

ECONOMIC REFORM

Part 3 - Lectures on Normative Economics

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These six lectures were given at 12 Addison Avenue, Holland Park, London W11 4QR. There is a reading list at the end of the lectures. This is followed by a commentary, in Appendix 1, which addresses some of the less familiar concepts drawn upon within the lectures.

Where terms are used in a specific sense that is different from the general usage, these have been put into *italics* when the term is first defined, and as necessary for clarification thereafter. (These terms were frequently shown in upper case in the original typed manuscripts from which these talks were given.)

[Consider Tommas' proposed additional page here.]

Introduction

This lecture series is about *normative* economics, in which the term *normative* is used in a very special and distinctive sense – in answer to the question 'what would be *normal* for the particular type of economy that we have now?' - as different from *positive*, used to denote the type of analysis provided by the self-fulfilling, quasi-empirical modern approach to economics.

In this context, the social diseases of the present age – such as poverty, unemployment and inflation – are not to be considered *normal* for our type of economy, even though they may have arisen as the result of a natural process. Progress towards the *normal* then depends upon knowing where one is, where one wants to go, and how to get there. As Burgess describes it, “the concept of what is *normal* must prospect to a country beyond the logical and even psychological if it is to breathe the clean air and partake of the easy spirit of civilisation and justice.”

At an early stage, Burgess introduces some esoteric concepts – such as the 'Law of three forces' and the 'Law of the sequence of events'. These concepts are briefly explained in Appendix 1, and in these lectures they are used to illustrate aspects of the development of a modern trading economy, and in particular its relationship to the supply of various public services.

Noting the important differences between ends-connected and means-connected organisations, and that “there may be as many individual ends, good or bad, as there are individual persons”, Burgess then observes that: “individual persons... spontaneously create... a means-connected order”, and further, that “within such a spontaneous means-connected order there will exist from time to time ends-connected organisations.” This discussion necessarily introduces the concepts of specialisation and trade.

The science of economics therefore begins in consideration of the fundamental social laws applicable to the relationship between the polity and the trading economy, in which specialisation is the norm.

A fundamental feature of Burgess's esoteric analysis is that "a means-connected trading community works more efficiently and can only realise its potential when provided with a variety of goods and services from outside the trading system. The provision of these necessary public goods and services calls into existence the polity." The use of this terminology, drawing on the precision of thought of the Scholastic tradition, is addressed in Appendix 1.

Burgess also notes the widely observed basic 'economic law' of 'no labour, no wealth', in which the term 'labour' relates specifically to the use of the innate human power to modify the non-human universe, (and to be modified by the non-human universe), and the term 'wealth' denotes the modified non-human universe (thereby excluding any modifications of human nature itself, such as the development of culture, etc.).

From this is derived the associated principle of not stealing: "For the human race collectively the universal law does not give the possibility of getting 'owt for nowt' (i.e. something for nothing). Whilst everything is given, the universal law is that the modified universe is actualised only when the human race collectively use that which is given. But distributively, the possibility of stealing exists."

The discussion then moves on to the interaction between the human power to modify (and to be modified), and the non-human unmodified universe, at a location subject to conditions – an example of the esoteric 'Law of three forces' mentioned earlier, and as commented on in the nineteenth century by many conventional economists from David Ricardo to Karl Marx. For these authors, "money was a veil behind which economic forces worked themselves out as if there were no money", and it may be said that it remained for Keynes to move the discussion forward.

Following Keynes, Burgess then takes the monetary trading economy to be *normal* - "that is to say, goods and services of all kinds will be traded for an accepted general claim to goods and services of all kinds. This being so we may express distribution in terms not of output but as receipts. During its lifetime a particular firm will have produced an output which will have been sold at

current market prices. Thus prices times output will yield the firm's total receipts – the total claim to goods and services generated by that firm.”

Careful consideration then discloses that the unmodified universe is, in the *normal* case, a free good, provided that it has not been appropriated.

Similarly, according to Burgess, this “issue of location arises as a result of the multiplying out of the real continuous whole of the modified universe. In this process it becomes manifest that the point of interaction between the inert force (the non-human inputs), and the active force (labour), for any particular firm will stand in a particular spatial relationship to all other points of interaction... Thus every possible point of interaction and every possible relationship between those points is given in the real continuous whole of the universe... Location then is essentially a part of the unmodified universe and is to be distinguished from an input only by the fact that it is conditioning rather than inert. In the nature of things, therefore, location is, as is the rest of the unmodified universe, a free good.”

It is then necessary to consider the different aspects of the active force, represented by the term 'labour'. Some forms of 'labour' are, strictly speaking, the outputs of other firms. The net output of any one particular firm is therefore its total output over its lifetime, less its specific inputs from other firms (costs), and these net outputs can be aggregated without double counting. This net output of a firm is referred to as its 'net added claim'. “Now,” says Burgess, “if we can state how these net added claims are distributed in respect of any particular firm then by aggregation we will be able to state the distribution of total claims to the modified universe, and, therefore, the distribution of the modified universe as between claimants.”

It follows from the preceding argument that all net added claims can accrue only to labour, but two cases have still to be distinguished. Firstly, there are those who, by way of choice or necessity, are employed by a firm. This employed labour will receive its market price, identified as 'pay'. After deducting these

particular net added claims, the remaining amount will accrue to those who constitute the firm itself, identified as 'wages'. This last amount is the remainder – what is left from the total receipts of market prices, received from the sale of outputs, after meeting the cost at current market prices of inputs which are the output of other firms, and the pay of employed labour.

It should be noted that, in all cases, labour receives the full market value of its output, free of any deductions. In the case of a firm, this value is represented by the remainder, whilst in the case of employed labour, the individual is the proprietor of his own work, and is therefore to be paid in full: “It is not normal to allow individual persons to appropriate that which is given collectively and so state: 'This is mine.' It is not normal to allow some individual persons to appropriate goods and services produced by the labour of others and so state 'This is mine.' It is not normal for the majority of individual persons to have nothing to sell but their labour, for them to be denied property rights over that which they produce by their labour.”

The question then naturally arises: How is the polity to be provided with the means to fulfil its purposes?

According to Burgess, a characteristic of public goods and services is that “their provision of necessity gives rise to a collective benefit. In many cases this collective benefit is subject to spatial, or locational limitations not co-extensive with the system as a whole. However whilst this collective benefit is a necessary characteristic of public goods and services it is not a sufficient distinguishing characteristic.”

He continues: “A further distinguishing characteristic of public goods and services is that the provision of a collective benefit and the actual provision of public goods and services does not automatically yield a return from those who receive the benefit.”

An example of the distinction between capital costs and running costs in the provision of a public good arises from the specific case of railway infrastructure. Burgess explains that, “on the issue of capital costs, there are firm grounds for concluding they should be covered by the polity out of revenue collected from those who

collectively receive the benefit. On the issue of running costs since it is possible for a bargain to be struck between the user of the service and the supplier of the service, then it is possible for the service to be a private sector operation. Any decision on this latter issue will turn on the particular circumstances of the particular case and cannot be decided at this distance.”

The general case is then summarised. “First, the activity must provide a collective benefit to every individual person or firm within a certain geographical area or the whole of the trading community. Second, the activity does not automatically give rise to a direct bargain between the supplier and those on the receiving end. Thus it is necessary to make special arrangements for the polity to obtain the means for continuing the supply. In the *normal* case these special arrangements can not include the imposition of a tax.”

This leads to a central question: “So what is to be considered as the norm determining the price and quantity of public goods and services provided by the polity?”

