the citizens have to spend—either to initiate or to expand a charitable or business enterprise—the more likely they are to petition the government for financial aid.

So bureaucracy begets bureaucracy and every increase in taxation and government expenditure reduces both the capacity of the private sector of the economy and the citizens' ability to take care of themselves, factors which, in their turn, lead inevitably to further increases in taxation and government expenditure.

BALANCING THE BUDGET WITH NEWLY-CREATED FUNDS

In this connection we may note, also, that the more a government spends, the more it is tempted to balance its budget by tinkering with the currency.

High taxation does nothing to enhance a government's popularity, and inflation is something no one seems to know very much about. It is, therefore, all too easy for governments to solve their financial problems by resorting to the note printing press and cheque writing machines, and we must note, with regret, that this avenue is chosen all too frequently. But inflation erodes the value of savings—thereby further reducing the citizens' ability to take care of themselves, heaping more financial burdens upon the government, driving taxation higher and higher, and increasing the likelihood that further inflation will be resorted to. It is therefore obvious that ever-increasing government expenditures do **not** provide a solution to the economic problems of the world.

INFLATION, SAVINGS AND PRODUCTIVE TOOLS

A second disastrous ill-effect of inflation arises from the way in which it inhibits the desire to save.

The desire to save exists in most individuals, but it tends to be weakened seriously when savings lose half their value in five years, as in Australia at the present time. Consequently, when currency debasement is proceeding apace, then more and more people consume their wealth as they go along, instead of saving it for future use.

This increased consumption helps provide employment, but at the same time it reduces the amount of wealth converted into labour-saving tools. If, therefore, inflation produces a decline in savings accompanied by a spending spree (as it often does) then the labour-saving tools needed to produce consumer goods are in demand, at a time when funds for their purchase are in short supply.

STAGFLATION

This combination of circumstances can actually produce some temporary price increases, due to too much money chasing too few goods. It may also produce stagflation, i.e., high prices and high consumer demand in association with unemployment—the unemployment being most noticeable in industries which produce durable goods and labour-saving tools.

This occurs because—as noted in Chapter 3—people cannot work at such occupations unless some members of the community are prepared to save. Any weakening of the desire to save therefore produces unemployment in certain industries, with the building industry being the first to feel the pinch in most instances.

SHORTAGE OF HOUSING SOCIETY FUNDS

The same combination of circumstances explains why housing societies and banks often run short of funds to lend, even during inflationary periods which—according to the thesis being advanced in this book—arise when the quantity of money available for lending exceeds that which can be loaned.

During inflationary periods, money may deteriorate more rapidly than the goods for which it is exchanged, so many people decide to try and conserve their wealth as goods. They therefore spend, on consumer durables, money they would otherwise have deposited with banks or housing societies. Alternatively, they conserve wealth as bricks and mortar by building flats with it—a course many people seem to be adopting nowadays, if the flats springing up all over Warrnambool are any guide.

This spending of money instead of lending it reduces the sums banks and housing societies may lend to home builders, at a time when high land prices are increasing the size of many mortgages, with, of course, a concomitant increase in the demand for funds. This, in its turn, reduces the number of owner-occupied dwellings, and increases the number of persons who must rent a flat instead of building a home for themselves and their family.

In this way, then, people who build flats in their backyard may not only cash in on the housing shortage—they may also help to aggravate it.

Nevertheless, such people cannot be regarded as irresponsible, or blamed for any temporary shortages of housing funds which may occur. Instead, the blame for such shortages must be laid at the door of inflation—because the more or less continuous currency debasement which accompanies it causes people to lose faith in bank deposits and similar means of storing wealth. These shortages of loan funds would not occur if changes in the volume of money kept pace with changes in the population and volume of trade.

INTEREST AND INFLATION PRODUCE OPPOSING EFFECTS

In actual fact, a shortage of loan funds is a logical outcome of inflation—particularly of the chronic and progressive inflation which, nowadays, is accepted as a fact of economic life.

Inflation arises in the first instance to reduce the backlog of unloanable funds which interest tends continually to place in lenders' hands. If inflation should get out of hand—as it often does—then it may easily reduce this backlog to such an extent that the supply of loan funds no longer equals the demand for them.

But if the demand for loan funds outstrips their supply, then interest rates may rise. This will stimulate lending and overcome the shortage of funds—but at the cost of a more rapid depletion of society's borrowing capacity, which, in turn, leads to the unemployment for which inflation is the remedy usually applied.

Consequently, the process through which currency debasement restricts the supply of loan funds is another mechanism whereby inflation may potentiate and perpetuate iself. It is, morever, something which supports rather than contradicts the primary thesis of this book.

INFLATION AND LABOUR-SAVING TOOLS IN UNDER-DEVELOPED COUNTRIES

Inflation—as noted above—promotes immediate consumption of wealth at the expense of saving, and for this reason it has extremely deleterious effects in under-developed countries.

Unfortunately, such countries are particularly prone to inflation, because relatively few of their citizens are wealthy enough to be moneylenders, while large numbers of those citizens are both borrowers and poor. Nevertheless, under-developed countries cannot afford to redistribute incomes through inflation. If they do attempt this, then their wealthy citizens often decide to invest overseas—where inflation may erode the value of their savings less rapidly. This robs the poor country of savings it desperately needs, so such countries only condemn themselves to the economic wilderness by debasing their currencies.

IMPORTATION OF FOREIGN CAPITAL

The fact that wealthy people sometimes invest in countries other than their own, leads to a consideration of the importation of foreign capital—this being the measure usually adopted by communities whose savings do not suffice to provide all the labour-saving tools they need or want.

In other words, when communities cannot finance their various ventures from their own savings, they import money from abroad.

EXPORT OF LOCAL EARNINGS

The importation of overseas funds does not provide a panacea for the problems of debt-ridden communities.

If money for loans or for the establishment or expansion of companies is imported, then local earnings must eventually be **exported**, in order to pay interest or dividends.

THE "HOLDEN"

Australians, generally speaking, are conscious of this truth, as it has been brought home to them rather forcibly through their experience with the Holden motor car.

In the 1940's, Australia's citizens wanted an Australian-made motor car, but they lacked the necessary funds and expertise.

Technical knowledge and experience can almost always be obtained by those who have enough money to pay for it, but, as the country lacked both of these requirements, it imported them from overseas.

General Motors of America supplied these missing requirements, and they have been amply rewarded for their generosity. Over the years, dividends paid to shareholders of the parent company have amounted to many, many times the original investment, and this is a sore point with Australian citizens. Nevertheless, under present socio-economic arrangements, this is the fate which usually befalls those who want mass-produced articles when they cannot afford the factories and machinery with which to produce those articles. Such people must almost invariably resign themselves (a) to sending a large proportion of their future earnings overseas, and (b) to facilitating the aggregation of wealth on an international scale.

11. THE INTERNATIONAL AGGREGATION OF WEALTH

Australia's Holden car provides only **one** example of the way in which already wealthy people may further enrich themselves by investing spare money in other lands. Nowadays, this type of investment is common, and readers who reflect for a while should be able to call many similar instances to mind.

These overseas or international investments are possible because of the ready convertibility of many present-day currencies. They are very useful for the wealthy investor, as they permit him to overcome limitations which might otherwise be placed upon the amount of wealth he can accumulate.

LIMITATIONS ON INVESTMENTS

A moneylender, financier or landlord can make his wealth grow in an exponential fashion, so long as he is able to keep investing it profitably. In other words, while ever he can lend—at interest—the profit he makes on his investments, or use it to purchase either shares which will appreciate in value and/or yield a dividend, or land which will bear rent and/or increase in value with the passage of time, then his wealth will increase exponentially, and he is unlikely ever to have to work in order to support himself.

However, there are limits to the number and profitability of the investments any financier may secure. People stop borrowing money or buying land once their financial resources and/or borrowing capacities are exhausted, and they will neither rent additional land nor form or expand a company if their time and effort are fully occupied (or occupied to what they regard as an optimum extent). If every potential borrower, land buyer, tenant or company proprietor in the community is in one or another of these situations, then there will be no one willing and able to utilize the spare wealth of its would-be investors.

Of course, any given economic situation may change rapidly, and the extent to which these conditions are fulfilled will vary from day to day. However, while this reveals the investment market as a dynamic entity, it does not alter the fact that there are limits to the amount of unearned income any investor can acquire.

LIMITS TO UNEARNED INCOME

In the final analysis, there are two factors which limit the amount of unearned income obtainable from any community. These are, first, the total amount of wealth the members of that community produce (because no community can pay more than its gross national product to investors), and, secondly, the amount the various members of that community regard as the lowest standard of living they will accept—a factor usually determined by the lawful and reasonable activities of the various trade unions in the community.

The total amount investors can acquire in any community cannot exceed the difference between these two amounts.

In practice, the total amount paid as rent, interest, and dividends is often very much less than this difference, because many members of most communities are in the happy position of not having to make a lot of payments of this sort.

For instance, people who own their own home, office, farm or factory site do not have to pay rent, and if, at the same time, they also manage to remain free of debt, they will not pay interest either. Such people receive a higher net income than their equally hard-working but rent or debt-ridden contemporaries, and their good fortune reduces the total amount of unearned income paid out by the community as a whole.

A further factor which limits the number and profitability of the investments available to any given financier is the fact that—in modern society—the collecting of unearned income is not entirely the prerogative of a privileged few.

As noted on page 2, there are many people in modern society who supplement their earnings by collecting a little unearned income in one or another way. These people—through their mini-investments with savings banks, insurance companies and unit trusts—reduce the amount of money which goes to those who may be regarded as professional moneylenders or financiers.

However, another factor enters the picture and greatly increases the investment opportunities available to some moneylenders and financiers. This is the fact that some currencies are acceptable in a large number of different societies, so the investor who possesses such currency may invest it, not only in his own country but in many other nations as well. In other words, such investors have "the world for their oyster" and their chances of finding a virtually never-ending supply of profitable investments are greatly enhanced.

The operation of this mechanism is well-known. The Americans who receive handsome dividends on their shares in General Motors Holden, for instance, may re-invest that money in Australia. However, if they cannot invest it to their satisfaction in Australia, they may lend it at interest, or purchase land or shares, in Europe, Japan, Latin America or a score of other countries of their choice. Then, when the profit on these investments comes to hand, they may do the same with it, the process continuing, not, perhaps, quite **ad infinitum,** but something very close to it.

THE AGGREGATION OF WEALTH—BENIGN OR MALIGNANT?

Some people may regard this process with an air of benignity and think "Well, what of it? I only wish I had their luck". However, people who examine the progressive aggregation of wealth closely will view the matter differently, because, in actual fact, grave evils are attached to it.

These evils arise because the progressive aggregation of wealth tends gradually to (a) eliminate competition from the market place, (b) aggravate and potentiate the gap between rich and poor, both at an individual and a national level, (c) increase the power some private individuals have over the lives and activities of their fellow men, and (d) cause nations to be sold to the highest bidders in the world.

COMPETITION

If all people in the community enjoyed an equal footing, then competition would benefit everyone, and, even in present-day economies, it provides many advantages. Wage earners, for instance, may receive higher wages when several employers compete against one another for their services, while consumers benefit from lower prices when many different vendors compete against one another for customers.

However, when one competitor possesses advantages over others, competition becomes unbalanced, and such competition is rather less benign.

This occurs because individuals or groups of individuals who have aggregated a lot of wealth often receive income in many different ways and from many different enterprises. These people can cheerfully accept a profit margin lower than that required by smaller businessmen, because their gross earnings remain high, even when their profit margin is low or relatively small. They can, therefore, pay wages a little higher than those offered by other would-be employers, and/or offer goods for sale at prices slightly lower than those suggested by their competitors.

No one could really regard this as unfair or unreasonable competition, but nevertheless, its long term effects are harmful to the community. This competition depends for its effect upon the financial advantage possessed by the wealthy individual or company. It potentiates and aggravates that advantage, by eliminating other would-be employers and vendors from the market. As a result, any benefits wage-earners or consumers receive (in the form of higher wages or lower prices) tend to be somewhat temporary.

TAKEOVERS

The effects of this process are often seen in country and suburban areas. Businessmen in these places find themselves unable effectively to compete against similar businessmen who operate from city sites, and so they either withdraw from the market or allow themselves to be taken over by the centrally located store.

This occurs because a business located on a central city site has access to a large number of potential customers. Therefore—other things being equal—the city businessman will be more successful than his country or suburban counterpart, as fewer potential customers pass their doors each day. The city businessman is, therefore, usually able to reduce his costs by buying goods and raw materials in bulk, with the result that he may offer higher wages to his employees and lower prices to his customers. These benefits tend to draw employees and customers from a wide and progressively increasing area, and so his influence gradually extends.

In time, these factors allow the enterprising and successful city businessman to open branch offices in suburban and country areas, thus increasing further his ability to reduce costs by bulk buying, etc., and enabling him to extend his influence over an ever-widening area of the state or country as a whole.

This process has enabled many chain stores eventually to open branches in almost every major town or city throughout the land, but **it is neither restricted to retail outlets, nor confined within the borders of any given country.** A similar process goes on in virtually every type of business enterprise, with the activities of firms such as General Motors (as already mentioned in connection with the Holden car) showing the operation of this mechanism in connection with the motor vehicle industry.

Of course, people could argue that General Motors provided Australia with finance, knowledge and experience Australians lacked. However, if anyone should argue in this way, then the question which arises is : "Why **did** Australians lack these things ? Are they not just as intelligent as Americans ?"

The answer to this question lies in the fact that whereas knowledge and experience can be gained through trial and error, one must have **finance** in the first place, before he can make the necessary trials.

No one could set up any sort of mass production line for the manufacture of motor vehicles, without considerable financial backing. Yet, without mass production, no Australian manufacturer could market vehicles at a competitive price, because cars made in Australia on a "one or two at a time" basis would cost more than comparable, mass-produced vehicles imported from overseas.

It was, therefore, primarily a lack of local Australian **finance** that has enabled the shareholders of General Motors of America to obtain huge profits from the Holden motor car.

It is, moreover, a similar lack of finance that leads numerous other countries to offer large quantities of their anticipated future earnings in return for overseas funds, in order to secure for themselves the advantages attached to industrialization and other facets of modern technology.

And "Why", the reader may ask, "Do these countries lack this very necessary finance ?" and the answer is : "Because they are paying too much of their earnings out as rent, interest or dividends—these payments, in turn, having been forced upon them by an initial lack of locally available wealth".

INDUSTRIALIZATION IN UNDER-DEVELOPED NATIONS

Before any country can provide itself with roads, streets, bridges, harbours, aerodromes, industrial plant and machinery, etc., it must first possess goods and services (or at least the capacity to produce them) in excess of those needed to supply its basic necessities. Alternatively, if the country does not possess these goods and services, then it must posses the wherewithal with which to purchase them.

Poor and under-developed nations do not, usually, produce abundant quantities of goods and services.

They therefore find it difficult to produce wealth over and above that required for subsistence and basic necessities, and they cannot save very much towards the production or purchase of labour-saving tools.

If such countries wish to secure for themselves the advantages of modern technology, they must almost invariably secure funds from abroad—either by borrowing money or by forming companies with overseas shareholders.

Industrialization is expensive, and the amount of finance needed is such that (a) both interest and repayments tend to be extremely burdensome, and (b) the borrowing capacity of the poor nations is soon exhausted. As a result, under-developed countries must usually finance a considerable proportion of their industrial expansion through company formation, in addition to borrowing heavily at interest. The companies, in turn, may have a majority of overseas shareholders, or, alternatively, may be mere subsidiaries of mulinational parent corporations.

THE "HAVE" AND "HAVE-NOT" NATIONS

Such measures have enabled many under-developed countries to obtain industrial plant and machinery, but they have neither increased, greatly, the standard of living in those countries, nor reduced the gap between the rich and poor. On the contrary, these measures explain the modern phenomenon whereby rich nations become richer, while poor nations, even if they do not actually become poorer, certainly progress at a much less favourable rate.

This phenomenon exists because, once poor nations borrow money or obtain share capital overseas, their ability to accumulate savings is forever reduced by the resulting interest and dividends.

Money expended as interest or dividends cannot also be spent on goods and services. If any community sends interest and dividends to moneylenders and financiers in other countries, then the amount left to spend or save within that community is reduced by the amount of money transported overseas. If this amount is large, then the people of that community may be unable either to produce or to purchase additional productive machinery, no matter how hard they work or how diligently they attempt to save. They will therefore be unable to further their industrial expansion or even, sometimes, to replace worn out or obsolete factories and machinery, without obtaining further funds from overseas.

But the importation of additional funds only increases the amount **exported** as interest and dividends, and, in the final analysis, countries in this predicament receive very little real benefit from industrialization and the application of modern technology. The financial rewards which flow from twentieth-century aids in these countries pass, mainly, into the pockets of investors in well-developed lands. Consequently, one can hardly blame such countries if they try to ameliorate their economic problems by nationalizing foreign companies !

THE POWER OF THE PURSE

The aggregation of wealth on an international scale not only restricts competition and increases the gap between rich and poor. It also provides a means whereby sovereignty can pass out of the hands of democratically elected governments and into the hands of private international financiers who are responsible to no one but themselves.

This occurs because no government can ignore the wishes of those who—through their shareholdings—control the country's major industries. Consequently, these people —who may be shareholders or directors of many companies, or managers of the banks and insurance companies which handle the funds of millions of small to moderate investors—exert a definite influence upon the laws of many countries, and, being human, they try to protect their own interests through whatever influence they have upon these laws.

This, surely, provides food for thought for all who are concerned with the future of free enterprise and democracy. People form communities and elect governments so they may, among other things, prevent outsiders from unlawfully acquiring control over themselves and their property. There is surely something seriously amiss when the faceless men of international finance—through using perfectly lawful and legitimate means—may acquire control over the citizens of distant countries, thereby impairing or even destroying the sovereignty of the government concerned.

OWNING LAND IN MANY NATIONS

It is not only their investments which allow overseas financiers to exercise control over the lives and activities of the citizens of many countries. They may also exercise such dominion through owning the land on which those citizens must live and work.

SELLING THE NATION TO THE HIGHEST BIDDER

We saw in Chapter 10 that people often purchase land when they wish to protect their spare wealth against decay or to secure an unearned increment upon that wealth.

It is worth noting that the inter-convertibility of different currencies permits investors to achieve these ends, at times, by buying land in countries other than their own.

In other words, when American dollars may be converted into Australian currency and vice versa, then American investors may purchase acre upon acre in Australia, and, unfortunately for Australians, this is just what many Americans and other overseas investors do.

The activities of these overseas investors inevitably **increase** the price of land in Australia, as they are usually wealthy enough to outbid many other would-be purchasers of land.

Any significant rise in the price of land must inevitably produce unemployment, unless land prices are followed upwards by the price of everything else and/or by wages, and interest rates as well.

For this reason, overseas investors may actually initiate inflation in a country not already plagued by it—simply by bidding against that country's citizens for land, and thereby increasing the price of this most essential economic entity.

ABSENTEE LANDLORDS

Needless to remark, inflation is not the only evil which follows upon overseas investments in land.

Such investments permit even a country itself to pass, eventually, into outsider's hands. Should this occur, or even if a significant proportion of any country is owned by citizens of other nations, then rents and land prices in that country will be determined, not by fair and reasonable competition among the local citizens, but at the whim of absentee landlords who may live thousands of miles away.

This, then, is one more reason for the slow economic progress being made by many under-developed countries. Absentee landlordism is a feature of many such countries, and their ability to step into the twentieth century is being seriously impaired by the high and even exorbitant rents their citizens must pay.

12. SUNDRY ECONOMIC EVILS

There are other aspects of today's sorry economic situation which have their origin in the fact that some people may receive income without working for it while others work without receiving income in return. These include land booms and busts, business cycles, working wives, the plight of the primary producer, currency devaluations, credit squeezes, the city sprawl and even certain wars.

LAND PRICE vs. RENTAL VALUE

As noted in Chapter 7, it is the rents payable in return for the use of land which determine its value, and the buying or selling price of land is an estimate or future projection of these rents.

This being so, land purchase is something of a lottery, and people can win or lose a fortune through dealing in real estate.

BUSINESS CRASHES

The hazards associated with land purchase provide one reason for the business crashes which occasionally occur. Individuals or companies may borrow at interest, or raise funds on the share market, in order to buy property which they hope will appreciate in real value, thereby enabling them to repay both borrowed funds and interest, or to pay substantial dividends.

However, if such persons or companies misjudge the future prospects of the land and pay too much for it, then their hopes will not be realized. The company's shareholders will have sacrificed their investment on the altar of undue optimism, and those who loaned money for the enterprise may lose even the principal of the loan.

"BOOMS" AND "BUSTS"

This sort of thing produces "booms" and "busts".

When land prices are rising rapidly—either in response to inflation, because of the activity of overseas investors, or simply because a city is growing progressively so that land values at the city centre are increasing rapidly—then many people compete for land titles, hoping thereby to increase their wealth.

This increased competition drives the price of land even higher, until the point is reached when many people pay too much for it. Eventually, some buyers find themselves unable either to meet interest payments or to return borrowed funds on time, and, if a significant number of people are affected in this way, then a "bust" or land crash may occur.

SMALL INVESTORS AND BUSINESS CRASHES

It is not only fortune hunters who may be involved in land booms and busts.

Many home owners, factory managers, farmers and businessmen are also affected, because, after all, these people must compete against speculators for the occupancy of land.

Yet if these people are obliged to pay excessive sums for land which is essential to their livelihood, then they will have difficulty in discharging their mortgages and—particularly if sickness or other adversity should affect them—they may be unable to meet interest payments or repay their loans.

When this happens, savings bank depositors and housing society investors may lose a lifetime's savings, as banks and housing societies cannot return depositors' funds when housing loans are not repaid. For this reason, then, booms and busts are something every society can do without.

COMPANY CRASHES

It should be noted that many company crashes, bankruptcies and similar difficulties have no direct connection with the price of land.

Instead, these happenings are a more or less normal feature of business life. They occur when a businessman or entrepreneur misjudges the market prospects for his product, and spends excessively on plant and machinery. Then, when the consuming public find his goods or services less desirable than he had hoped, he is unable either to pay a dividend or repay borrowed funds. Alternatively, manufacturers of motor vehicles, consumer durables, etc.—each hoping markedly to increase his wealth—may produce these popular articles in quantities which exceed the demand for them, and when the market eventually becomes glutted, staff retrenchments are almost inevitable.

Such occurrences can be expected from time to time in any free enterprise economy. Failure is one of the risks any entrepreneur should be prepared to accept, and, needless to remark, no manufacturer or industrialist can reasonably expect high earnings, if he fails to exercise ordinary business prudence when establishing or expanding his enterprise.

Unfortunately, however, company failures and similar events are often used as an argument for tariffs or government subsidies—especially if they seem likely to produce a noticeable amount of unemployment in the community.

Admittedly, it may be difficult for a government to remain unmoved in such circumstances, but for all that it is unsound in principle for the government to support flagging industries in these ways. Prudence is not promoted when the government accepts responsibility for poverty caused by over-enthusiastic, unwise or inefficient business practices.

BUSINESS CYCLES

Business cycles—i.e., periods of prosperity followed by a recession or depression—may be expected in any community wherein a significant proportion of incomes are "unearned".

The course and cause of such a cycle may be traced by considering what would happen in a relatively under-developed community, if trade union action, improved social consciousness or an increased volume of overseas trade caused wages to rise.

RISING WAGES AND PROSPERITY

Any general increase in the level of wages in such a community would increase prosperity by increasing: (a) the number of citizens who may freely consume goods and services—thereby increasing consumption, initially, of bicycles and similar items, and later of washing machines, refrigerators, radio and television sets, vehicles, etc, (b) the ability of people to save—thereby permitting the community to acquire roads, streets, bridges, factories and productive machinery, all of which would further increase and expand the production and distribution of goods and services, (c) the number of highly-paid individuals, who, in turn, are the community's potential entrepreneurs and businessmen, each of whom may well add something to the productivity of society by setting up a successful business enterprise.

At the same time, higher wages stimulate the invention and discovery which often add greatly to the community's prosperity by: (d) increasing the number of people who have time and energy available for the development of latent talents and abilities, for the acquisition of new skills, and for a display of inventiveness. (People who are struggling to make ends meet have no time for such activity, and no one knows how many potential Einsteins or Beethovens have been lost to the world because of the poverty which accompanies inadequate pay.), (e) forcing manufacturers and businessmen to employ machinery rather than men, thereby adding even more rapidly to the productivity of society.

HIGHER WAGES MAY BENEFIT EVERYONE

These considerations reveal that the workers' struggle for higher wages is a beneficient one.

If every increase in the productivity of any given industry led to an increase in the wages paid to workers in that industry, then both the overall productivity of society and the standard of living of its members would gradually rise.

THE BACKLASH TO PROSPERITY

Unfortunately, however, wage rises do not always keep pace with increases in productivity, and some increases in productivity may actually cause net wages to fall.

Thus, when automation is introduced, the need for labour is often reduced so that some men lose their jobs. The community then loses the purchasing power of such men, and this minor degree of unemployment tends to perpetuate itself, leading to a recession unless it is arrested in some way. (The method usually adopted nowadays is to pay unemployment benefits to those who lose their jobs. This prevents consumption from falling unduly, and inhibits the spread of unemployment.)

UNEMPLOYMENT, LAND AND LOANS

However, it should be obvious that the unemployment thus produced is not the primary cause of business slumps. There must be some prior reason for the unemployment in the first place, because, surely, if a man loses his job at a factory for any reason, he would, if he could, go out and work for himself—thereby providing employment for himself and, at times, for other persons as well.

The reason why many such people cannot work for themselves lies in the fact that prosperity permits saving to occur. Saving, in turn, leads people to seek ways and means whereby they may protect their savings against deterioration or even endow them with powers of growth. This, in turn, leads to investments in land, to the phenomenon of interest, and to the formation of companies. Then, when the person who has lost his job through automation or for any other reason seeks to obtain land or finance with which to set himself up in a trade, business or profession, he must outbid others in order to obtain any land or finance he requires.

Among those bidding against the unemployed person will be his fellow citizens who are safely employed (either by themselves or others) and who wish merely to save or store wealth for which they have no immediate use.

Unemployed persons who possess special talents, abilities or drive may be able to obtain their needs against such competition, but the less well-endowed members of society will be the last to acquire either land or loans. Such people usually exhaust their borrowing capacity to obtain the bare necessities of life. They have no surplus credit-worthiness with which to set themselves up in any trade, business or profession of their choice.

Self-employment is not, therefore, a viable alternative for many of the less talented members of the community.

Under present economic conditions, if such people cannot obtain wages from an employer, they become unemployed. This unemployment destroys, or at least drastically reduces, their purchasing power, thereby causing a reduction in the consumption of goods and services. Further unemployment results, and the cycle continues to produce a typical business slump.

Unemployment and the resulting slump may be reversed either by government action to redistribute incomes, by a fall in prices so that people can consume more goods and services, by a change in priorities on the part of the savers and lenders in society, in that they decide to consume their spare wealth rather than seeking borrowers for it (something they may be tempted to do by the fall in prices which accompanies the slump) or, in modern times, by a debasement of the currency. Each of these methods tends to raise wages again, thereby initiating a further cycle of prosperity which will, in turn, be followed by a further slump.

LAND PRICE vs. SELF-EMPLOYMENT

The same conclusion is reached if this problem is approached from a slightly different angle.

Thus, an increase in the productivity of any particular industry will increase the quantity of goods and services produced by it, while lowering their price. These factors increase everyone's purchasing power, benefit even people on fixed incomes, and causes the overall standard of living to rise.

At the same time, if higher wages are paid to workers in the more productive industry, then these workers will seek more goods and services, thereby providing employment for many of their colleagues who have been displaced by labour-saving machinery.

It is the existence of land as a means of saving or investment which prevents these normally beneficient mechanisms from coming into operation.

Any decrease in prices or increase in wages must increase the amount of money available for savings and investment, and this, in turn, drives up the price of land.

High land prices and site rents deny many of the less productive members of society the opportunity to buy or rent a business site. Such people are therefore denied satisfactory self-employment, and they must either work for someone else, or remain unemployed.

INTEREST vs. SELF-EMPLOYMENT

Similarly, land purchase leads eventually to the phenomenon of interest, and interest payments often make all the difference between profit and loss for a marginal business or professional man. Interest payments therefore join with high land prices and site rents, in reducing the number of persons who can be gainfully self-employed.

INTEREST PAYMENTS vs. EMPLOYMENT OPPORTUNITIES

Finally, we may note that interest payments often force self-employed persons to extend their working hours and perform tasks they would much prefer to delegate to someone else—if they could only afford to do so.