Burgess concludes that, firstly: “The revenue of the polity must cover its outgoings.” Then, it must not abuse its monopoly power to “take something out of the trading community and give nothing in return... It follows, the concept of *normal* implies that the polity operates on a balanced budget principle. It is required to supply public goods and services of a quality and quantity to a point where its revenue, taking one year with another, is just sufficient to cover its outgoings which are the cost of purchases from other firms at current market prices plus the pay of its employed labour.”

We should note that, in the case of the polity, regarded here as a special type of firm, there can only be 'employed labour', in receipt of 'pay', because there is no further distinct group of persons to 'constitute the firm itself' and who may therefore be in receipt of a remainder, in the form of 'wages'. In the terminology of Burgess, there is no 'master labour' within the polity, however skilled the work may be. To the extent that the trading community carries the ultimate risk of success, the trading community itself can be seen as fulfilling this role as the 'employer' of the polity.

The discussion then turns to the main characteristics of public goods in relation to location. “The benefits arising from the provision of public goods and services distribute themselves in a variety of combinations at all the locations within the trading community. Further since every location stands in a certain relationship to every other location we find there is created within a trading community a power of attraction which operates similar to gravity in the physical sciences.”

“Location, as we have agreed, carries the conditioning factor and thus determines the conditions of the point of interaction between the inert non-human inputs and the active labour inputs in any economic activity. Again, as we have agreed, the conditions are an important factor determining the outcome or output.”

“It follows, that certain locations will have an advantage over other locations for certain activities. It may be that some locations will have an absolute advantage over all other locations for most activities, but what is important is that within a trading community it is to be expected that all locations will have an advantage for certain activities or, at the very minimum, will be feasible locations for certain activities.”

“This being so those wishing to use a location to carry on an activity for which that location has an advantage, or is most suitable relative to other locations, will be prepared to pay a price for that location. It will be to their advantage and in their self-interest to do so. They expect to gain from paying this price.”

“As we are dealing with a trading community there will arise a market for locations and the price to be paid for the use of any particular location will be the current market price. This will appear to be the price for the particular location but in the *normal* case this cannot be, for we have agreed that location is a free good.”

“What then does this market price represent? It is the current market price for the benefits manifested at that site as a result of the provision of public goods and services. It is in fact the current market price for public goods and services. In the *normal* case this market price is assessed and collected by the polity and provides

the public revenue from which it continues to provide public goods and services.”

“Now, as we agreed earlier, the polity is required to supply public goods and services of a quality and quantity to a point where its revenue, taking one year with another, is just sufficient to cover its outgoings which are the cost of purchases from other firms at current market prices plus the pay of its employed labour. But as we have now argued this public revenue is itself determined by market forces and so the polity is constrained from exercising monopoly powers.”

“Finally, in this *normal* order the polity is subject to precisely the same fiscal discipline as every individual person and firm in the trading community; taking one year with another it is required to adjust its spending to its expected income.”

“Thus we may now interpret Maynard Keynes' statement. Economics is the trustee of the possibilities of civilisation in so far as, accepting civilisation to be the *normal*, it is the science that provides the know-how for establishing the return link for the trading community and the polity, for providing the polity with the means to provide public goods and services to the trading community. If this link is not established consistent with the fundamental social laws then civilisation cannot be realised.”

This remarkable conclusion rests on the summation of a great deal of patient research and original thought. We may note how carefully Burgess has defined his terms, and has taken care to avoid unhelpful associations arising from the use of more conventional economic concepts.

There is, however, scope for a difference of interpretation in the description given above of the polity charging a market price for the public goods and services available at a location, for only some and not the whole of this 'market price' typically relates to public goods and services provided on a collective basis. This important point is discussed further in Appendix 1, and is also clarified in some of the other sources referenced in the reading list.

1**Civilisation and Justice**

8th May 1984

Today it is commonplace to distinguish between micro-economics, concerned mainly with, as it were, the building blocks of economics such as the theory of the firm, and macro-economics, which is the modern term for what used to be called political economy. It is commonplace also to distinguish between positive economics - usually defined as the economics of what is - and normative economics - usually defined as the economics of what should or ought to be.

This seminar series is labelled Normative Economics, but the reasons for this do not wholly accord with those generally accepted definitions. I find it more useful to consider *positive* economics as the economics of what appears to be, rather than what is - the study which enables one to locate where an economy is, or appears to be, now in May 1984. In distinction, *normative* economics is concerned with the *normal* for the kind of economic order that exists now, or for the kind of economic order under consideration.

Normal is to be distinguished from natural. A deformity may be natural but symmetry is normal. The normal colour of a crow is black, while the normal colour of a London sparrow is brown, but one is as natural as the other. Similarly, what may be normal for one kind of economic order may be different from what is normal for another, although again one is as natural as the other.

Again, as I will be arguing, the social diseases of poverty, unemployment and inflation are not normal for our kind of economic order, but as our particular economy diverges from the normal then, given the particular divergence, these social diseases are natural. They are the natural outcome of certain conditions.

Considered in this way *positive* and *normative* economics combined provide a macro-economist with direction.

The minimum information necessary not to be lost, or to have direction, is knowledge of where you are, and where you wish to go. If you know where you wish to go but not where you are, you are lost. If you know where you are but not where you wish to go, you are as good as lost. But again on this issue of direction my views do not accord with those of a major part of the economic establishment. Fundamental to the thinking of many academic economists is the assumption, more often than not implicit, that it is the job of the politician or government to state the target whilst the job of the economist is limited to advising on the way of achieving that target. This is in effect to deny that economic science has any ethical content. It implies only an outward content and denies the possibility of any inward content.

Professor Pigou¹ put it in these words: “that it is for its fruit-bearing and not for its light-bearing qualities that economic knowledge is worth pursuing. If it were not for the hope that a scientific study of man's social actions may lead to practical results in social improvements, I should myself regard the time devoted to that study as mis-spent. If I desired knowledge of man apart from the fruits of knowledge, I should seek it in the history of religious enthusiasm, of passion, of martyrdom and of love; I should not seek it in the market place.”

That may be a true statement of Professor Pigou's position, but for me it is insufficient. Admittedly economics is an exoteric rather than an esoteric study. The fruit-bearing qualities are important. But to pursue the analogy: I argue that a factor determining the quality of the fruit is the root connections of the tree bearing that fruit. Economics, properly studied, is a study that conforms to the esoteric injunction, “Know Thyself”.²

1 Arthur Pigou succeeded Alfred Marshall as Professor of Political Economy at Cambridge University from 1908 to 1943. The quotation is most likely to be from A. Pigou, *The Economics of Welfare*, first published in 1920.

2 The injunction said to have been inscribed at the Temple of Apollo at Delphi.

Human limitations may require divisions in logic but, as a matter of practice, the exoteric and the esoteric - the inward and the outward, the two aspects - are complementary. Constriction in one sphere imposes of necessity a constriction in the other sphere.

Unless economics has light-bearing qualities it can never distinguish good fruit from the bad. Its fruit-bearing quality will be a matter of accident, not a matter of knowledge.

For Maynard Keynes, it would seem, economics was perhaps even more than light-bearing. At the end of World War Two, only a few months before his death, the Royal Economic Society gave a dinner in his honour when he retired after 33 years as editor of the *Economic Journal*. At the end of his speech Keynes proposed the toast: "I give you the toast of the Royal Economic Society, of economics and economists, who are the trustees, not of civilisation but of the possibility of civilisation".

I do not pretend to know what Maynard Keynes meant. I can offer you only my interpretation - what it means to me. Economics is not the stuff of which civilisations are made. That stuff is provided by others - saints, scholars, composers, writers and all such manner of master artists. Yet, regardless of the individual attainments of such people, regardless of their ideals, regardless even if every individual within a population were such a master artist, unless the economics is right there can exist no possibility of civilisation.