The present writer managed his medical practice without a receptionist for several months at one period, because this was the only way he could get out of debt. As he would not, by any means, be the only person who has been in this predicament, it is obvious that interest payments cause numerous people to struggle on without assistance, or to manage without necessary additional staff, thereby denying employment to many of their fellow citizens.

BUSINESS CYCLES WITHOUT AUTOMATION

Of course, automation is not the only cause of business slumps. They also occur when the creditworthiness of all the would-be borrowers in society is exhausted. However, as this matter has been dealt with in detail in Chapter 4, it need not be further considered here.

AUTOMATION A GRADUAL PROCESS

It may be argued in connection with the above discussion on business cycles that automation must inevitably lead to unemployment, because self-employed persons could not produce goods and services as cheaply as they can be mass-produced.

However, this is not necessarily so, because, in most places automation is a gradual process. As a result, job opportunities are encroached upon only slowly by automation, and the person who wishes to compete without such advantages still has much to offer his potential customers in personal service, etc.

Furthermore, even the automated motor vehicle industry, for instance, still obtains parts from numerous small factories and businesses, while the advancement of automation in industry often results in quite sophisticated equipment becoming available to small or even home-based industries.

All in all then, while the self-employed person may not receive an abundant income through competing against his former employer, he should at least make a living while paying a reasonable rent and repaying any loan he has obtained.

For these reasons, the spectre of unemployment does not weigh very heavily upon those who are able to go out and work for themselves. If such people do not receive—from an employer—what they regard as adequate wages and working conditions, they can often do so by becoming self-employed. It is therefore apparent that wages would rise to their natural maximum, and there would be less need for union activity, if self-employment were a viable alternative for a large proportion of any community's citizens. Under such circumstances, automation—by increasing society's output of goods and services—would increase everybody's standard of living, so modern technology would be welcomed rather than feared.

WORKING WIVES

Another phenomenon which can be traced to the existence of unearned incomes is the present-day proliferation of working wives.

Of course, many women work from choice rather than through necessity, but there are also many married women in the workforce who would much prefer to remain at home with their families.

These women are often forced into whole or part-time employment by the sheer cost of establishing a home. The cost of building blocks, plus the interest on an average mortgage, are such that many men in the lower income brackets are virtually forced to send their wives to work.

Unfortunately, however, as more women enter the work-force, from preference or through necessity, more are forced to do so. This occurs because a couple who are both working can pay more for a building block than can a couple of whom only the husband works. Nevertheless, when there are a lot of two-income families in the community, then land developers and speculators will not sell blocks at a price the one-income family can afford.

Therefore, as more and more women enter the work-force more and more couples can afford the higher price for blocks, and less one-income couples can obtain land at a price within their reach.

Needless to remark, this factor adds its share to the never-ending and all-encompassing land price spiral, which, in its turn, drives up interest rates and therefore increases the cost of everything purchased on time payment, terms or mortgage (and, of course, many married couples must purchase a lot of the things they need in one or other of these ways). These factors, in their turn, force more men to send their wives to work, thus sending on its way another of the vicious cycles produced by any economic system that allows some to receive wealth without working for it, while others work without receiving wealth.

GOVERNMENT GRANTS AND TAX DEDUCTIBLE INTEREST PAYMENTS

Australian governments have tried to reduce the high cost of home building by (a) making grants available to would-be home owners who have saved something towards the purchase price of their home themselves, and (b) by making the interest paid on home mortgages into a deduction from income for the purpose of calculating income tax.

However, the first of these measures only increases the sums home owners can outlay on building blocks and homes, while the second increases the size of the mortgage any individual can repay. Consequently, such measures only encourage people to spend more on housing than is strictly necessary, and also encourage land developers and vendors to hold out for a higher price for building blocks. They do not, therefore, make very much impression on the number of women who must go out to work.

THE PLIGHT OF THE PRIMARY PRODUCER

Diligent and hard-working primary producers are often found among the lowest income groups in the community—at least as far as their net incomes are concerned.

Yet it is the primary producer who provides each community with the food without which no community could survive. It therefore seems somewhat unjust when farmers often work long hours without receiving adequate financial recompense.

This anomaly exists because farmers need land to farm, and they must usually pay a lot of money in return for it. They pay vast sums for land, in turn, because farm land represents a sound investment for many lawyers, doctors, dentists, chemists, businessmen and other non-farmers—as well as for farmers who have wealth to spare. These men buy farm land and then rent it to primary producers in one or another way, and, of course, by bidding against full-time primary producers at land auctions and sales, they drive up both the rental value and the selling price of farms.

As a result, if an incoming farmer is neither fortunate in his choice of parents nor able to secure adequate finance in some other way, then he may be obliged to mortgage most of his anticipated future earnings, in order to obtain the title to a suitable site. Having obtained this title, he may then expend more than half of his lifetime's earnings on it, partly as interest and partly as the annual instalments he makes towards the repayment of his loan.

OVER-PRODUCTION AND UNDER-CONSUMPTION OF PRIMARY PRODUCE

Farmers who expend huge sums of money as land price plus interest must usually work doubly hard in order to pay off their debts.

When many farmers are in this predicament, then the inevitable result is over-production, so that markets become glutted with primary produce, and prices fall.

Needless to remark, this aggravates the problems of the battling primary producer, and makes it all the harder for him to get out of debt, but he is not the only one affected by the slump. When prices are low enough, even once well-to-do farmers may receive less, per hour worked, than many wage earners in industry—a situation which, understandably, causes them to complain most bitterly.

TARIFFS, INTEREST ON HOME MORTGAGES AND THE MARKET FOR PRIMARY PRODUCE

The primary producer's income is further eroded by tariffs—which reduce the purchasing power of Australia's potential overseas customers—and by the burden of interest payments being borne by today's home buyers and family men.

People cannot afford to eat beef or butter, or to wear wool, when interest payments absorb one-fourth or more of their weekly wage*—so the farmer is squeezed from both directions when land prices and interest rates are high.

UNIONS

Farmers might not like to be told this, but their present economic plight would not have occurred, had their unions limited the amount of unearned income farmers contribute towards the well-being (?) of other members of the community—which, after all, is what trade unions do.

These trade unions may not always realize it, but they protect the worker's interests by limiting the amount of time he spends producing unearned income for some other lucky individual.

If company profits (i.e., the amount disbursed to shareholders as dividends) skyrocket, then properly organized unions rightly demand higher wages or other fringe benefits for workers employed in the prosperous industries concerned.

In other words, unions try constantly to control or to reduce the proportion of gross company earnings disbursed as shareholders' dividends, so that the proportion disbursed to company employees as wages may be increased.

UNIONS SOMETIMES OVER-REACT

This is not to say that union activity is always beneficial for all concerned.

Such action sometimes rebounds against working men—particularly nowadays when wage rises are usually granted to all workers in any given trade or branch of industry. In such circumstances, wage rises might altogether destroy

* A mortgage of $15,000, bearing interest at 12½% per annum, is not uncommon nowadays. The interest on such a mortgage would be $36 per week, and few wage earners receive four times that amount.

the profitability of some marginal companies, thereby leading to company failure and the loss of avenues for employment in the relevant industry.

Nevertheless, union action has been enormously beneficial on the whole, and it is largely due to such activity that people in modern society enjoy their present standard of living. By contrast, it is the **lack** of such activity that keeps countries like South Africa poor. South Africa has enormous wealth in gold and diamonds, but because union activity is not much in evidence there, this wealth is dissipated in princely living or ostentation for a fortunate few, instead of being converted into labour-saving tools. As a result, South Africa's overall output of goods and services remains low, its people remain poor, and the threat of unemployment hangs continually over their heads.

FARMERS AND UNEARNED INCOME

Some debt-ridden farmers are not much better off than the South Africans. If these individuals woke up to the fact that most of their hard-won earnings end up as someone else's "unearned income", then they too, would organize themselves into unions. These unions would strive to decrease the proportion of gross farm earnings disbursed to non-farmers, and increase the proportion retained as spending money for those who actually work on farms.

Admittedly, it might not be easy for farmers' unions to achieve this end immediately. Many farmers (and, often, their wives and children also) are prepared to work hard for low wages for most of their working lives, in the hope that they will eventually own the farm. They want to own the farm, in turn, so they may pass it to their descendants debt-free (minus that portion which must often be sold or mortgaged to pay probate and death duties) or obtain some unearned income themselves in later life, by selling the farm (preferably at interest) and living in retirement on the proceeds thereof.

WEALTHY EX-FARMERS

It is worth noting, in this connection, that many wealthy citizens are ex-farmers (or their descendants) whose farms were gradually encroached upon by expanding cities or towns.

These individuals have made fortunes by selling the family farm as building blocks or factory land, and the prospect of similar easy money in the future makes a lot of people—farmers and non-farmers—anxious to own farm land nowadays, particularly if that land is adjacent to a city or town.

These considerations, taken in conjunction with the fact that the price of farm land is fixed in open competition, certainly explain the low net incomes of many primary producers, but, at the same time, they make it difficult to limit the amount of money farmers pay out as land price and interest.

All the same, if people could be led to recognize the source of farmers' present difficulties, the problem would be well on the way to being solved.

If the government, for instance, became aware that farmers work long hours merely to pay for highly priced land, it may cease granting tax concessions and subsidies that increase competition and thereby increase the price of land. Instead, the government could seek fiscal measures to reduce the competition for farm land, thereby reducing both land prices and the amount of interest the incoming farmer would pay, while, at the same time, expending money now used as tax concessions or subsidies to ensure that farmers who already own land do not suffer a financial loss.

The next chapter will describe a fiscal measure which would solve the problems of the incoming farmer, without placing his outgoing cousin at any financial disadvantage. However, before doing this we may examine, briefly, some further evils which flow from unearned incomes and the resulting maldistribution of wealth.

CREDIT SQUEEZES

A measure often applied as an antidote to inflation is the credit squeeze.

The idea behind a credit squeeze is the erroneous notion that prices rise because too much money is chasing too few goods and services. Were this so, then restrictions on credit would restrict the amount of money available for the chase, thereby reducing the demand for goods and services, and, hopefully, causing prices to fall.

However, as already mentioned, were too much money really chasing too few goods and services, then more of the items in demand would be produced, or, alternatively, those available would go to the highest bidders and other people would make do with substitutes.

The real reason for inflation is too much money clamouring to be spent upon a relatively inelastic land supply, with land, moreover, being something for which there is no substitute. Reducing the demand for goods and services makes very little difference to the price of land, and so credit squeezes cannot influence inflation in this way.

Nevertheless, a credit squeeze does have some anti-inflationary effect. It limits the amount of money banks may lend and thereby restricts the activities of people who wish to purchase land with borrowed funds.

Many would-be home owners, factory managers, farmers, etc., purchase land with borrowed funds, as do certain speculators (this being the reason for land crashes, as already described), so a credit squeeze materially reduces competition for available sites—thereby preventing, at least to some extent, the development of further inflationary stimuli.

CREDIT SQUEEZES AND HIRE PURCHASE FINANCE

It is worth noting that a credit squeeze does not really influence the demand for goods and services to any great extent—because it does not usually restrict the operations of lending institutions other than banks.

Thus, during credit squeezes, money not loaned by banks directly, may be loaned by their hire purchase subsidiaries. This money is then spent on goods and services, thereby keeping the demand for them at a high level, while, at the same time, increasing the net amount of interest paid—as hire purchase loans are more expensive than bank overdrafts. Most credit squeezes may be circumvented in this and similar ways, so their effect on consumer demand is somewhat muted, even at the best of times.

CREDIT SQUEEZES AND EMPLOYMENT OPPORTUNITIES

Another drawback to the credit squeeze is the fact that it often leads to unemployment.

Bank loans provide a major source of funds for the establishment or expansion of businesses, they help many people to become satisfactorily self-employed, and they are often used by industrialists who wish to replace obsolete or worn-out machinery. Any restrictions on bank credit must reduce the funds available for these purposes, thereby restricting the growth and protection of employment opportunities. In this way, credit squeezes predispose to unemployment, so they are not usually applied for any length of time.

HIGHER INTEREST RATES vs. INFLATION

Another measure often applied as a remedy for inflation is an increase in interest rates.

Inflation is regarded as due to "overheating in the economy", so the "Doctors of Economics" sometimes apply a cold poultice of interest, in an attempt to reduce the "patient's" temperature.

IS INTEREST DEFLATIONARY ?

The average man in the street cannot quite see the logic of prescribing interest as a treatment for inflation.

He (the man in the street) knows that a lot of goods and services are purchased with borrowed money and he may even owe a few dollars to a bank or hire-purchase company himself. He knows, further, that higher interest rates increase the gross cost of goods or services purchased with borrowed money. He cannot, therefore, quite understand how anything that increases expenditures can be anti-inflationary.

This mystery clears a little if one remembers that prices tend to rise if there is a heavy demand for goods and services, and to fall if this demand is less extreme. A rise in interest increases the amount of money many people must outlay in order to obtain goods and services. In this way, higher interest rates reduce consumer demand, and, hopefully, may cause the price of goods and services to fall.

As far as wages are concerned, we may remember that goods and services are produced by human labour. Consequently, if the demand for goods and services falls, then the demand for labour will also fall. The resulting decrease in employment opportunities reduces the likelihood of over-award wages being paid, thereby (again hopefully) producing some stability in the wage rates paid throughout the community.

For this reason, there is some logic to the use of high interest rates as a counter to price and wage inflation, even though, in practice, such high interest rates have little lasting effect.

In passing, it should be noted that an increase in interest rates allegedly acts against inflation by reducing the employment opportunities available to working men.

This being so, it seems that the choices offered to the people lie between full employment with inflation on the one hand, and underemployment with some measure of price and wage stability upon the other hand.

Small wonder, then, that currency debasement continues apace, if this "Hobson's Choice" is all the politicians and planners have to offer. Inflation is a serious economic disease, but unemployment is even less acceptable to most politicians and economic moralists.

HIGHER INTEREST = LOWER DEMAND FOR LAND

In actual fact, an increase in interest rates does tend to militate against inflationary pressures to some extent.

If interest rates remained pegged when land prices were escalating madly, then more and more money would be invested in land and its price would continue to rise.

Lifting the ceiling on interest rates reduces the demand for land in two ways. First, it makes moneylending an acceptable alternative to land purchase for many investors, and secondly, it removes from the real estate market many who would be financing a land purchase with borrowed funds.