Thus for me the interpretation of Maynard Keynes requires economics to have a concept of the *normal*, for civilisation must be a normal development for human society. But economics and economists are concerned as trustees, not activists; concerned with keeping open a possibility rather than its realisation. Whether or not people wish to realise the possibility is not an issue central to economics.

Archbishop William Temple formulated the same idea when he stated the concern of economics to be the conditions in which "self-interest may serve what Justice demands".

I feel such a condition to be both civilised and normal. But there are great dangers in this approach, for the concept of *normal* can quickly degenerate into ideal systems, ideal states, golden ages, and so on. These latter concepts can rest wholly on a logical structure and as a result lack emotive power. In these cases the required heat can be generated only by action and re-action, the final achievement depending on generating sufficient heat to cause an explosive revolution. In any event such logical structures are too rigid, too lacking in art, too confining to the spirit, to be concordant with a *normal* which includes civilisation and justice.

Professor Joan Robinson wrote: "It is perfectly legitimate to have schools of thought in a developing subject. A school of thought is distinguished by its method, not by its tenets. Science itself, in a certain sense, is based on faith - on a confident belief that all phenomena will yield to investigation and will turn out to fit into a scheme of natural law. But this faith expresses itself in a programme of work, not in a settled body of conclusions."

She continued: "A school of thought flourishes when its followers continuously revise and shift the ideas of the founder, test his hypotheses, correct his errors, reconcile contradictions in his conclusions, and adapt his method to deal with fresh matter. It takes a great deal of genius to set a new subject going; the disciples must admire, even revere the master, but they must not defer to him. On the contrary they must be his closest critics."

Joan Robinson's purpose in making these statements was to argue that Marxism did not so develop, but soon became as she described it 'embalmed'. But this embalming process is not limited to Marxism; it is an all too common process with schools of thought. Some readers may recognise that Henry George and his works have been, like Marx, embalmed. There is no reason why the concept of the *normal* should not become a dogma or doctrine that is held on to, and maintained as true. Once a concept becomes a tenet then the embalming process is inevitable, and it is a long and hard struggle to escape from the touch of death.

So, throughout this series of seminars and after, remember, you are not the recipients of some revealed truth; whether the concept of the *normal* is true or false is not the issue. The concept of the *normal* is to be accepted or rejected on the grounds of whether its light-bearing qualities are useful for the job in hand.

In a developing science working hypotheses are, in general, to be preferred to truths, for working hypotheses can be discarded with ease when they cease to be useful. It is near impossible to discard as false what previously was maintained as true.

However, whilst bearing all this in mind, the concept of what is *normal* must prospect to a country beyond the logical and even psychological if it is to breathe the clean air and partake of the easy spirit of civilisation and justice.

For this purpose we will rely on two fundamental laws which in their various manifestations are the frontiers of all scientific disciplines. In economics they may be described as the law of events and the law of the sequence of events.

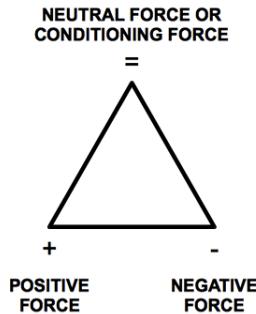


Figure 1

Briefly and simply, the law of events states that nothing ever happens, no event occurs unless three forces come together as one.

It is often stated that economics is essentially concerned with human relationships. This is misleading, for it tends to concentrate the attention on only two factors, in which all is action and

reaction. For example, much of positive economics is founded on the theory of supply and demand at the micro-level, the interaction between a buyer and a seller.

A bargain implies a human relationship between a buyer and a seller, but the outcome of this relationship will vary in different conditions.

Three factors determine the nature of the event; the bargaining skills and power of the buyer; the bargaining skills and power of the seller; and the market conditions in which they come together:

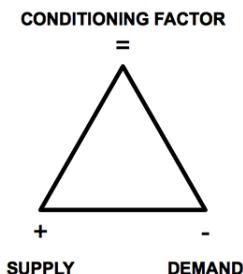


Figure 2

A further example was the fundamental change in labour market conditions which caused the apparent breakdown of the Phillips curve relationship. As a result of the pay bargain tax wedge, the labour market ceased to operate as if it were a competitive market and operated as if it were a fixed price monopoly market.

The Phillips relationship did not break down, but in the changed conditions it operated the other way round, and the outcome is very different. Volumes have been written disputing the Phillips hypothesis or refining it to allow for changes in bargaining powers as between the contracting parties, whilst the fact that conditions have changed passes unobserved. Little wonder that the policies derived from such works lead only to strikes, riots and civil commotion.

Economics is concerned with human relationships and more. It

is primarily concerned with the conditions in which these human relationships come to be and it is, in general, the conditioning factor which determines the outcome.

Again a word of warning; there are three factors, of which the conditioning factor is only one. Overmuch concentration on the conditions can be just as misleading as ignoring the conditions.

This is particularly so when tracing a story through a stretch of time. Through time, conditions usually appear to evolve without any break in continuity.

Some students may have read Henry George's Savannah story, in which he tells the tale of the development of "a St. Louis, a Chicago, or a San Francisco...", from the settlement of the first immigrant family.

The changing condition he observes is the gradual growth of population in size and density. His story is continuous, and so he assumes that laws of distribution which were natural at the beginning were natural also to the great city in the final stage. By concentrating on one particular condition he failed to observe the fundamental difference between an economic order of family households producing primarily for their own consumption and an economic order of individual persons producing primarily for the consumption of others - that is, producing for trade.

The laws of distribution natural to one kind of economic order are not of necessity natural to a very different kind of economic order. In fact Henry George did not wholly miss this fundamental break in the continuity, but his concentration on the changes in one particular condition led him to conclude "But this, in our inquiry, is not a matter of moment" - an error now embalmed in the teaching of Georgist schools.

In this series of seminars we shall be concerned with what is *normal* for an economy in which individual persons produce not primarily for their own consumption but for the consumption of others. In particular, we shall be concerned with the laws of distribution *normal* to such an order.

The law of the sequence of events is more widely recognised as the law of octaves, as in the diatonic scale. In music the common distinction is between a rising scale, running from bottom to top doh, and a falling scale, running from top to bottom doh.

In economics it is the characteristics of the different sequences that are of greater importance. One sequence, corresponding to the falling musical scale, exhibits the characteristics of continuity, whilst the sequence corresponding to the rising musical scale exhibits the characteristic of discontinuity; there are certain intervals where an exogenous impulse is required for continuity.

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1	2	3		4	5		6	7		8

Figure 3

In the case of a sequence of events exhibiting continuity the emphasis must be on non-interference - set up the appropriate conditions and let it run. As we shall see later the laws of distribution are of the nature of “the falling rain from heaven upon the earth beneath”. In these cases any interference with the run of things will, in general, result in a divergence or a deformity.

In the case of a sequence of events exhibiting discontinuity then at distinct points something has to be fed into the system if the sequence is to continue, or to continue without divergence or deformity. If a small settlement is to grow into a prosperous, healthy, and harmonious city then, at certain points in the development, various public services have to be provided. If these are not provided then either the growth will stop or if it continues the result will be a poverty stricken, stinking, diseased slum.

I trust that this opening chapter at least indicates the possibility of economics not as a dismal science but as a scientific discipline which cultivates the free spirit; and that the economist can, like any other person, master his or her craft to the benefit of all.

The acceptance of the implications of Maynard Keynes's toast and of William Temple's statement requires us to prospect into the sphere of objective concepts, for the concepts of civilisation and justice are beyond logic.

If we accept economics to be the trustee of the possibilities of civilisation, then we need at least a nodding acquaintance with that for which it is a trustee of the possibility.

If we accept that economics is concerned with the conditions in which self-interest serves what justice demands, then we need also a nodding acquaintance with justice in order to appreciate its demands.

All this requires us to prospect to a country beyond the community, to a society of free spirits where each is his own master.³ This is the sphere of *normative economics*.

-o0o-

³ To prospect is to search, and to cast one's gaze in a specific direction. See the brief discussion of the work of St. Thomas Aquinas in Appendix 1, where the use of the terms community and society in this particular context is explored.

2

The Trading Community

15th May 1984

We will start with filling out the concept of what would be *normal* for the kind of economic order we live in today. We begin with a real continuous whole, which we label the human race.

The term *real* states that we accept that the human race, considered as a whole, has an existence outside of the mind. A real whole is to be distinguished from a collective whole, say a heap of stones. A heap of stones is in reality a finite number of separate stones; the heap as a whole is a concept that exists only in the mind. Rather than referring to, say, a hundred stones we treat them in our mind as a whole and call that whole a heap.

In distinction a real whole is not a heap concept, and when we describe the human race as a real whole, we are stating that it has an existence as a whole outside of our mind.⁴

The term *continuous* states that we accept the human race to be not only a substantial lump but that it also includes internal space and time dimensions.

Thus, when we view the human race as a *real continuous whole* we are viewing it as having substance, with a given volume, with space and time dimensions, and having a real existence outside of the mind. Viewing the human race in this way, all we can do is to divide, or multiply out, into a number of wholes. Let us multiply the human race out to its smallest unit, the atom of the human race, the family.

A family will consist of individual persons, but from the view we have taken of the human race such individuals are, as it were

4 For further background to this discussion of real and accidental wholes, see Thomas Gilby, *Principality and Polity*, p 251, and *Between Community and Society*, pp 107-116. (See also: Aristotle, *Nicomachean Ethics*, and *Politics*.)

cul-de-sacs. They lack the possibility of continuity through the time dimension; they are, therefore, particles - parts of a whole.

Considered in this way a family is an ends-connected organisation. The end or purpose of its existence as a whole is the reproduction of the human race. It ensures continuity through time.

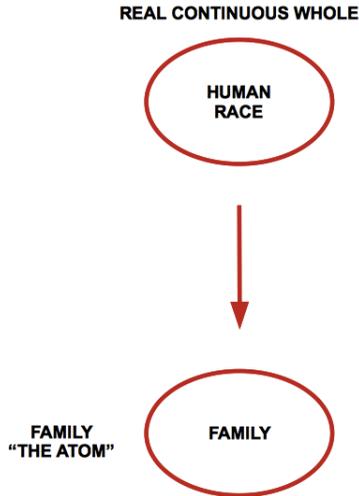


Figure 1

From the view of economics a family may be seen as a family household - the unit of final consumption, the atom of the demand side. This too is an ends-connected organisation. The end or purpose of the existence of a family household as a whole is the material provision for its continuity.

However, although in contemporary macro-economics a household is the unit of final consumption, a family household may also be a complete economic order in itself - as when it produces for its own consumption. In this case also, it is an ends-connected organisation, its end or good being the good of the household. Henry George's first settler, mentioned in the previous lecture, was an economic order of this kind.

A number of self-sufficient family households may come together as a community; indeed, there may be a number of such communities co-operating to form quite a substantial ends-connected economic order. A distinguishing characteristic of this kind of economic order is that each and every family household produces primarily for its own consumption and at most trades only its surpluses. On the production side there may well be division of labour, but the division is imposed and determined by the good of the household or collection of households.

Inherent in ends-connected groupings is a pecking order, a succession of bigger bosses, a hierarchy. There is an inevitable tendency for the lower orders to serve, or appear to serve, the higher; for the good of the smaller unit to be sacrificed for the good of the larger whole. The direction and outcome depends very much on how the end is interpreted and the means used to achieve that end. It may be held that the end justifies the means.

The manorial system of medieval England was an ends-connected economic order of the kind described and that, according to folklore, was Merrie England. This kind of economic order has much in common with the former system in Russia. In Russia the counterpart to our own manorial system never passed away, and so to a large extent the Communist Party rulers were able to replace the Tsar as the Great Father of all the Russias.

Ends-connected economic orders have their rightful and proper place in the scheme of things, so let us not pass any judgment. They may be good, bad or indifferent.

However, although ends-connected organisations may continue to exist, in this country, the U.K., the order is different in kind to the order that has been described. Our economy is not dominated by households, nor even other organisations producing primarily for their own consumption.

Hayek has observed this fact and has concluded it to be unfortunate and sometimes misleading for our discipline to be known as economics, which by derivation implies the study is

concerned in particular with households. I do not go along with him in the search for a new label. There is no need for economists to be misled by the label and the public in general are unlikely to know the derivation from Greek. A new label, on the other hand is likely to confuse. Let us return to the wholes.

This scale, whilst its atom - the family - may be accepted as a unit of final consumption, is observedly not a scale applicable to our kind of economic order.

So let us begin by substituting for the human race the term *humanity*. The term *humanity* is to be understood as describing that quality which distinguishes the human race as human, and every single human being from non-human beings.

Thus, when we multiply out, there is no stop at family or family households - the process continues to its atom, which is every *individual person*. So we now have the scale from humanity to the individual person.

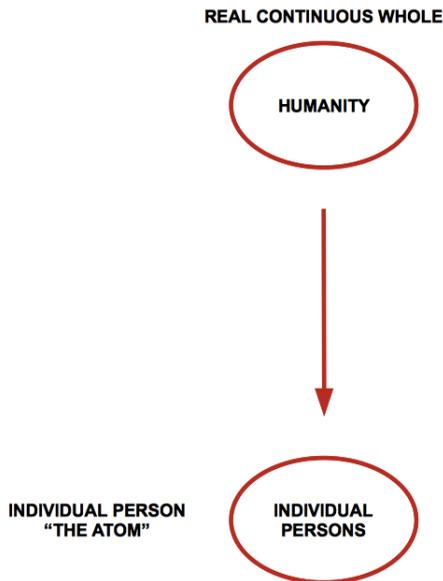


Figure 2

Individual person is a useful descriptive term. I doubt whether anyone could be misled. Further, *individual* is derived from the Latin for not divisible (*in* - not; *dividuus* - divisible), and *person* is derived from the Latin *persona*, a mask for actors; and as mentioned before economics is much concerned with outward acts.

It is possible for individual persons to be self-sufficient economic units - hermits, for example. Nonetheless, an economist may treat this as an exception, noting only that there are those who prefer to keep apart from any kind of economic order.

The issue is, however, a matter of some importance as there are academics who from time to time base their arguments on so-called 'Robinson Crusoe economics'.

In the early thirties Lord Robbins⁵ published his *Nature and Significance of Economic Science*, in which he concluded: "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." Lionel Robbins reached his conclusion from a consideration of Robinson Crusoe having a limited stock of wood which he needed to make a fire, fence around his cabin and so on; his question, and I quote Robbins: "How much wood to use for fires and how much for fencing?" This question, argued Robbins, is an economic question; the wood is the means and it is scarce, and it can be used in more than one way.

I admit that Robinson Crusoe has a difficult decision to make which I assume he will make in accordance with his own scale of preferences, but I deny that the issue is one of economics. Whatever Robinson Crusoe decides will affect only himself, alone on a desert island - there is no market, and hence there can be no market price. The case does not serve as a ground for economic argument nor for an economic conclusion. There are sciences which study human behaviour but for economics human behaviour

5 Lionel Robbins was Professor of Economics at the LSE from 1929 to 1961, and is credited with the conventional separation of normative and positive concepts in economics, as different from the usage of those terms here.

is part of the given data. Economics accepts that some individual persons may decide to be self-sufficient units but as a result of this decision they cease to enter into an economic order; economics accepts that an individual person is moved to their individual ends, or good.