Borrowers whose finances are marginal may well be deterred from land purchase by higher interest rates. The withdrawal of these competitors from the market reduces the ultimate price paid for many sites, and allows the inflationary land price spiral to flatten out to some extent.

For this reason, then—given today's chaotic economic circumstances—an increase in interest rates is not an entirely useless anti-inflationary measure, even though its effects must, of necessity, be only temporary.

DEVALUATION

Another measure governments often use in an attempt to extricate themselves and their citizens from economic problems is devaluation of the currency.

Thus, if Australia devalues its currency, then more Australian dollars are needed for each American dollar, with similar considerations applying to all other currencies.

As a result, those who buy goods overseas must pay more for them in terms of Australian currency, while those who sell goods overseas receive a higher price. At the same time, overseas creditors receive less—in terms of their own currency—in payment of their accounts, while people who owe money abroad find it easier to discharge their debts.

Therefore, when a country devalues its currency, exporters gain at the expense of importers, and the citizens as a whole benefit if they owe more overseas than they are owed, and lose if the reverse occurs. Consequently, devaluation is a two-edged sword, which benefits some individuals at the expense of other citizens.

Nevertheless, all local citizens may benefit from one effect of devaluation, because this measure reduces the net cost of rents, interest and dividends transported abroad. It is, therefore, often resorted to by countries which expend a lot of their earnings in this way.

DEVALUATION A TEMPORARY PALLIATIVE

Devaluation is never anything other than a temporary palliative for economic woes.

It depends for its effect upon the relative values attached to different currencies, and, should the countries with whom one trades also devalue (as often happens), then any benefits of devaluation are immediately lost. Furthermore, devaluation increases the number of local dollars available to overseas investors. Such investors can, therefore, bid even higher prices for land in the country which has devalued, thus giving further prods to any inflationary spiral it may have. For these reasons, then, devaluation has little if any real or lasting effect.

DEVALUATION IN COMMUNIST COUNTRIES

It is worth noting that devaluation sometimes takes place even in Communist countries. Yet land in those countries cannot be owned by one person and rented to others, so interest and other forms of unearned income should not exist in them.

Nevertheless, Communist states sometimes devalue their currencies, and they actually import the need for this measure, along with overseas funds.

COMMUNIST WARMONGERING AND ECONOMIC INEFFICIENCY

Communist countries not infrequently require overseas aid in order to produce or to procure productive tools. This occurs because (a) they expend a large proportion of their wealth enslaving their people and preparing for or actually waging war; and (b) socialist economies are relatively inefficient in comparison with those where people can enrich themselves by working hard. (Most individuals will work harder and produce more wealth if they are adequately paid for it, especially if their income increases in proportion to the amount of wealth produced. This, surely, is another reason why free enterprise economies should examine their socio-economic arrangements closely, to ensure that all workers are adequately recompensed for whatever work they do.)

When Communist countries borrow wealth abroad, they must pay interest upon it—because free world investors would not lend to Communists without interest, when they could obtain it from their fellow citizens.

Communist countries may therefore decide—at times—to devalue their currencies, in order to reduce the burden of interest payments transported overseas. The fact that they occasionally resort to this measure in no way negates the primary thesis of this book.

THE CITY SPRAWL

The city sprawl is another common phenomenon which can be laid at the door of the world's present-day economic systems (or would "non-systems" be a better term ?).

A city sprawls when its many buildings, parks and other amenities are separated by vacant blocks of varying size, instead of being placed at orderly intervals to give the city's population a relatively uniform and satisfactory density.

This sprawl provides many headaches for local government, and adds greatly to its costs. If one-quarter of any city should consist of vacant sites with occupied sites on either side of them, then that city's costs are almost one-third higher than they would be otherwise. This is so because sites in use must be serviced with streets, footpaths, sewers and street lighting, and supplied with gas, water and electricity. All of these must pass the vacant sites, and they are all costly to provide and to maintain.

But it is not only fixtures that pass vacant blocks. The city's garbage removal vans and other service vehicles cover many miles each day in driving past vacant allotments, and, of course, the same applies to public and private transport, milkmen, bakers, butchers, newsboys, and everyone else who makes deliveries or calls to homes. (Even including doctors, who still make house calls occasionally.) The time spent travelling those extra miles, taken in conjunction with the running costs of vehicles, adds considerably to the expense of providing all such public and private facilities.

THE CITY SPRAWL AND SAVING THROUGH LAND PURCHASE

Readers of this book will already know the cause of the city and suburban sprawl.

The vacant blocks that dot almost every suburban landscape are owned by many citizens, some of whom are holding a site against the possibility of future use (either for themselves or for their children), others hope to sell land to provide themselves with a little security in their later years, while still others are speculators who hope to make a profit on the land eventually.

Some of these people may actually have their sites upon the market, but the price they are asking is beyond the reach of any interested or potential purchaser. As a result, many people buy land on the outskirts of every city, suburb and country town, when they would live nearer to the centre of activity if they could only afford to purchase any of the sites on offer in that vicinity. Yet, by moving out they add to their own daily transport costs, and, at the same time, increase greatly the amount of money the city must expend, in order to provide essential services for all of its citizens.

It is therefore obvious that vendors and purchasers of land, as well as those who hold it out of use for any reason, are all involved in the city sprawl.

Most of these people are acting in what is—given today's economic situation—a perfectly reasonable and responsible way, yet each of them increases the burdens of city administrators and businessmen. They should, therefore, be pleased to learn of any way in which they can achieve their reasonable ends, without producing an expensive and unsightly city sprawl.

UNEARNED INCOME, TARIFFS AND WAR

Before discussing ways and means by which the world can overcome its economic problems **peacefully,** it might be worthwhile to dwell for a moment upon the subject of war.

TARIFFS AND INTERNATIONAL HARMONY

We noted in Chapter 4 that sovereign states often attempt to stem the tide of unemployment within their borders by placing tariffs upon imported goods.

However, tariffs simply move the problem of unsaleable surpluses—with its resulting unemployment—from country to country around the world, thereby promoting disharmony in the human family as a whole.

Disharmony is added to disharmony by the fact that these **surpluses occur despite the existence of millions upon millions of people who would gladly consume more goods and services, if they only had the wherewithal with which to pay for them.**

Many of the world's citizens are unable to obtain even basic necessities of life, while money they could spend on goods and services is continually accumulating in the hands of landlords, moneylenders and financiers. This wealth—which represents the difference between life and death for millions of human individuals—cannot be consumed unless it is loaned, and it cannot be loaned because no one can afford to borrow it and repay the loan at interest.

WARS DESTROY WEALTH

Wars provide a means whereby prodigious quantities of wealth can be destroyed—as people attack one another with guns, bombs and other weapons of destruction. Wealth thus destroyed no longer gluts the market, so the spectre of unemployment is removed—at least from some areas of the world.

Destroyed or discarded wealth does nothing to enhance the well-being of humanity, which explains why people in combatant nations usually work hard yet tolerate a low standard of living for the duration of the war. These people may be producing abundant quantities of goods and services, but these items, instead of raising the standard of living for everyone, are being utterly destroyed.

Nevertheless, all the wealth destroyed in wars must be paid for by the countries concerned. Governments borrow money from their citizens, or from anyone else who has it to spare, in order to purchase goods and services which will be promptly consumed or blown to bits. Then, when the war is over, these loans must be repaid—at interest. Small wonder, then, that many once-warring nations have put themselves in pawn to international financiers who—in the final analysis—have the greatest quantities of wealth available to lend.

Wars therefore provide a means whereby those who have acquired enormous quantities of perishable wealth may exchange it for debts which bear interest in perpetuity—thereby increasing the stranglehold international financiers have upon the lives and activities of their fellow members of the human race.

13. SITE RENT AS COMMUNITY REVENUE

The numerous socio-economic problems described in this book derive, ultimately, from "unearned incomes"—i.e. from the fact that while some individuals receive income without working for it, others work without receiving income in return.

Unearned incomes, in turn, derive from the fact that, in most parts of the world, private individuals can enrich themselves without working for it, by owning land and renting it to their fellow citizens.

This being so, we should, surely, examine the rental value of land to see where this important economic entity originates.

LAND HAS NO COST OF PRODUCTION OR DISTRIBUTION

It should be immediately obvious that the rents people pay in return for the use of land are different to those paid in return for the use of a house or similar article. A house must be built and maintained, and most of the rent a tenant pays merely compensates the owner for his costs in this regard.

Land, on the other hand, has no cost of production or distribution, because it was here when mankind first arrived on earth.

Admittedly, many sites have been altered since the dawn of human history, but it is not these alterations which give land its distinctive qualities. Land is valuable and distinctive, simply because it is there for mankind to stand, sit or lie down upon, and because every human individual must occupy a site of some sort in order merely to live, let alone work and earn a livelihood.

COMMUNITY ACTIVITIES AND THE RENTAL VALUE OF LAND

A little reflection reveals that land has no rental value unless some person wants to occupy it. No one can enrich himself by renting land he owns, if he cannot find a tenant who will use that land and pay him for the privilege.

Whether or not people will rent any given site depends upon (a) any inherent qualities the land possesses, such as a fertile mantle of soil, a content of oil or other mineral, or a covering of forest or similarly useful natural crop; and (b) the proximity of the site to centres of human habitation.

The second of these factors is much the more important. People do not pay thousands of dollars annually in return for the use of farm or forest land, and even mineral-bearing land loses its value eventually. By contrast, land in the centre of prosperous cities keeps increasing in value, while ever the city is growing either in population or importance. As a result, land for which farmers once paid a few cents or dollars a year as rent, now returns to its owners many thousands or even millions of dollars annually, simply because it lies in the heart of Melbourne, Sydney, London, Tokyo or San Francisco.

By the same token, if everybody moved away from the vicinity of that land, its rental value would fall precipitously—even, sometimes, to levels below those the land possessed in its virgin state.

Thus, if the inhabitants of Melbourne all moved to Sydney or the bush, then the landowners of that city would no longer receive huge sums of money as rent. Instead, they would probably be unable to find any tenants for their land—as has happened to landowners in many ghost towns throughout the course of human history.

It would seem, therefore, that the rental value of city and town land is produced entirely by the presence and activity of the inhabitants of the city or town concerned, while even fertile farms and mineral bearing sites have little value if their produce cannot be sold. This produce is sold to **people,** so even these sites would have no value in the absence of the human family as a whole, and, as is well known, their value decreases with every kilometer that separates them from cities, towns, and other centres of human habitation.

SITE RENT IS REALLY PUBLIC PROPERTY

Land gets its rental value from the community. The rents paid for sites increase as a community becomes more densely populated and/or prosperous, and fall if the reverse occurs.

For this reason, money paid in return for the use of land is really public property, and it should be carefully distinguished from the private funds acquired through selling man-made goods and services.

If this distinction is not made, then publicly created site rent tends to fall into private hands. When this occurs, site rents will obviously be magnified as much as possible by the private rent collectors concerned, and they will also be sought after and even fought over at times.

These factors, in their turn, lead to the constantly recurring crises of inflation, unemployment, strikes in industry, etc., that should, by now, have convinced most people that there is something radically wrong with present-day economic systems, and that this fault is world-wide in its scope.

This fault will only be corrected when people recognize site rent as a social value which is generated by the presence and activity of the community as a whole. When people grasp this fact, they will realize that the community collection of site rent is **not** a form of socialism—as some people claim. Instead, it is merely the collection, for society, of a fund created entirely by society, and this, far from being socialism, is socialization of one thing that **should** be socialized.

SOCIALISTS APPROPRIATE PRIVATE PROPERTY

Socialists and Communists—insofar as they are genuinely concerned for the welfare of humanity (this being a somewhat variable element in their philosophy)—sense that there is something unjust and iniquitous about a system which permits some people to double their wealth every few years without working very hard, while others battle all their lives and never get out of the red.

These Socialists and Communists do not recognize the source of this iniquity—viz : the fact that some people are appropriating a fund created by society as a whole—and so they seek to overcome it by separating individuals from privately-created property such as factories and labour-saving tools. As a result, people lose both their freedom and their incentive to work, the community's output of goods and services decreases, and its overall standard of living falls. This leads to shortages of essential and desired items, to rationing and similar additional infringements on personal liberty, to more government control over the lives of citizens, and to various other evils well-known to those who study socialism.

SITE RENT COLLECTION PROMOTES FREEDOM

On the other hand, a community which collected all the site rent generated within it would be respecting the difference between publicly-created funds and privately-created wealth.

By collecting all of the former into its treasury and leaving as much as possible of the latter in private hands, it would promote both freedom and the incentive to work—thereby increasing the community's output of goods and services, raising everyone's standard of living, and reducing, markedly, the need and justification for bureaucracy and government control. This can be revealed by considering what would happen if site rents were collected as public revenue.

BENEFITS OF THE SITE RENT COLLECTION

Site rents provide a logical, natural and non-socialistic source for community revenue. Were they garnered into State treasuries, then citizens would reap the following benefits :

LEASEHOLD TENURE FOR EVERYONE

First, instead of some people owning land and either renting or selling it to others, all people would lease their sites from the community as a whole.

Under such circumstances, site rents would be determined by open competition—as happens with land occupied under leasehold tenure at the present time. However, as no one would lease land he was neither using nor intending to use in the near future, the maximum possible number of sites would always be available, and rents would be at a minimum.

The primary producer, for instance, would no longer have to compete against non-farmers for the title to a suitable site. This marked reduction in competition would allow a farmer who now pays $20 per acre per year to obtain suitable farmland for about one-quarter of this amount, and the site rent paid by many farmers could be no more than the rates they now pay to their municipal government—in which case the entire site rent would presumably pass to the municipality as its source of funds.

INFLATED LAND PRICE = INFLATED RATES

This could occur because the rates now paid by farmers are estimated as a percentage of the capital value or selling price of their property.

The selling price of farm land has been grossly inflated because of the large number of farms currently occupied by tenants or share farmers, while these high prices, in turn, increase the number of primary producers who must rent or share-farm land, instead of buying it. This further increases the selling price and rental value of farms, and, in some cases, rates estimated as a percentage of capital value exceed the true economic rent of the land.

TRUE ECONOMIC RENT

With all land occupied under perpetual leasehold tenure, the site rents collected by the community would soon find their true economic level. Under such circumstances, the rents paid by tenants and share farmers would be only a fraction of those such people are now obliged to pay, while the rents paid by many landowning farmers could be approximately equal to their present-day municipal rates.