It is observable that what one person considers to be a good another considers to be a bad and this observation is important. When one says of some happy individual pursuing the good life that they are on the road to ruination, one may be right, but one is admitting also that there may be as many individual ends, good or bad, as there are individual persons.

The notion of working for the common good is more often than not tainted with arrogance. What right has one individual person to impose their ends on another? There may be special cases but as a general proposition it is unsupportable.

St. Thomas Aquinas concluded democracy to be the worst form of government and there is a large element of truth in his conclusion. By what right have the majority, in general, to impose their ends on the minority? Is it any better, or worse, than a minority, even a minority of one, imposing their ends on a majority?

Some individual persons may wish to defer to the ends of others - that is a decision for them. A number of individual persons may be drawn together as they share similar ends and may, for the purpose of pursuing these shared ends, form themselves into an ends-connected organisation - this again is their decision.

Nonetheless, as a general proposition, if we accept the findings of the natural and physical sciences that all organisms contain cells that strain to go pirating away on their own, then we must expect clusters formed by individual persons to be no more compact, for they are looser and larger, and their centres are, as William Temple calls to our attention, dogged centres of self-interest.

All this human behaviour forms part of the fundamental data for economics. The investigation of this data is largely outside the

scope of the methods of economic science but it is from this data that the science arises.

Individual persons, straining to pursue their individual ends, pirate away from ends-connected organisations, such as family households, to seek the means of pursuing their individual ends.

In doing so they spontaneously create, with a few exceptions, a means-connected economic order - that is an economic order that provides individual persons with the means for pursuing their individual ends. Within such a spontaneous means-connected order there will exist from time to time ends-connected organisations to which individual persons will cohere, but will cohere only for so long as the grouping provides the means of pursuing individual ends. Thus we may conceive of a *spontaneous order*. This is where the science of economics begins.

When individual persons pirate away from an ends-connected order, they specialise. I use the terms specialise and specialisation as distinct from the division of labour although in appearance they are indistinguishable. Division of labour may be imposed on a person from without whilst specialisation is always imposed from within - specialisation is "doing one's own thing". Both division of labour and specialisation may lead one to slave all day over a hot stove, but in the former case it is imposed because it is women's work, in the latter case it happens because one wants to cook.

Of necessity a specialist produces an output primarily for the consumption of others and in return receives, for their own consumption, output produced by other specialists. In other words specialisation and trade of necessity go together. There cannot be specialisation without trade - they are, as it were, the two sides of the same coin. Thus in its grossest form the *spontaneous order* is manifested as a *trading community*.

Within a trading community human relationships form, evolve and dissolve, only to be reformed continuously as the necessary means of pursuing individual ends. A trading community exists to facilitate trade; it provides a market or markets, and in doing so

facilitates specialisation.

In an ends-connected order hierarchies evolve, orders are imposed from without and above, and the lower orders serve the higher. A means-connected order is different. In the general case, relationships within a trading community are governed by mutually accepted customs and usages but inevitably from time to time disputes will arise and there will be a need for recourse to positive law. Decisions will need to be made by a third party and if necessary those decisions enforced.

Further, markets work more efficiently when provided with some general claim to goods and services widely accepted within the community, such as money.

As a general proposition we may state, that a means-connected *trading community* works more efficiently and can only realise its potential when provided with a variety of goods and services from outside the trading system. The provision of these necessary public goods and services calls into existence a *polity*.

Now the *polity* exists to serve the *trading community*, both collectively and distributively, through the provision of goods and services necessary for the development and efficiency of the trading community but which cannot be provided, or cannot be provided so efficiently, from within the trading community.

This may be illustrated by lines on the following diagram.

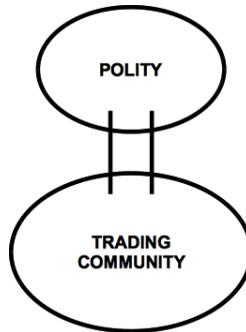


Figure 3

Now we come to an issue which continues to be the subject of much political debate and the cause of deep divisions. If the polity is to serve the trading community in a variety of ways, on what principle must it work?

Does it decide for itself in its own wisdom? The danger of this approach is that wisdom decays into an incomprehensible debate amongst specialists who rarely reach an agreed conclusion. If there is an outcome, then it is either a compromise - usually the worst of all worlds - or it is imposed by the most forceful and eloquent specialist, the master of the appropriate techniques. Eventually wisdom is either obscured or ignored and the outcome is a matter of accident.

Alternatively, does the polity react to pressure from within the trading community? The greatest good for the greatest number has an appeal, but the usual result is the imposition of the views of the most powerful pressure group. What about the rest? Must they conform, or drop out, or perhaps be dispatched to the salt mines?

If the polity is to serve the trading community, both collectively and distributively, then it must be sensitive to the changing needs of the trading community.

This connection is best shown on the diagram with a double arrow. A debate among specialists is necessary also, and the polity must take note of the advice offered.

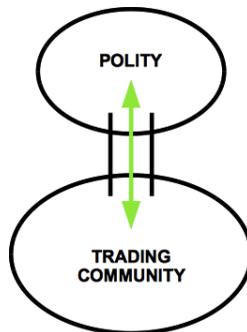


Figure 4

Yet given all this there are limits beyond which it is unwise for the polity to extend its activities. These limits are determined by fundamental social laws which the polity must interpret if it is to serve wisely and well the changing needs of the trading community, both collectively and distributively.

Thus, on the diagram, we now have *fundamental social laws*.

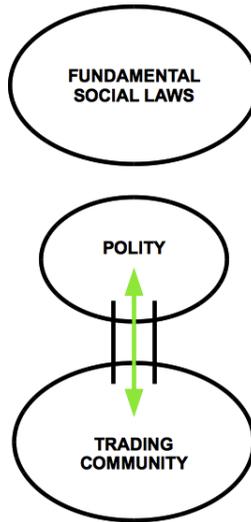


Figure 5

The details of these laws need not detain us at the moment. They include, for example, moral law which for economics is probably best formulated by the commandment “Thou shalt not steal”. But there is more to it; St. Thomas Aquinas put the case of the starving man who stole bread from a rich man’s table. He concluded there could be no doubt as to who had transgressed the law, but he went on to pose the question: Who committed the sin?

Any attempt to answer this question will raise issues of both collective and distributive justice, and this brings us back to William Temple. This sphere which I have labelled *fundamental social laws* is also the realm of justice.

Individual persons within the *trading community* seeking the means to attain their individual ends are motivated by self-interest. It is the job of the *polity*, standing between, to ensure conditions in which self-interest serves what justice demands.

Thus, these fundamental social laws operate in two ways; distributively through the polity, and collectively on the trading community as a whole. This we may illustrate by means of additional lines on the diagram.

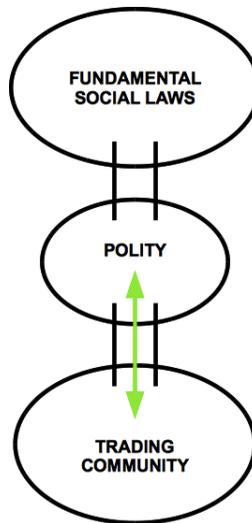


Figure 6

Please refer to Figure 7, overleaf. Now we have illustrations of three scales, and the one on the left is essentially different from the two on the right. The two on the right exhibit continuity, and it was for this reason that we were without much difficulty able to jump from the macro-whole to the micro-whole, or atom. The scale on the left illustrates, in outline, a *normal spontaneous order* and exhibits discontinuity.

I have attempted to illustrate this discontinuity by using three distinct spheres. On the diagram they are linked, and this implies

actual *normality*. It is in the sense of bridging these chasms and keeping these bridges open that one may understand Keynes' view of economists and economics as "trustees of the possibility of civilisation".

The possibility is one thing, the realisation something very different. This *normal spontaneous order* of community, polity and society - to use the terms of scholastic philosophy⁶ - is not to be viewed as a succession of chronological achievements.

The potential is created by a discrete event when a critical number of individuals seek the means of achieving their individual ends through specialisation and trade.

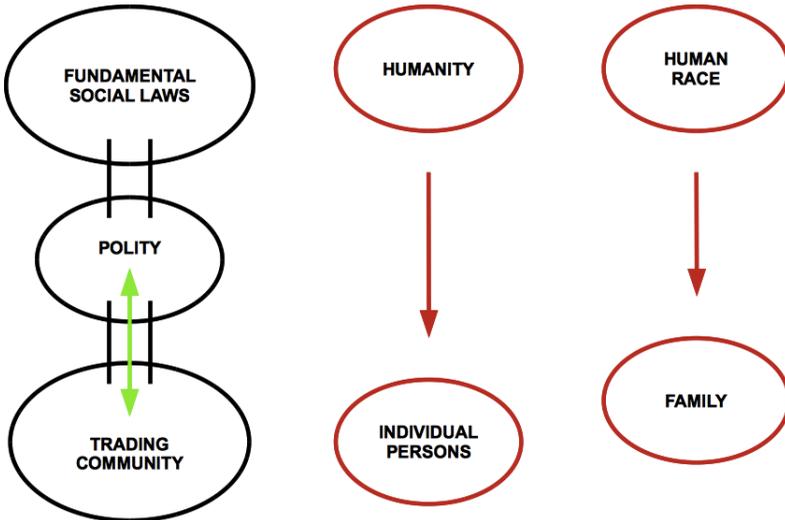


Figure 7

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⁶ See also: *Between Community and Society*, by Thomas Gilby. The polity is an essential transition stage, allowing for a gradual withdrawal of man-made laws in the move towards a harmonious society of all mankind governed by virtue. In the ordinary case, however, the existence of the polity is required.

3

Laws of Distribution

22nd May 1984

We have now to consider the laws of distribution natural to our concept of a *normal spontaneous order*. The distribution of the product conforms to the law of sequence that exhibits continuity; in other words “it falleth as the gentle rain from heaven upon the earth beneath.” This implies no interference, and so all we have to do is to note how in the nature of things it falls out; set it up, and let it run.

The manifest *universe* is what may be termed a real continuous whole; it has a real existence external to our minds, it has substance, and it includes within it a space and time dimension. From our point of view all this is given.

Economics is concerned with humanity, and therefore the economic standpoint must be a human standpoint. With this in mind we may distinguish first between the *non-human* universe and the *human* universe - the human race and all that partakes of humanity, as distinct from the rest. From our standpoint all this is given.

Observation shows that there is given also to the human race, both collectively and distributively, the power to modify and to be modified - *modification*.

Observation shows also that whilst this power to modify and be modified is given, for the human race to continue to exist as a human race, then it has no option but to use this given power. It must modify and in the process becomes modified. Thus there is brought into existence the real continuous whole of the *modified universe* in which the human race has its existence. This real continuous whole of the modified universe has its existence within the real continuous whole of the universe itself.

The modified universe is a real continuous whole and therefore has a real existence outside of our minds. It is substantial; it includes a space and time dimension. This is a very big picture - the most extensive - but from it we can derive certain fundamental laws which, as stated previously, the *polity* is required to interpret.

First, there is the law we may describe as the universal law of economics. The modified universe is necessary for the continued existence of the human race and for this modified universe to exist it is necessary for human beings to use their given power to modify and be modified.

As with the universe, so with the modified universe; we may distinguish between the *non-human* and the *human*.

From the point of view of economics we may state that it is necessary for the human race to actively use the given power to modify the non-human universe so as to bring into existence the *non-human modified universe* which is necessary for the continued existence of the human race. This for economics is a universal law which may be loosely formulated as “No labour, no wealth”.

In this sense the term 'labour' is to be understood as the active use of the given human power to modify - often described as human effort. The term 'wealth' refers to the *non-human modified universe* which results.

However, from time to time in economics it is often useful to refer to the results of human modification as 'wealth'. For example, Professor Friedman includes a term in his Re-stated Quantity Theory of Money to take into account education, training etc. which is, in a sense, an alternative means of storing wealth and claims to wealth. Nonetheless, whilst not ignoring human modification, economics is concerned in general with the external act of modification.

From this universal law we can derive what for economics is the fundamental moral law which is best summed up in the commandment “Thou shalt not steal.”

Collectively this is a truism. For the human race collectively the

universal law does not give the possibility of getting 'owt for nowt'. Whilst everything is given, the universal law is that the modified universe is actualised only when the human race collectively use that which is given; but distributively, the possibility of stealing exists.

In the context of Normative Economics we may state that in a normal economic order any divergence from the distribution natural to that order offends against this fundamental moral law.

Both these laws may be considered as forming part of the *fundamental social laws* mentioned previously.

Let us revert to the real continuous wholes. We began with the real continuous whole of the universe which, we agreed, included within it the real continuous whole of the modified universe.

As discussed we know that with a real continuous whole we may divide it - or, if you prefer, multiply it out - to its atom, or smallest reproduction unit. From the point of view of economics, the atom of the *modified universe* is called a *firm*.

In a normal spontaneous order a firm is an organisation that brings together all that is required to produce an output for sale. By definition any produce or output is part of the modified universe.

What then will firms, in general, need to bring together in order to produce their output - their contribution, as it were, to the modified universe?

The first thing we need to note is that whilst the time dimension is internal to a real continuous whole its atom has a lifetime - that is to say it has an existence through a length of time.

In *positive* economics we take this fact into account by always measuring the capacity of a firm to produce an output in a certain period of time - so many cars per week, or per year - rather in the same way as the capacity of a pipe is measured in terms of, say, so many gallons per hour.

However, deciding on some arbitrary length of time, say a year, does cause complications. As going concerns firms will, in general, bring in so-called net assets from the previous time period

and carry over net assets into the following time period.

In *normative* economics we may avoid this complication by always taking as our time period the lifetime of the firm, whatever that may be. We do not have to do this, but it is a useful simplification since firms, like human beings, may be considered as bringing nothing material in and as taking nothing material out.

To our question: What will firms, in general need to bring together in order to produce an output?

Producing an output is essentially a process of modification; thus firms in general will need the exclusive use of some part of the *non-human unmodified universe*; lacking this, there will be nothing to modify.

Now I state firms in general, as particular firms may be engaged exclusively in the further modification of some part of the already modified universe. Be this as it may, firms in general will need the exclusive use of some part of the *non-human unmodified universe* if they are to produce an output and, since this will be 'acted upon', we may consider it as carrying the inert force.

To produce an output a firm will need to bring together with this first factor the human power to modify which in economics is called *labour*. As labour 'acts upon', we may consider it as carrying the active force.

Now there is a second thing we need to note carefully. Of necessity there is a point of interaction between the *non-human unmodified universe* and what we call *labour*. For the process of modification, the two factors must come together at some point, but in the real continuous whole with which we started all these points of interaction were merged into the continuous whole. In multiplying out to the atom, the *firm*, we have done, as it were, an unscrambling job - the points of interaction are no longer merged.

For example, let us consider a gallon of water in a bucket as a real continuous whole. The gallon consists of eight pints but in the bucket the pints are merged. No one pint takes up any particular space or stands in any particular relationship to any other pint. But

now if we divide the gallon into eight separate pints then, although the total space, or volume, will be precisely the same the space occupied by each pint, or the location of each pint will stand in a particular relationship to each and every other pint. Strictly, we have not added a dimension but a dimension which in the gallon was unmanifest becomes manifested when the gallon is divided into eight separate pints. As with the pint, so also with the firm.