At the same time, as urban land now held off the market for one or another reason became available for lease, site rents in cities and towns would fall by anything from twenty to fifty percent—and at least some of these rents could be lower than present-day land taxes and municipal rates. Universal leasehold tenure would therefore reduce the cost of occupying land to figures well below those which many citizens are paying at the present time.

ELIMINATION OF LAND PRICE

Secondly, the "capital" price of land would be eliminated, and it is to be hoped that this concept would never rear its head again.

The idea that land should have a capital value or selling price is based upon an oversight. Of course, most of us realize that we are only temporary sojourners upon the earth, but have we recognized the consequences of this fact ?

After all, millions upon millions of people used this planet as a home before the present generation arrived upon it, and millions more will do the same after we have gone. This being so, we should treat the earth as mankind's common property—renting portions of it from one another while we need them, and allowing others to do the same, after our need for the site in question has passed. We should not allow the earth to be bought, sold and monopolized—as if some people had more right than others to be here.

LAND PRICE AN ARTIFICIAL ENTITY

In any case, land price is a somewhat artificial entity.

The price paid for any site is actually an estimate—agreed upon by buyer and seller—of what the sum total of its rental value over the next ten, twenty, thirty or forty years will be. Consequently, once land price is abolished, then one piece of somewhat unnecessary and sometimes hazardous financial guesswork will be eliminated, and life will be just a fraction less complicated as a result.

COMPENSATION FOR EXISTING LANDOWNERS

The elimination of land price will be a boon to all who now rent land or wish to purchase it, but it will have the opposite effect on people who now own portion of the soil of spaceship Earth.

As a result, all existing landowners will have to be compensated in some way.

These people, most of whom are ordinary citizens with no great store of wealth, usually regard their land holding as an asset which will provide them with a little security in their later years.

Thus, even people who own only a small farm or a homesite at least feel safe against eviction by a landlord, while those who own land in addition to their own requirements are usually hoping to sell it later, when they need their wealth in a monetary form. For most of these people, their landholding represents the savings of a lifetime, and, in the case of primary producers, this asset has been accumulated through a great deal of work. It is clearly unjust and unreasonable to destroy the value of such a hard-won asset, without compensating the owner for his loss.

ASSETS MAY BE IN MONEY OR LAND

In addition, if titleholders did not receive compensation, then a man who had recently purchased land with the aid of a $100,000 loan would have to repay that huge sum of money, but would have no asset whatever to show for it.

In other words, in the absence of compensation, those whose assets were in money would retain their wealth, while those whose assets consisted of land titles would have nothing but a memory, and whether a retired person (for instance) was rich or poor could depend upon whether he had already sold his land or not. Thus, people who sold their land before the community decided to collect all site rent as public revenue would retain their present store of wealth, while those who intended to sell land at a later date would "miss the boat" entirely. To divide the community's savers and landowers in such ways would be clearly unjust.

GRADUAL IMPLEMENTATION IMPRACTICABLE

It should be noted at this point that there is no virtue in trying to implement the site rent collection gradually, over a period of years.

Such a measure would not eliminate the need for compensation, because land price would disappear immediately the community announced its intention of taking all site rent as government revenue—even if the measure was to be introduced gradually.

No one would pay a price for land if he knew that its entire rental value was to be collected for the community within a few years. Under such circumstances, those who owned land would be unable to find buyers for it, while non-landowners would simply rent any land they wished to occupy.

The rent would be paid, partly to the community and partly to the present titleholder, with the proportion passing in the latter direction decreasing gradually as the site rent collection became more fully implemented. In this way, a gradual implementation of the site rent collection would reduce the amount of compensation required by those who obtained a tenant for their land, but it would have no such effect on those whose land remained unused, or, indeed, on those who were using their land themselves. It would not, therefore, eliminate the need for compensation, or ensure that all citizens were treated equitably.

FULL IMPLEMENTATION COULD BE BLOCKED

A further disadvantage to any gradual implementation of the site rent collection arises from the fact that such an implementation could be blocked at any stage.

This could occur (and, indeed **has** occurred in many places in times gone by) because, while a partial collection of site rents increases prosperity and reduces economic problems, it does not prevent people from overlooking the cause of this prosperity.

Unfortunately, however, those whose unearned wealth is being eroded by the changed socio-economic arrangements are much less prone to such an oversight. As a result, many such people use their remaining power and wealth to block any further implementation of the site rent collection, or even to reverse what already exists. For this reason, many well-motivated site rent collections have failed to progress beyond their initial stages, and the only satisfactory way to achieve and to maintain socio-economic justice is for the site rent collection to be instituted in a single step.

SELECTIVE COMPENSATION ?

It would be somewhat expensive to compensate every existing landower to the full, present-day market value of his site. For this reason, a case could be made out for selective compensation, with those not in need of funds relinquishing the current market value of their landholding for the good of the community.

Were this course chosen, then courts could be empowered to decide who should receive compensation, and who should not. However, as legal action costs money, it is likely that (a) unscrupulous wealthy people (of whom, unfortunately, there are a few about) would take advantage of whatever loopholes existed in the compensation laws, and (b) many poor people who had a greater need for compensation would be afraid to risk their meagre wealth in a legal action which might prove unsuccessful.

This being so, it would seem preferable to compensate every landowner, thereby allowing the rich to retain whatever wealth they now possess. Such a measure would, incidentally, greatly reduce opposition to the community collection of site rent, and the extra cost would, therefore, be well worthwhile.

FULL COMPENSATION IS PRACTICABLE

In Australia at least, the total market value of the land is approximately equal to the annual total personal income of its citizens.

Thus, in 1970-71, the value of land in Victoria, Australia —as assessed for municipal rating purposes and for the calculation of land tax where applicable—was approximately $6,500 million, while the total personal income of Victorians in that year was $7,450 million*. As land is valued every

* Statistics of Victoria, Local Government Finances, 1970-71, pages 9-16; Victorian Year Book, 1974, page 818.

three to six years, then the sum-total of valuations will be lower than the sum-total of current market values, which probably accounts for the difference of $950 million between the two figures given above.

Most individuals—with the exception of primary producers, who have been paying excessive sums for land for many years—pay about one year's income for their building block or other site, so if this matter is approached from the point of view of the individual, then a similar result is obtained.

It is therefore apparent that Victorian landowners could be fully compensated in twenty years if the citizens earmarked 5% of their annual income for this purpose, while even at 2½% per annum the process would occupy only forty years. As a great many landowners have no immediate need for the wealth they have tied up in land, then full compensation is quite practicable.

COMPENSATION THROUGH GOVERNMENT BONDS

Compensation could be effected by giving each landowner a government bond to the full, present-day market value of his site or sites.

This value, in the case of land which had changed hands recently, would be the sum actually paid for the site, while for other land it could either be estimated by approved and qualified valuers, or calculated by taking the value of the land as assessed for rating purposes and adding a percentage to balance whatever inflation had occurred since that particular valuation was performed. In this way, equity could be ensured quite easily, and most landowners would feel that they had been treated fairly by the State.

The bond could consist of a booklet containing 20 or 40 coupons (depending on whether 5% or 2½% of the annual total personal income was set aside for the purpose), with one coupon being redeemable each year. The bonds could possess some limited negotiability, so that ex-landowners who needed money immediately could exchange coupons with those who had a less urgent need for funds. In this way, individual citizens could fulfil their differing requirements quite satisfactorily, and the State's solvency would not be placed in jeopardy.

VALUATION BOARDS

Some landowners might consider the compensation they received inadequate.

Such people could present their case to the valuation Boards which exist in every State. These boards now arbitrate in any dispute which arises between a ratepayer and his local government. They would not become redundant because—human nature being what it is—there will always be someone who can find something to complain about.

ESTIMATION OF ANNUAL RENTS

At the present time, qualified valuers estimate the site value of property, according to (a) any useful inherent qualities such as natural fertility or mineral content, (b) the location of the property in relation to centres of population, amenities, etc., and (c) the price obtained in the real estate market for the same or similar sites.

Were site rent collected for the community, then exactly the same system would be used, except that the market price of land would be measured in terms of annual rentals, and not as a capital value or selling price. This represents a minor change, and it would not pose any problems for property valuers.

MORE APPROPRIATE VALUATIONS

Incidentally, valuations based upon rents would be more in keeping with the true economic value of land than are those based upon a selling price. The latter type of valuation may be (and often is) inflated unduly, simply because one site in any vicinity has been sold for a very high price.

Rents, on the other hand, are much less prone to such unreasonable fluctuations, so valuations based upon them would be more satisfactory for all concerned.

PUBLICATION OF VALUATIONS

The valuations assigned to each property could be made available for inspection, so that interested citizens could see for themselves how much site rent they and their neighbours had to pay. In this way, land occupiers could ensure that valuations were accurate and equitable, and disputes would be minimized.

ANNUAL REVISION OF RENTS

Many factors can operate to change the rental value of land. For this reason, rents would require annual revision, particularly for farmland and in growing and/or prosperous cities and towns.

These annual revisions would be within the capacity of present-day valuers, as they would no longer have to spend time valuing privately-created improvements, which—as is well known—may change markedly both in number and value from year to year.

Regular annual revisions would enable the rent of farm land to be varied according to whether the seasons and markets were good or bad, so that primary producers would pay less rent than usual, if unfavourable circumstances caused their incomes to fall.

Annual revisions would also prevent city rents from rising suddenly and causing financial embarrassment to the occupier of the land. Such sudden charges in rents occurred in Canberra, where the Australian government tried vainly to maintain a system of perpetual leasehold tenure, with rents revised only every twenty years. The rental value of land can change, ten, twenty or even fifty-fold in that period, so it was quite futile trying to maintain perpetual leasehold, with rents revised at such infrequent intervals.

SECURITY OF TENURE

Nevertheless, even though Canberra's leasehold system was not managed correctly, it certainly proved that there is no conflict between security of tenure and the leasing of land from the community as a whole.

Tenants in Canberra were not evicted arbitrarily, removed from their sites unjustly, or forced to sell improvements at a loss, and their sites were improved just as adequately as those held under freehold tenure in other cities.

This is perfectly understandable, when one realizes that universal leasehold places all people on the same footing, and ensures that the only "landlord" is the community as a whole. Such a community is not divided into landlords and tenants, with each group seeking the best deal for themselves. Instead all persons work to ensure that sites are obtained and occupied under the best possible conditions, and everybody benefits.

CHANGE ONE'S OCCUPATION OR CHANGE ONE'S SITE ?

Many sites increase markedly in value over the years. All the same, regular annual revision of rents would provide plenty of time for the occupants of such sites to choose between changing their occupation and moving to a more appropriate site.

For instance, farm sites increase in value as any expanding city or town encroaches upon them, and, under leasehold, farming on such land would eventually cease to be an economic proposition.

However, this process would usually occupy more than one person's lifetime, so the landholder would have ample time to decide whether to retain the site and convert it to more intensive use (e.g., to change from dairying to market gardening) or to allow someone else to grow the vegetables while he leased a dairy farm a little further out.

Similarly, the rent of business sites increases as any city expands its population or becomes more prosperous. With rents revised annually, those who occupy such sites could decide—over a period of years—whether to take advantage of the city's increasing prosperity by expanding their business and taking on additional staff (with the help of multi-storey premises if necessary), or whether to move to a less economically active location and continue their business on its accustomed scale.

Finally, home owners, too, would sometimes be faced with such decisions, but, as with farms, rents would rise gradually over a lifetime, and people would have plenty of time to make the decisions involved. In the final analysis, if site rents rose to a level beyond an aging person's means, then rental payments could be deferred and made a charge against the estate, thereby allowing that person to spend his or her declining years in the family domicile.

Legislation relating to municipal rates already allows for such eventualities. Under perpetual leasehold, this legislation could easily be modified to cope with any awkward situations which may arise.

DECENTRALIZATION

A third benefit which would flow from the community collection of site rent would be decentralization of people, commerce and industry.

FINANCIAL ADVANTAGES OF CITY LIFE

At present, people tend to congregate in large cities, because there is no way in which the financial disadvantages of country life can be counteracted automatically.

A large city provides access to a much greater variety of goods, services, employment opportunities, social and recreational outlets, and other amenities, than are available in country towns.

In addition, goods and services are often dearer in the country, because (a) raw materials, supplies and even finished articles must often be transported from the nearest major city, so prices are increased to cover freight and transport costs, and (b) the smaller size of his potential market prevents the country retailer from taking advantage of bulk buying and similar business practices.

These financial disadvantages of country life lead people to congregate in large cities, and the growth of the so-called megalopolis or ever-expanding urban conglomeration is one of the less desirable features of the modern world.

The community collection of site rents would change this situation dramatically.

As noted previously, site rents are high in expanding and prosperous cities, and much lower in less densely populated country towns. Consequently, city dwellers who have access to numerous goods, services, employment opportunities, etc., would pay site rents higher than those paid by country dwellers who have access to fewer amenities.

This fact is illustrated by Table II*, which gives the 1970-71 populations, population densities and average land valuations per acre, for a number of cities and towns in Victoria. This table shows (a) that land values are much lower in the country than in the city and suburbs, and (b) that land values vary in proportion to the size and population density of the city or town concerned. (Variations in the table may be due to the fact that some valuations are more recent than others, while the seemingly anomalous position of Sebastopol presumably occurs because it is a suburb of Ballarat and not an ordinary country city or town.)

City	Population	Persons/acre	Site Value/acre
Melbourne	75,830	9.76	$52,005
Melbourne's Ten Central Suburbs	398,693	16.58	29,879
Geelong, City Area	46,705	7.65	17,359
Ballarat	39,778	4.65	4,690
Bendigo	32,007	3.98	3,485
Shepparton	19,410	2.94	5,570
Warrnambool	18,684	2.63	2,925
Moe	15,605	2.95	2,091
Wangaratta	15,586	2.61	3,092
Traralgon	14,666	2.97	2,569
Mildura	13,198	2.44	2,706
Horsham	11,045	1.85	2,087
Sale	10,436	1.65	832
Colac	9,679	3.6	4,621
Hamilton	9,673	1.8	1,722
Bairnsdale	8,552	1.27	1,265
Ararat	8,312	1.76	897
Benalla	8,255	1.89	1,819
Swan Hill	7,712	2.28	4,332
Echuca	7,505	1.49	1,383
Maryborough	7,472	1.29	742
Castlemaine	6,915	1.2	453
Stawell	5,800	.97	389
Sebastopol	5,268	3.01	1,108
Kerang	4,103	.72	558
Wonthaggi	3,825	.29	293
Koroit	1,429	.25	207

Table II : Some 1970-71 site valuations for Victoria

Table II shows clearly that no special measures would be needed to promote decentralization, if site rents were garnered into State treasuries in lieu of many of the taxes now collected as government revenue. Under such circumstances, country dwellers would contribute less to the treasury than would their more advantageously placed city cousins, and the rent paid by any citizen would fall as the distance between his site and the various centres of population increased. In this way, the amount paid into the treasury by any individual would vary in direct proportion to the advantages and amentities available to him, while farmers and others who live in the backblocks would pay a lower rent, to balance out their higher transport costs. This, surely, is a reasonable and equitable way in which to estimate each citizen's contribution towards the community's common fund.

* Statistics of Victoria; Local Government Finance 1970-71, pages 9-16.

VIRTUAL ELIMINATION OF UNEARNED INCOMES

Throughout the centuries, men have altered land by clearing it, reclaiming it from under water, or by affecting changes to it in various other ways, but, for all that, **no man** has ever made land, or moved a site about from place to place.

Nevertheless, as things stand at present, some people own land while others are obliged to rent or purchase it.

This is the fundamental defect in many of the world's economic systems. It allows some people to become rich without working for it, and condemns others to work hard for the whole of their lives without ever becoming rich.

This fundamental failing in human society would disappear completely, if no person owned land and everybody rented it. With such a land tenure system, the inequitable and unbalanced distribution of wealth—which has plagued mankind since the dawn of human history—would be arrested at its source. All people would receive whatever they could earn, and no person would receive income without working for it—unless it were freely granted to him by the person to whom it rightfully belongs.

NO OVERNIGHT PRODUCTION OF PAUPERS

However, this does **not** mean that everyone who now receives or lives upon an unearned income would become a pauper overnight. Far from it. Instead, those who now receive interest, rents or dividends would retain the full "capital" value of their wealth, but their income from this capital would gradually fade away. This can be revealed by studying (a) the regulation of currency volume, and (b) the fate of several different types of unearned income which spring readily to mind.

REGULATION OF CURRENCY VOLUME

A country needs money to facilitate the various exchanges which take place between its citizens, because goods and services are usually exchanged for money and the money is then exchanged for other goods and services.

If numerous goods and services are being exchanged by large numbers of people, then a lot of money will change hands in the course of these exchanges—or trading as it is also called. For this reason, the volume of money required in any country will increase if either its population or volume of trade increases, and if the volume of that country's money were regulated in accordance with its population and volume of trade, then neither inflation nor deflation would occur.

However, under present economic arrangements, wealth flows continually from borrowers to lenders—leading inevitably to unemployment—unless the currency is debased periodically to correct the resulting imbalance of wealth.

The elimination of unearned incomes would restore the balance which should exist between lenders and borrowers. In this way, it would remove from governments both the "Hobson's Choice" of unemployment or inflation and the need to create excessive quantities of new money in order to prevent unemployment among the citizens.

In such circumstances the regulation of currency volume would be relatively simple.

CURRENCY VOLUME AND THE SUM-TOTAL OF SITE RENTS

The volume of money, as already noted, should vary in proportion to the population and volume of trade.

It so happens that site rents are also influenced by these same variables—rising with increases in population and prosperity, and falling if there is any fall in the population or volume of trade.

Thus, when the population increases, the total amount of rent paid also increases, because more sites are utilized, average holdings decrease in size, or more people occupy any given site; while increases in trading increase the overall amount of rent paid throughout the community by increasing competition for city and town sites and promoting the use of multi-storey buildings, and, of course, any decrease in population or volume of trade would have the opposite effect.

Consequently, if the total volume of money were maintained at some simple multiple of the total site rent collected in any community, then neither inflation nor deflation would occur.

Were this done, then any citizen who saved $1,000 would still have $1,000 in ten, twenty, thirty or forty years—instead of some lesser amount as happens at the present time. (**A very much lesser** amount with Australia's current inflation rate of at least 14% per annum. At this rate, $1,000 has dwindled to $221 after ten years, to $49 after twenty years, and to $11 after thirty years.)

Saving, therefore, could be achieved without lending money at interest or investing it in shares or land. People with spare wealth in a monetary form would no longer have to worry about the effect of inflation upon that wealth. A stable currency would ensure that such wealth was also stable, and that it would retain virtually its initial value until they decided to consume it themselves.

INTEREST vs. INFLATION, OR SAVING WITH A STABLE CURRENCY ?

The advantage of a stable currency can be illustrated in the following way :

If a man sold his farm for $100,000 and invested the money at 10% per annum, then he would have a **nominal** income of $10,000 per year.

However, inflation progressively decreases the value of all such assets, and reduces the purchasing power of the interest received. As a result, after 30 years with inflation at 14% per annum, the original $100,000 would have declined in value to $1,084, the interest payable upon it would be worth approximately $2 per week, and the total value of the asset—i.e., interest paid plus remaining capital—would be approximately $72,000.

By contrast, if this money were saved in a stable currency, without interest, and $72,000 were spent over thirty years, then $28,000 would remain. If spent at the same average rate it would last a further twelve years.

As only a relatively small proportion of investors manage both to keep ahead of inflation and to retire with $100,000 in the bank, it is evident that interest plus inflation brings more people onto the pension, and does this more rapidly, than would the process of saving for retirement in a stable currency without the "benefit" of interest.

INTEREST IS TAXABLE, SAVINGS ARE NOT

Another factor which could make living on savings more profitable than living on interest is the tax usually levied against unearned incomes of any sort. This tax reduces the net return most people obtain through lending at interest, and adds to the difficulties the average investor experiences when he tries to protect his savings against the ravages of inflation.

Only income left after the payment of rates and taxes is available for saving, so it is clearly unjust to tax "incomes" received from savings, when these "incomes" are less than would be obtained by storing wealth in a stable currency and consuming it gradually.

This consideration shows that it is scarcely possible to redistribute unearned incomes from lenders to borrowers without also separating many hard-working individuals from wealth they have really earned. It suggests, moreover, that the only workable solution to society's problems is to eliminate unearned incomes entirely, so that no such incomes remain to be redistributed.

SAVING THROUGH BANK DEPOSITS

Man-made wealth deteriorates, and cannot actually be saved for any extended period of time. What is called saving is usually achieved by lending one's spare wealth to another, in return for an equivalent amount of wealth to be provided at some mutually satisfactory future date.

When wealth which is to be saved, loaned and borrowed has been converted into money, then banks or similar institutions usually act as intermediaries or go betweens—thereby ensuring that, generally speaking, borrowers can obtain loans when required and repay them when they, in turn, have an excess of income over expendiutre, while those who wish to save money can deposit or withdraw funds as their needs and desires dictate.

In the absence of unearned incomes, interest would probably not be paid on deposits with savings' banks. Instead, in all probability, both lenders and borrowers would pay the bank for its services. These payments could be estimated on a basis such as that now used with current accounts—individuals who make multiple transactions paying more than those who only visit the bank occasionally. In this way, wealth stored with banks would lose a little value over the years, but the loss would rarely be significant. For all practical purposes, wealth saved through banking would retain its initial value for extended periods of time, and this method of saving would be more than adequate for most purposes.

BANKS, HOUSING SOCIETIES AND FINANCE COMPANIES

For this reason, the community collection of site rents would make very little difference to money stored or saved with banks, housing societies, finance corporations and other similar types of lending institution.

Those whose investments were in this form would probably leave their money where it was. The community may elect to lower the rates of interest payable on such investments, or even to abolish interest on them altogether, but there would really be no need for legislation of this type. Once land ceased to be a vehicle for investments, interest rates would truly be fixed by the law of supply and demand, and this law would ensure that interest gradually disappeared.

The demand for loans would continue—as people borrowed money to pay for houses, factories, farm improvements, vehicles, consumer durables, etc. However, most home, farm or factory owners would discharge their debts quite rapidly, as they would no longer have to outlay large sums of money for a building block or other site. Consequently, many who are now borrowers for the whole of their lives would become lenders and savers at quite an early age—thereby increasing the supply of money available for loans.

Similarly, money now being invested in land would be loaned instead, while the community's numerous ex-landowners would gradually convert their government bonds into cash.

These factors would increase greatly the supply of money available for lending until it equalled or exceeded the demand for loans—by which time interest would probably have declined until it merely covered the costs of lending institutions.

Under such circumstances, if any lender claimed more interest than this, then would-be borrowers would seek funds elsewhere. At the same time, those who owed money to people who still claimed high interest—as could happen, for instance, with lenders from countries which were not collecting site rents for the community—would seek money from lenders nearer home. The interest-bearing loans would be repaid and replaced with non-interest bearing loans, or, at least, with loans bearing interest at a lower rate.

In these ways, then, the amount of interest paid in the community would progressively decrease, and interest could eventually disappear almost entirely. In that event, the only loans on which interest would still be paid would be those to which a large risk was attached, and if the supply of money became great enough, even those might not attract significant amounts of interest. In these as in all other instances, the law of supply and demand would settle the issue between lenders and borrowers.

SHAREHOLDINGS

A somewhat similar fate would presumably befall money invested in shares.

Thus, the government could direct companies either to pay dividends up to the full market value of every share, or to recompense shareholders with funds either borrowed or raised in some other way. However, as with interest, there would be little need for such government decrees. In practice, existing companies would continue paying dividends, but they would gradually meet with competition from companies formed entirely of entrepreneurs, workers and management.

Newly-formed companies would purchase plant and machinery with borrowed funds, instead of raising capital on the share market as happens at present.

Large sums of money would be required in most instances, and such companies would not, therefore, offer very stiff competition to existing companies until they had repaid their debts. However, once that day arrived, the new companies would undersell those still paying dividends to shareholders, the latter would have to reduce prices, and dividends would fall. Alternatively, non-dividend-paying companies would offer higher wages to workers, so dividend-paying companies would either follow suit or lose employees to their competitors.

In either case, dividends would decrease gradually, over a period of years, and few if any investors would lose the money they had invested in shares.

COMPANY LANDHOLDINGS

Another factor which would provide shareholders with some support is the fact that most company assets include a parcel of land.

Each company, in common with other landowners in the community, would receive a government bond to the full market value of its site. This bond would be converted into cash over a period of twenty or forty years, and the funds thus acquired would help bolster up the shareholders' gradually diminishing dividends.

THE STOCK MARKET

These factors would ensure that trading in stocks and shares would continue for a time, so that even stockbrokers would not become redundant immediately. They too, would have time to adjust to new and better socio-economic conditions, and to acquire some alternative means of earning a livelihood.

HOUSES, FLATS AND OTHER PROPERTY

A third means of saving many people adopt is to spend spare wealth on flats, houses or other property, thereafter receiving income from them as rent.

Such an investment consists partly of land and partly of buildings—the latter providing a useful means of saving because they deteriorate only slowly and—with proper painting and maintenance—may retain almost their full initial value for twenty to thirty years.

The community collection of site rents would make very little difference to investments of this sort.

Owners of such property would receive a government bond to the value of their site or sites. In return they would contribute to the community whatever proportion of their rents was applicable to land, and retain for their own purposes that proportion applicable to the houses, flats or other improvements.

Thus, if a block of flats returning $100 per week were erected upon a site with a rental value of $520 per annum, then the owner would pay $10 per week to the community and retain the remaining $90 per week for himself—and similar considerations would apply to farms and to all other tenanted property.

In this way property owners would receive income from their investments for many years, and those who kept their property in good repair would possess a steady income for the remainder of their lives. They would not be unduly affected or inconvenienced by the loss of land as a source of unearned wealth.

PROLIFERATION OF RENTED DWELLINGS ?

This fact, incidentally, could lead many people to rent homes in preference to buying them.

People likely to make this choice are those who remain only a few years in any given area—moving on then to some alternative post.

These days such people prefer home purchase to tenancy, because a home owner possesses an inbuilt balance to inflation which a tenant lacks. His property will appreciate in value to more or less keep pace with inflation, and he will usually be able to sell it and buy another when the time comes for him to move.

The tenant, on the other hand, has no such security. Inflation will erode the value of his monetary savings, and if, at some future date, he should be unable to rent a suitable dwelling, then he may be forced to borrow heavily in order to build or purchase one.

The elimination of inflation would remove this insecurity and could lead to an increased demand for rented homes. However, this factor would be balanced by an increase in the number of people who—freed from the hurdle of land price—would be able to afford a home, and whether or not there would be any net increase in the number of rented dwellings is very hard to say. All the same, it is reasonably certain that there would be quite a considerable demand for such dwellings, and many citizens would be able to conserve their wealth for later use by building homes with it.

FAMILY FARMS AND SIMILAR INHERITANCES

A fourth type of investment worthy of mention in this connection is the family farm.

Family farms have decreased in numbers lately, and, paradoxically, one reason for this is Probate—a measure introduced to limit the passage—from father to son—of undue quantities of land or man-made wealth.

PROBATE AND THE PRICE OF FARMS

These days, farm land is very expensive, and a dairy farmer, for instance, may barely make a living upon land which costs $50,000.

Victorian Government Probate duty on this sum would be $3,850 if the estate passed to close relatives*, and many families cannot obtain sums of this order (plus those needed to pay Probate on improvements, and Commonwealth Estate duty where applicable) without selling a portion of the family farm.

Needless to remark, when farms or portions thereof are auctioned because of Probate, the purchaser is more likely to be rich than poor, and so this measure actually promotes the aggregation of wealth, instead of inhibiting it.

At the same time, those who own or inherit large estates usually have cash in hand, suitable insurance policies or similar liquid assets with which to pay Probate, so Probate tends to fragment small estates, while leaving larger ones intact—which, of course, is the opposite of what it was intended to do.

ELIMINATION OF PROBATE

The community collection of site rent would ensure that the only way to aggregate wealth would be by working for it, and there is no reason whatever for trying to inhibit the passage of such wealth from father to son.

For this reason, probate, estate and succession duties should all disappear, once the community as a whole collects the site rent it creates, and, in such circumstances, it would be quite easy for people to pass wealth or personal property on to their descendants.

Farmers, for instance, would leave improvements to their wives or children, while those who owned flats, houses or other buildings would do the same.

These improvements would be attached to a site. The lease upon that site would then transfer to whoever inherited the man-made wealth upon it, and that person would continue the site rent payments previously made by his or her ancestor.

FEW COMPETITORS

It might be argued that such a beneficiary would have to compete against other would-be tenants or lessees for the site, but this would rarely occur.