A firm brings together the inert factor and the active factor and they interact at a particular point. This point of interaction will stand in a particular relationship to each and every other point of interaction. For our purpose we may state that in order to produce an output a firm will need the exclusive use of a *location* and by deduction from our law of events this particular location will carry the conditioning force.

Thus in order to produce an output firms in general need to bring together and have the exclusive use of an inert factor, an active factor and a conditioning factor.

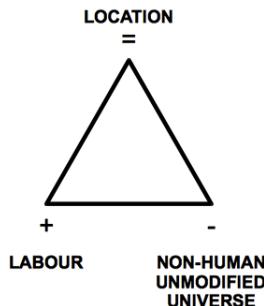


Figure 1

We can move now into the sphere of economics that engaged leading nineteenth century economists such as David Ricardo, Karl Marx and Henry George. How is this output distributed?

These nineteenth-century economists approached the question of distribution by attempting to establish laws of proportion in real terms. Their approach was determined by the fact that until the

advent of Maynard Keynes the view that money was a veil, behind which real forces worked themselves out as if there were no money, dominated economic thinking.

For example, Henry George's 'law of rent and wages' is a law of proportion assumed to be applicable in a non-monetary economy and therefore applicable also in a monetary economy. This assumption is valid providing always that the economy is a one-product economy, and Henry George did indeed specify a one-product economy - he called the product 'Wealth'.

This term wealth often misleads those untrained in the rigours of economic analysis. Admittedly coal, steel, cars, may be included within the term wealth, but this means only that George's term 'wealth' is a much wider term than, say, Ricardo's 'corn'. What is important is that, to use George's terms, land and labour, or land, labour and capital, in general produce one product called 'wealth'. To produce a particular product, say coal, necessitates specifying particular land and particular labour.

Thus these laws of proportion require the specification of a particular product, for they are determined by the quantity of that product that can be produced on marginal land by a given quantity of labour.

However, we may approach the issue of distribution rather differently. We are concerned with the distribution natural to a *firm* producing an output for sale in a *trading community* of a *normal spontaneous order*.

As stated previously the *normal* will be a monetary economy - that is to say goods and services of all kinds will be traded directly for an accepted general claim to goods and services of all kinds.

This being so, we may express distribution in terms not of output, but as receipts. Remember the period of time we are taking is the lifetime of the firm. During its lifetime a particular firm will have produced an output which will have been sold at current market prices.

Thus, prices times output will yield the firm's total receipts -

the total claim to goods and services generated by that firm, which we may show thus: Prices (P) x Output (O) = Total receipts (£A).

The question is, how is this £A distributed?

Please refer to Figure 3. As we have agreed, any particular firm will need non-human inputs of either the unmodified universe, or the modified universe, or some particular combination of the two.

Now the unmodified universe is, as we have accepted already, given. A gift is something you do not have to pay for. If you do have to pay it is not a gift - it is not given. In economic terms the unmodified universe is then a free good, meaning a good one does not have to pay for.

But note carefully, the unmodified universe is a free good in the sense that it is free to use - a firm does not have to pay for its exclusive use in the process of modification, or production, since that is the purpose for which it has been given. If the unmodified universe is appropriated then a firm might be required to pay for its use as an input, but this cannot be *normal*. Appropriation offends against the fundamental moral law and therefore cannot be considered as *normal*. So, any non-human input of the unmodified universe does not have to be paid for in the *normal* case, and therefore no part of £A has to be set aside.

In stating that in the *normal* case the unmodified universe is a free good, I am not arguing that if a firm should inflict damage in the process of using that good - what in economics is called 'external dis-economies' - then they do not have the duty to repair that damage, or make some agreed restitution. Failure to perform this duty may give rise to a legal penalty, but a legal penalty is not a market price. All this is a different issue.

Any non-human input of the *modified universe* is, however, the output of some other firm which they have produced for sale. It follows, inputs of the modified universe have to be paid for at the current market price and some part of £A will go to cover this cost.

Before proceeding to the labour factor, let us consider the conditioning factor we have called *location*.

This issue of location arises as a result of the multiplying out of the real continuous whole of the modified universe. In this process it becomes manifest that the point of interaction between the inert force - the non-human inputs, and the active force - labour, for any particular firm will stand in a particular spatial relationship to all other points of interaction. Nonetheless, all this is present in the modified universe as in the real continuous whole of the universe itself - it is all there, it is all given, but in these cases it is merged; it is as it were, unmanifest.

Thus every possible point of interaction and every possible relationship between those points is given in the real continuous whole of the universe. Location, then, is essentially a part of the unmodified universe and is to be distinguished from an input only by the fact that it is conditioning rather than inert.

In the nature of things, therefore, location is, as we have agreed, as the rest of the unmodified universe is, a free good and no part of £A need be set aside to pay for it.

Now let us turn to consider *labour*; the human power to modify which in the process of producing an output for sale carries the active force. At the micro-economic level of a particular firm we may distinguish between three categories of labour.

From time to time a firm will require labour from other firms - this may be general labour but more often than not it is highly specialised labour such as accountancy, legal advice, financial advice, and so on. Now this labour input is strictly the output of other firms in the system. It is, therefore, an input of modified universe and must be paid for at the current market price. It is to be distinguished from non-human inputs of modified universe only by the fact that it is active rather than inert. Its part in the process of production is modification rather than to be modified.

We will call this category of labour indirect, and some part of £A will have to be set aside to pay for it.

Now we come to a stage where, on our diagram, we may draw a line, as shown below in Figure 3.

Table 1

Total receipts	£A
Less:	
Non-human inputs	
Unmodified universe	Free
Modified universe	Costs
Location	Free
Indirect labour	Costs
Net added claim	£A - costs

Figure 3

If we aggregate the £As of every firm we will finish up with a total for claims to the modified universe greater than the actual total. This will happen as a result of double counting, for in the £A of most firms will be sums which are included also in the £As of other firms - all the items listed as costs which are the cost to one firm of inputs which are the output of other firms.

However, if we first deduct these costs from each firm we will have a total claim which if aggregated will equal the total of claims to the modified universe - we will have avoided double counting.

So we draw a line, and deduct from £A all the costs to arrive at a sum we will call the *net added claim*.

This sum represents the total claims added, or generated by, the activities of the firm in question and may be aggregated without double counting. Remember we are simplifying the process by taking for each firm a time period equal to its lifetime.

Now, if we can state how these net added claims are distributed in respect of any particular firm then by aggregation we will be able to state the distribution of total claims to the modified

universe, and therefore the distribution of the modified universe as between claimants.

From what has been agreed already the net added claims can accrue only to labour, but they may accrue in two different ways, and these two ways are of importance.

Any particular firm may employ some part of its labour. Those providing this labour may be trainees preparing to become their own masters or they may be people who prefer the status of employee to that of being their own master. Some may be people who are for one reason or another incapable of becoming their own masters.

In a *trading community* of a *normal spontaneous order* the market price for the labour of these employees will be determined through market forces. On the one side there will be the quantity of the supply of a particular quality of labour, and on the other side the quantity of demand for that particular quality of labour. Thus this employed labour will receive its market price which we will call *pay*.

After deducting the pay of employed labour the balance of net added-claims will accrue as the return to the labour of those who constitute the firm itself. This we will describe as master labour and its return their *wages*.

Note that what we describe as *wages*⁷ in this *normal* order partakes to an extent of the nature of what today we call profits. They are both remainders; in this case what is left from total receipts of market prices received for output, after meeting the costs at current market prices of inputs which are the output of other firms, and the pay of employed labour.

Let us return to our opening question: How is output distributed? Please refer to Figure 4, below.