A person who received buildings, crops, fences and other improvements **gratis** could easily outbid any contender for the site—as all others would have to purchase the improvements from him. In practice, therefore, there would be

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* **Victorian Year Book**, 1974, page 654.

very little competition for inherited estates, and people who wished to do so would be able to keep farms and similar property in the one family for several generations.

INCENTIVE TO USE OR TO SELL

On the other hand, if the descendants of a farmer or other property owner did not wish to continue the enterprise, then they would sell their inheritance and transfer the lease upon the site to the purchaser.

Anyone who did not do this would soon find the site rent payments burdensome, and so he would be obliged either to follow in his father's footsteps or allow someone else to use the land concerned. He would not hold the site for speculative purposes, or because he may not be able to obtain another one—as happens all too often at the present time.

For this reason, farms would usually be available for farmer's sons and others who wished to take up farming, few people would work for agribusinesses and similar conglomerations, and the family farm would re-emerge as the normal type of agricultural enterprise.

ONLY RIPPLES

These considerations relating to unearned incomes and inheritances show that the most stupendous financial revolution in history could be accomplished with negligible upsets to ripple the surface of socio-economic life.

If the government of any State were (a) to give each person who owned land within its borders a bond to the value of his land, and (b) thereafter to collect all site rent into the treasury, then no person's present wealth would be diminished, but the vast majority of citizens would soon be incomparably better off. This reform, therefore, is one which can be recommended with no reservations at all.

LOWER TAXES

A fifth benefit which could flow from the community collection of site rents would be a considerable reduction in taxation, and it is possible that site rents, alone, would eventually provide governments with an adequate supply of revenue.

Table III** lists the various taxes and rates Australians paid in 1970-71. It shows that Australia's governments collect revenue in diverse ways, the majority of which are indirect.

These numerous indirect taxes provide more than half of the total government revenue. They are often costly to collect and it is difficult to prevent them from being passed on to the poorer citizens. It would be no loss to anyone if they were all removed and replaced by the site rent fund.

STATE TAXES

The site rent fund might not suffice to replace all indirect taxation immediately, but it should be possible to eliminate all State taxes in this way.

Thus, in 1970-71, Australia's citizens earned a total of $25,392 million***, and, as shown earlier, this would also be the approximate total value of the country's privately-owned land. If site rents averaged only 5% of present capital values, then the rental fund should exceed the $1,015 million which the States collected as taxation in that year.

** *Year Book Australia*, 1973, pages 566, 583, 584, 595.

*** *Year Book Australia*, 1972, page 475.

	Direct Taxes $000	Indirect Taxes $000
COMMONWEALTH TAXES (Total $7,181,325,000)		
Income Tax	3,174,983	
Company Taxes		1,427,529
Estate & Gift Duties	77,896	
Rates on Land	2,066	
Customs & Excise Duties		1,519,449
Sales Tax		632,537
Payroll Tax		247,677
Other Taxes, Licence and Registration Fees, Fines, etc.		99,188
STATE, A.C.T. & N.T. TAXES (Total $1,015,365,000)		
Estate, Gift & Succession Duties	149,400	
Land Tax & Rates on Land	95,266	
Metropolitan Improve't Rates	8,900	
Liquor, Lotteries, Poker Machines, Gambling, Racing		176,402
Motor Vehicle Taxes (Registrations, Licence Fees, Road Taxes, etc., etc. !)		259,885
Stamp Duties not elsewhere included		242,551
Other Taxes, Fees, Licences, etc.		82,961
LOCAL GOVERNMENT TAXES (Total $420,700,000)		
Rates on Land & Property	410,600	
Licence Fees, etc.		10,100
	3,919,111	4,698,279
TOTAL OF ALL TAXATION		$8,617,390,000

Table III : Taxation in Australia, 1970-71

EXISTING SITE RENT COLLECTIONS

It should be noted that Australia's governments already collect some site rent as rates, as land tax, and as estate and succession duties—most of which are collected by either State or Local governments.

Some of these are levied against property other than land, and the published data do not allow one to differentiate between charges levied against improvements and those which constitute a partial collection of site rents.

However, Table III shows that Estate, Gift and Succession duties, Land Taxes, and Rates on land and other property totalled $744 million—8.6% of total government revenue—in 1970-71. If one-half of this sum was raised through charges levied against improvements, then approximately 4% of Australian government revenue is obtained from the site rental fund, which, in its turn, is generated by the presence and activity of the community as a whole.

IMPORTANCE OF LAND TAX AND RATES

Site rent does not provide a large proportion of present-day government revenue. Nevertheless, the community collection of site rent in the form of land tax and municipal rates is largely responsible for the present prosperity of Australia—a distinction it shares with the high wages which result from reasonable trade union activity.

If the community collects some of the rental value of any site, then it discourages people who have no immediate use for that land from holding onto it—because few people will pay any considerable sum in return for the privilege of holding on to sterile land.

In this way, land tax and local government rates—particularly rates levied against site value or the so-called unimproved capital value of land—keep a reasonable number of sites on the market, thereby limiting both the rents and the selling prices landowners may obtain, and reducing the proportion of the community's total earnings which is disbursed to investors as unearned income.

EXEMPTIONS AND REDUCED RATES OF LAND TAX

Unfortunately, however, land tax is subject to many exemptions—each of which reduces its effectiveness at keeping vacant land upon the market—and much of Australia's inflationary spiral and other economic problems can be traced to this fact.

For instance, land used for primary production is often taxed at a rate lower than that applied to city land. This lower rate of land tax makes farm land into a good investment for non-farmers and farmer-landlords, but at the same time it converts land into a very expensive necessity for the genuine, full-time primary producer. By the same token, many home sites are exempt from land tax, and this accounts for the huge sums many would-be home owners must outlay, in order to secure a building block.

The removal of all exemptions and partial exemptions from land tax, and the shifting, onto sites, of all municipal, water and sewerage rates now levied against improvements, would ameliorate Australia's present chaotic economic situation, and such a change can be recommended with confidence.

Nevertheless, this measure would not solve society's economic problems. These problems can only be solved completely and permanently by substituting universal leasehold for non-universal landownership—a change which could be achieved if compensation were paid in the manner already described, and the administrative machinery now used to collect rates and land tax were suitably modified. Such a change would not present any difficulties which intelligent and capable administrators could not surmount.

REDUCED NEED FOR TAXATION

The site rent fund would not only replace many existing taxes, it would also **reduce the need for government revenue in several ways.**

This is so because a great deal of modern taxation exists merely to redistribute incomes and to ameliorate poverty and hardship caused by the present-day maldistribution of wealth.

The substitution of universal leasehold for non-universal landownership would correct the primary imbalance which exists in society. It would enable any healthy person who wished to do so to support himself and his family and to provide for his future, and it would remove the cause of the inflation which now prevents many people from living on their savings when they retire from active work.

These factors would eventually reduce both the number of pensioners in society and the need for health schemes, state-run schools and scores of other appurtenances of the welfare state. They would therefore reduce, markedly, the government's need for funds.

INTEREST ON THE PUBLIC DEBT

Another side effect of the site rent collection which would reduce the need for taxation would be the eventual elimination of interest on the public debt.

In Australia in 1970-71, the total debt owed on behalf of the public by the Commonwealth, State and Local governments and their various authorities, amounted to approximately $21,775 million, and $1,131 million interest was paid upon this public debt†.

This huge interest bill represented 13% of the $8,617 million collected as government revenues in that year, so it is obvious that the elimination of interest would substantially reduce the amount of money required by the government.

INCOME TAX—PROGRESSIVE OR PROPORTIONAL ?

One way in which taxation could be reduced would be by making income tax proportional instead of progressive as at the present time.

Such a change would be in order, as there would no longer be any exponentially growing incomes to redistribute. If income tax remained progressive, in the absence of such incomes, then it would inevitably dampen initiative, reduce the funds available for the establishment or expansion of business enterprises, inhibit saving and lending and decrease the number of people who could live on their own savings in retirement. It would seem, therefore, advisable to make this change in income tax as soon as the site rent collection was instituted.

SIMPLIFIED INCOME TAX RETURNS

A change from progressive to proportional income tax could be associated with a simplification of income tax returns.

Instead of allowing deductions for insurance, education costs, medical expenses, etc., there could be a lower limit below which no tax was payable, and citizens could finance their own private and family expenses from this amount.

If, for instance, the lower limit were fixed at $500 per person per annum, then a man with a wife and two children would pay no income tax until his gross household income exceeded $2,000 per year, while a family of twelve would pay no income tax until their earnings exceeded $6,000 per year—regardless of whether there were one, two, three or half a dozen income earners in the family.

Every dollar earned above these amounts could be taxed at a uniform rate—thereby greatly simplifying calculations for both citizens and the taxation department.

THE SITE RENT COLLECTION IN A SINGLE STATE ?

A question which naturally arises in Australia is : "Could the site rent collection be instituted in a single State ?"

The answer is : "Yes, although the full benefits of the measure would not be realized unless that State were also able to possess its own currency—as otherwise the volume of its money could not be regulated in proportion to the population and volume of trade".

If Victoria, for instance, were the first and only State to collect all site rents for the community, then unearned in-

† **Year Book Australia**, 1973, pages 601-14. The figure given for the total debt is only an approximation, as it does not allow for inter-governmental borrowings, etc. However, it is near enough for practical purposes and certainly shows that Australia's governments carry a tremendous burden of interest-bearing debt.

comes, unemployment and the need for inflation would eventually disappear from that State, while persisting in other States.

As a result, the debasement of Australia's currency would continue, so that any wealth Victorians saved in a monetary form would deteriorate progressively, even though they would be unable to counteract this by investing money at interest in their own State.

However, land purchase and interest-bearing investments would persist in other States, so Victorians would be inclined to lend spare wealth over the border or use it to purchase interstate land. The returns Victorians obtained from these investments would counteract their losses due to the imported inflation—at least to some extent.

In due course the people of other States would realize what was happening. They would, surely, put a stop to this border-hopping wealth in the only logical way—by compensating each person who owned land within their borders (including the absentee Victorian landowners), thereafter collecting their own site rents as community revenue. In this way, then, the measure would soon spread to encompass the entire continent.

EXCHANGE RATES

Somewhat similar considerations would apply to the financial relationships between different countries.

A country which instituted the site rent collection would be able to maintain the stability of its own currency quite easily, but it would obviously have no control over the currencies of the nations with whom it trades.

Consequently, if inflation continued overseas, then the local currency would have to be revalued periodically. This could be achieved by allowing the currency to float—in which case its value in relation to other currencies would be determined by businessmen and bankers whose livelihood may depend upon their knowledge of the relative purchasing power of different currencies.

Such a freely-floating currency would reflect its true exchange value in relation to various other currencies, and, while its rate of exchange may exhibit small day to day variations, it would not be subject to the marked and spasmodic fluctuations which occur when revaluations or devaluations take place at the whim of governments.

MORE INTENSIVE USE OF LESS LAND

Perpetual and universal leasehold tenure would not only reduce taxes. It would also reduce the amount of land required, by encouraging people to make more intensive use of smaller quantities of land. In this way, universal leasehold tenure would both correct the city sprawl and allow vast tracts of currently alienated land to be returned either to nature or to the aborigines whose forefathers originally inhabited it.

THE CITY SPRAWL

The city sprawl would respond dramatically to the institution of perpetual leasehold tenure for everyone.

People would not rent land for which they had no immediate use, and so the numerous vacant blocks which now dot city and townscapes would become available for lease.

Most citizens would prefer these blocks to more peripherally located ones. Consequently, the uneven expansion of cities and towns would be arrested, and—at least for several years—virtually all new homes, factories, shops and offices would be built on land bordered by sites which were already occupied.

Perpetual leasehold tenure would, therefore, markedly reduce the costs of local government, greatly simplify the provision of roads, streets, gas, water, electricity and other amenities, and ensure that all sites were provided with essential services within a few months of being occupied.

This would be in marked contrast to the present situation, wherein the city sprawl adds miles to the length of roads and pipelines, and adds years to the time taken to provide homes on the outskirts of cities—where the sprawl is always at its worst—with sewerage and other essential services.

CONSERVATION OF BUSHLAND AND OTHER NATURAL RESOURCES

Many people are concerned at the way in which the world's forests and other natural resources are being alienated and destroyed. These people rightly point to the needs of future generations and tend to regard avoidable clearing of bushland as an act of vandalism against future citizens.

The problem of conservation would solve itself if all site rents were collected for the community. This would come about in two main ways:

First, most countries have large tracts of cleared farm land which are not being utilized to the maximum possible extent. This land is owned by speculators or investors who often lack both the time and the ability needed to realize the full potential of that land.

Much of this land would be returned to the Crown if the annual rental value of all alienated land were collected by the community. It would then be available to anyone who was willing to pay the rent, and such people would not be dilatory in making full and proper use of it.

This land is usually much more desirable than forest land, as it is closer to centres of population. Accordingly once it became freely available few people would move away from the towns or slave away at clearing forest land.

Secondly, if cleared land was available for rent, the clearing of bushland would be an uneconomic proposition. Anyone who spent his time and labour clearing bushland would find that people farming on the plains could undersell him, and his income would be very low. Thus, bushland would remain in its virgin state until there was no more cleared land available. In Australia at least, this state of affairs would not be reached for many years.

Similar considerations apply to animal life. Nowadays many unique species are being slaughtered for financial gain. Australia's kangaroos, for instance, have been decimated by hunters who sold their meat as pet food.

This practice would be uneconomic if land close to cities could be obtained for rent. Cheap pet food could be grown on such land and, by comparison, the killing of kangaroos would be a very costly proposition. Therefore, the pet food industry would no longer provide an outlet for kangaroo meat, and these unique and priceless animals would be left to live in peace.

Other countries face similar problems, so a universal and world-wide community collection of site rents could vastly increase the amount of natural bushland—with its contained flora and fauna—which the present generation would pass onto its descendants.

WOULD LAND BE ABUSED?

It might be argued that leasehold tenure could encourage people to abuse farm land and destroy its fertility—moving on afterwards to another site—as they attempted rapidly to increase their wealth.

However, this would not be so. Land cannot be used intensively unless it has buildings and fences upon it, and these are costly to provide and to maintain. They would also represent the titleholder's sole equity in his farm, and if any farmer **did** destroy the fertility of his soil by over-use, he would also destroy the value of any improvements he had supplied.

No one would want to occupy a farm with useless soil, and any improvements provided by the careless farmer would be a total loss to him. This fact, then, would militate against excessive or unwise use of fertile land.

PAST ABUSES

In any case, the record of freehold tenure is certainly not unblemished as far as good land management is concerned. Vast tracts of many countries have been eroded and rendered useless over the years, and much of this land was owned—freehold—by the person who allowed this wastage to occur. Leasehold tenure could hardly produce less satisfactory results.

In fact, such occurrences are less likely under leasehold, because, whereas people will often buy or own vast tracts of land, they will not lease more land than they can manage at any one time. They are more likely, therefore, to apply proper management practices to the land, and erosion and similar disasters should decrease in frequency and extent.

GRADED LAND USAGE

The rental value of land adjacent to cities and towns is higher than that of land a few kilometers further out.

At present, much of this valuable land is held by speculators or by semi-retired farmers, and it is not being put to very intensive or productive use.

The collection of site rents for the community would encourage people to use their land in the most logical and efficient way. Were this done, then land adjacent to populated areas would probably be used for orchards and market gardens, milk, butter, cheese, etc., would be produced a little further out, while beef cattle and sheep would be grazed on land beyond the dairy farms.

In other words, agricultural land adjacent to cities would be used intensively, more peripherally placed sites would be used in a manner which is less intensive but equally appropriate, and land beyond that would be allowed to rest or be returned to its natural state.

In this way, cities could be fed with fresh food grown near at hand, fruit and vegetables would rarely have to be transported for hundreds of miles, and the cost of living would be reduced.

AUSTRALIAN ABORIGINES

A problem as old as Colonialism concerns the lot of Aborigines and other native populations. These people almost invariably suffer when their country is alienated by others. Under existing systems of land tenure there is no automatic way in which they or their descendants can be compensated for their loss.

This problem, too, would resolve itself, were the community to collect the rent of land.

Pastoral holdings—often owned by overseas investors—now occupy enormous areas in western and northern Australia, encroaching to an increasing extent upon Aboriginal tribal grounds. These pastoral holdings would become uneconomic once land became available for rent in more densely populated areas. Inland stations would be quite unable to produce beef, mutton or wool as cheaply as it could be produced on farmland near the coast. Accordingly, most of these stations would be deserted by their present owners, and Aborigines who wished to do so could once more take possession of their tribal grounds.

At the same time, Aborigines who wished to live or work in other areas could rent land upon the same terms as those applicable to white Australians—instead of being grouped in areas which few other people wish to occupy, as happens all too often at the present time.

In this way, indigenous populations would no longer fear that an influx of immigrants would rob them of their rights, their land or their jobs. On the contrary, under perpetual and universal leasehold tenure, new settlers would be welcomed as co-producers of prosperity, because, by bringing new ideas and new skills into the country, they would facilitate industrialization, specialization and the division of labour, thereby improving the standard of living for everyone.

EXEMPTIONS FEW AND FAR BETWEEN

This discussion on the benefits mankind would receive through collecting site rents as government revenue may conclude with a comment on exemptions.

Exemptions to the site rent collection should be few and far between.

Although some land in every community would be set aside as inalienable sanctuaries, etc., all land which is alienable should be subject to the site rent collection—even land held or used by governments for parks, markets, saleyards, public buildings, etc. These facilities are used to a varying extent by each of the different levels of government in any country. Disputes between different governing bodies can be avoided, only if site rent is collected on all government property.

In any case, this would not differ appreciably from what often happens at the present time. All levels of government—Local, State and Commonwealth—acquire land at times, and they pay ruling market rates. In other words, governments now **purchase** land when they require it. There is nothing to prevent them **renting** it instead.

Similar considerations should apply to groups of people who wish to build and maintain churches, schools, places of amusement, sporting facilities, etc. All such groups should contribute the rental value of any land they occupy to the community, in the usual way. If this were done, then no group of citizens would be treated more generously than any other group, and disputes would be minimized. At the same time, this measure would ensure that all land was used to the optimum extent. Neither government bodies nor groups of private citizens would pay rent for land, if they were not making adequate use of it.

14. LANDOWNERSHIP — A VERY COSTLY PRIVILEGE

Over the years, many people have more or less grown up with the idea that landownership is preferable to leasehold tenure, and with this in mind, individuals usually try to buy the land they occupy.

However, few people realize that landownership is a very costly privilege, simply because **it is not possible for landownership to be diffused equitably and evenly throughout society.**

UNIVERSAL LANDOWNERSHIP AN IMPOSSIBLE IDEAL

Universal and equitable landownership is an impossible ideal because : (a) many people could not use land which is essential for the life, health, well-being or occupation of their fellow men; (b) land values vary in different parts of the one country or state, and even similar parcels of land may differ enormously in value; (c) people come and go, and each generation has a different composition to the previous one. Therefore, even were an equitable distribution of land achieved, this equity could not be maintained unless large tracts of land were re-allocated every few years. (d) Regional changes in population or prosperity may cause the value of some land to increase ten, twenty, thirty or even one hundred-fold over a period of a few years, while other land may decrease in value or even become quite worthless in a similar period. For this reason, even with a static population land would have to be re-allocated periodically, if all people were to own a similarly valuable area of land.

LANDOWNERSHIP PRODUCES INEQUALITY

It is therefore apparent that wherever landownership exists, society is inevitably divided into those who own land and those who must rent or purchase it, while the landowners are further divided into those whose holding is of little worth, and those whose holding is enormously valuable, with, of course, all gradations in between.

EXCHANGEABILITY OF MAN-MADE WEALTH AND LAND

It is perhaps less obvious but nonetheless true that wherever land can be bought, sold and rented to others by private individuals then :

(a) a means exists whereby landowners can acquire an unearned income, so that the more fortuitous or acquisitive of them eventually become quite rich without working very hard for it, and;

(b) man-made wealth becomes interchangeable with the land which no man made, so that perishable wealth (which normally decays with time) can be converted into debts which endure and bear interest—thereby providing a source of unearned income similar to that possessed by landowners, to any person who has wealth to spare.

These factors not only potentiate and aggravate existing inequalities, they actually convert a perfectly normal, reasonable and responsible human characteristic—i.e., the desire to save some of one's present wealth for future consumption —into a force which inevitably produces unemployment in the human community.

AGGREGATION OF POWER AND WEALTH

The first of these consequences of landownership produces the well-known phenomenon whereby small enterprises tend to be taken over by larger ones, country industries are gradually absorbed into city based combines, and domestic companies eventually become mere subsidiaries of foreign corporations. Little by little, it whittles away the independence and importance of the individual citizen and small businessman, while transferring the power to "hire and fire" (i.e., to grant employment or to cast individuals out among the unemployed) increasingly to nameless and inaccessible people who may live thousands of miles away.

This process is utterly inexorable, and through it even the very soil of a country may pass into the possession of a handful of acquisitive international financiers.

SOVEREIGNTY—LAWFULLY ELECTED GOVERNMENTS OR PRIVATE FINANCIERS ?

No government can ignore the wishes of those who control a substantial proportion of its industrial plant and machinery and/or land. Yet private landownership provides a means whereby those who possess this power may or may not be citizens of the country concerned, and, in some cases at least, they are agents of financial institutions with world-wide links.

Consequently, when a government allows land within its borders to be bought and sold, it thereby risks handing over some of its sovereignty to the faceless men of international finance.

These men are concerned only with increasing their own fortunes and sphere of influence. They are not particularly interested in the welfare of states or individuals, and they represent a very poor substitute for a democratically elected government.

SAVING PROMOTES UNEMPLOYMENT

The second consequence of landownership is equally deleterious to individuals and society. It is concerned with the effect the interest spawned by landownership has upon the respective wealth of lenders and borrowers.

BORROWERS AND LENDERS BOTH ESSENTIAL AND NORMALLY IN BALANCE

Borrowing and lending go on concurrently in every society, and without them no society could progress or acquire roads, bridges, railways, harbours, aerodromes, hospitals, schools, factories or productive tools.

Society always contains numerous people who wish to borrow, either to gain a start in life, to set themselves up in business or to expand an existing enterprise, or to acquire goods and services before they have other goods or services to offer in exchange.

These borrowers are normally balanced by lenders—i.e., people who wish to save some of their present wealth for future consumption. They achieve this by getting others to use their wealth before it decays, and to provide, at some mutually agreed upon future date, an equivalent quantity of freshly produced wealth in return.

Borrowers and lenders are essential to one another, and it would, therefore, seem reasonable for the amount of wealth returned to be equivalent to the amount originally loaned.

Nevertheless, this condition is rarely satisfied wherever the interest spawned by landownership exists. Instead, in the presence of interest, while the wealth of borrowers tends to remain static, that available to lenders tends ever to increase, thereby providing some lenders with an income which then will show an exponential growth.

BORROWERS EXHAUST CREDITWORTHINESS

If lenders consumed, immediately, all the wealth they acquire as interest, then they would enjoy a higher standard of living than borrowers, but society as a whole would not suffer to any great extent.

Unfortunately, however, lenders **do not** always consume, immediately, all the extra wealth they acquire as interest. Many lenders receive such wealth long before they wish to consume their savings, so they naturally seek another borrower for it.

But while interest permits lenders to acquire ever-increasing quantities of wealth to lend, it has no such effect upon the borrowing capacity of society as a whole. Consequently, interest inevitably leads society into a situation wherein lenders possess wealth they wish to conserve for future use (by lending it), in quantities greater than those which can or will be borrowed by creditworthy members of that society.

In other words, wherever interest exists, the wealth available for lending tends inevitably to exceed the amount that can or will be loaned.

PRODUCTION OVERTAKES AND EXCEEDS CONSUMPTION

Wealth set aside for lending cannot be consumed until it has been loaned. Consequently, whenever the wealth available for lending exceeds the amount that can be loaned, then production overtakes and exceeds consumption—despite the presence in the world of millions of people who would gladly consume additional wealth.

Business slumps and recessions therefore occur, not because individuals and families do not require additional goods and services, but because wealth they would gladly consume has been set aside for lending, and it cannot be loaned (and consumed) if no would-be borrower is creditworthy enough to borrow it.

UNEMPLOYMENT

When goods and services are not consumed, then there is no income for those who have produced and/or distributed them (or no work for those who would produce the goods or provide the services in question), and unemployment results—so it is not surprising that people are bombarded with advertising and exhorted to buy now for cash or on "no deposit and the easiest of terms".

UNEMPLOYMENT—A SOCIO-ECONOMIC DISASTER

Unemployment is a socio-economic disaster of the first magnitude, because, once established it perpetuates itself. People who are unemployed cannot purchase many goods and services, so unemployment tends to spread progressively, and governments rightly do their best to prevent or ameliorate it.

Governments do this either by confiscatory taxation and welfare state measures which redistribute income from lenders to borrowers, or by debasing the currency, and both of these measures have been used to a varying extent for many years.

USELESS PALLIATIVES

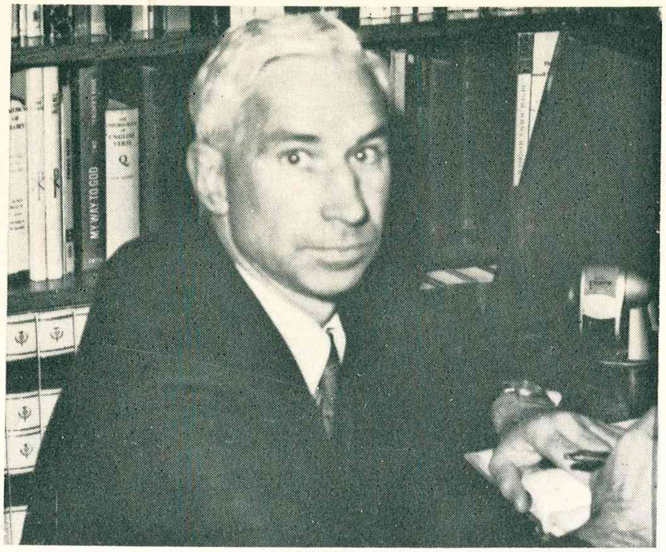
However, neither taxation nor inflation provides a panacea for the problems produced and perpetuated by the private ownership of land, and this fact should surely be obvious by now. Large doses of both taxation and inflation have been administered, repeatedly, to the long-suffering public, and all that has happened is that both have tended to perpetuate themselves, while inflation, and the multitudinous socio-economic troubles which accompany it, is the problem which is now uppermost in many person's minds.

SURGERY ESSENTIAL

It is therefore apparent that socio-economic ills will not respond to such palliatives. A radical cure is needed and this cure is the surgical removal or extirpation of landownership from human society.

Up till now, landownership has been a largely unrecognized thorn in mankind's side. Now that it has been exposed, it should be removed most expeditiously, by replacing landownership with a system wherein every one rents land from everybody else.

The problems persisting in society cannot be solved unless non-universal landownership is abolished and replaced by universal and perpetual leasehold—with all site rents being collected as community revenue. Such surgery, it seems to me, is the only treatment any doctor worth his salt could recommend.



Dr. Les Hemingway is a graduate of Melbourne University. He is the father of ten children, and has been in general practice in Warrnambool, Victoria, since 1958.

He first became interested in economics when defending the moral teaching of the Catholic Church. He found that discussions on the morality of contraception often led to a consideration of world population problems, and it soon became apparent that these, in turn, had connections with the way in which nations managed (or mismanaged ?) their economies.

Dr. Hemingway does not visualize the solution to economic problems in terms of the capitalism of today, as this leads inevitably to the formation of monopolies and to an unhealthy aggregation of power and wealth. Nor does he see socialism or communism as the solution—as these show little or no respect for private property and individual enterprise; and he regards the welfare state as of limited value because it tends to become a creeping, all-embracing form of socialism—as in some countries today. Instead, he believes that free enterprise economies must solve their problems by distinguishing carefully between public and private property, channelling the former into their treasuries and leaving as much as possible of the latter in private hands.

Each community generates public revenue for itself, and this emerges in the form of payments made for the use of land. Unfortunately, this fact is not yet adequately recognized, so that private earnings are regarded as fair game for the tax gatherer, while much of the public fund is treated as private property. This latter oversight gives rise to unearned incomes, some of which may double or even quadruple every few years, eventually becoming virtually unlimited.

Unearned incomes derive, ultimately, from earned incomes, and these are limited by the earning capacity of various individuals, and by the employment opportunities open to them. It is seen by Dr. Hemingway that limitless "unearned" incomes cannot be drawn from limited sources, without giving rise to problems of one or another sort.

This book describes many of these problems. It shows how they may be overcome with little detriment to anyone's present financial position, and in a manner which can ultimately reduce the work load and increase the standard of living for virtually everyone.