7 In the approach developed by Ricardo, George, and other economists, wages are the return to labour, whilst rent is generally regarded as the excess return above the level of wages that accrues to an owner of land solely by virtue of ownership, and may be determined by reference to the margin of production. This is described as the 'primary division of wealth between rent and wages'.

The normal distribution is for all claims to accrue to those who provide the labour, and since all claims accrue as a return to labour then the product, or output, as a whole must accrue to those who labour.⁸

This means that the so-called 'primary division as between rent and wages' is not *normal*.

Table 2

Total receipts	£A
Less:	
Non-human inputs	
Unmodified universe	Free
Modified universe	Costs
Location	Free
Indirect labour	Costs
Net added claim	<hr/> £A - Costs
Employed labour	Pay
Master labour	Wages
Net added claim	<hr/> Pay + Wages

Figure 4

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⁸ It is thus implied that in a *normal* distribution: £A - costs = *pay* + *wages*.

4

Public Revenue

29th May 1984

I wish to press on with this issue of distribution. We concluded it to be in the nature of the *normal spontaneous order* for all the claims and, therefore, the whole product to accrue to those who provide the labour.

This conclusion, however, raises yet another question: How is the *polity* to be provided with the means to fulfil its purposes?

An easy solution would be to impose a tax on the claims accruing to labour. But, previously, we defined a tax as an arbitrary levy imposed by force or the threat of force. Thus a tax is, by definition, a form of stealing and therefore offends against the fundamental moral law of economics. A tax cannot be in the nature of a normal spontaneous order. A tax of any amount or form is out.

To this extent we may agree with Henry George's remedy, "to abolish all taxation"; but we cannot accept his qualification "save that upon land values". The *normal* admits of not a single tax. If taxation exists, then it is not *normal*.

Let us remind ourselves of what we agreed as being the purpose of the polity. The polity exists to serve the trading community by providing both collectively and distributively goods and services which are necessary, if the trading community is to provide an efficient means for individual persons to pursue their own individual ends, but which either cannot be provided from within the trading community or are better provided from without the trading community.

Now in the kind of order we are considering the polity is not some kind of charity which everyone has a duty to support; it is not something bigger, higher, more important, than individual persons, with a god-given right to live off their backs; it is not a

tyrant; it is not a master. It is a servant; it exists to serve, indeed, it has a duty to serve. In a normal spontaneous order individual persons are the masters and the polity is their servant; but, if the polity is to perform its duty then it must have the necessary means. How is it to receive these means?

As previously dealt with, firms in general bring together all that is needed to produce an output for sale and it is the proceeds from the sales which provide them with the means.

Now as we have agreed it is the duty of the polity to produce an output - goods and services which cannot, or cannot efficiently, be provided by firms operating within the trading community.

In other words the polity is in effect a special kind of firm, or combination of firms, which produce a special kind of output. If the polity could sell that output then the proceeds would provide the required means. If it cannot sell its output then the means will have to come either by way of gift or by way of theft - think of another way if you can. In this country the constitutional fiction is that subjects of the Crown make customary and annual gifts which may be collected as if they are a debt.

So the first step in resolving the issue is the widely accepted distinction between public sector firms and private sector firms. In the case we are considering private sector firms are those which operate within the trading community and are, as it were, master firms, whilst public sector firms are those which operate outside of the trading community under the direction of the polity and are, as it were, servant firms.

The second step is to determine the principle, or essential characteristic, of the processes that in the normal case are to be included within the sphere of the polity - the public sector.

A characteristic of public goods and services is that their provision of necessity gives rise to a collective benefit. For example, the first duty of government is defence of the realm. If the realm is not defended then the government has nothing to govern. When this duty is fulfilled, then it benefits everybody

within the system, and no individual person within that system can opt out of the benefit. That some individual persons may not consider this a benefit is beside the point; their option is to either accept, or find a better whole. This is not to deny that there may be considerable room for a variety of opinions and for public debate as to the best method of fulfilling this first duty. Further, if the duty is not fulfilled then the penalty exacted from some may be death but usually the penalty is not exacted from those guilty of dereliction of duty. Justice is done but not seen to be done. It is done collectively but not distributively.

In many cases this collective benefit is subject to spatial or locational limitations not co-extensive with the system as a whole. For example, the provision of an efficient fire service in Manchester may confer a benefit on all Mancunians but it does not do much for Londoners. This spatial limitation is important for it gives rise to a subsidiary scale within the sphere of the polity, but having noted its existence we need not delay over the details.

However whilst this collective benefit is a necessary characteristic of public goods and services it is not a sufficient distinguishing characteristic. Private sector firms may also provide a collective benefit - a village shop for example.

A further distinguishing characteristic of public goods and services is that the provision of a collective benefit, and the actual provision of public goods and services, does not automatically yield a return from those who receive the benefit. For example, at the bar downstairs you order a pint of beer; a bargain is struck and the pint of beer goes over the counter in one direction and a pound note goes over in the opposite direction. Both contracting parties are happy for they both expect to gain from the exchange.

Let us now take the example of the fire service. The very existence of an efficient fire service provides a collective benefit for all those living within a certain area - it is there if needed. But there is no automatic exchange; the means of providing this service do not automatically return to the fire service.

Take it a step further; your house catches fire, and you use the service. But in using this service there is no guarantee that you will benefit. Your house might be reduced to ashes just as if you had not used the fire service. Those who will have benefited will be those who have not used the service but as a result of the service being used, and the fire contained, still continue to live in undamaged houses. Why should the user who may have received no benefit pay whilst those who have benefited pay nothing? If self-interest is to serve what justice demands then surely the conditions must be such as to ensure that those who receive the benefit pay. It may not be in the self-interest of the person whose house is on fire to call the fire brigade - it will be in the interest of those whose houses are not yet on fire.

George observed that a specialist bestows a benefit on the community in general and that this benefit returned automatically and concentrated with the specialist, usually illustrated in this way:

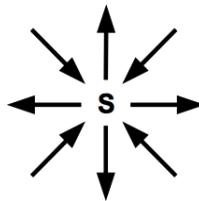


Figure 1

What he failed to observe is that in certain cases there is not an automatic return:

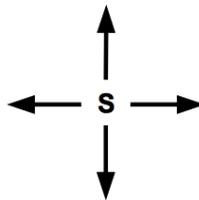


Figure 2

One diagram represents the production of private sector firms; goods and services the trading community is well able to provide for itself. The other diagram represents a necessary distinguishing characteristic of public goods and services which the polity is required to provide for the trading community.

These two illustrations give the black and white picture but there is in addition a grey area where the decision may go either way.

This being so I will elaborate using the example of the railways. Just over twenty years ago a number of us did some intensive and extensive research based on the East Kent lines then being electrified. It was this project that confirmed my suspicions of there being something fundamentally wrong with the Ricardian theory of distribution.

In the case of railways one may distinguish between the capital sum needed to set up and maintain the system and the running costs incurred by providing a service. The railway system will provide a collective benefit to all those living and working within its catchment area but in addition the service provides a direct benefit to those who use it.

Now, if the price to the users is fixed to cover both the capital costs and the running costs then every user will be paying for more than the cost of the benefit received. On the other hand, every non-user will avoid paying for the benefit bestowed collectively. This violates fundamental social law.

There is an argument that providing the costs can be collected in some way the service should be free to users as this would yield the greatest benefit to all concerned. For example, in the late 1940s I heard it argued that if the LCC could get through Parliament its Site Value Rating Bill then London Transport and commuter services should be free. It was argued that the increase in rate revenue would more than cover the net cost of the free services. Possibly this is a valid special case but in the absence of hard evidence I doubt whether it can be applied generally.

An alternative which could be applied generally, whilst allowing for local special cases, is for the capital costs which do bestow a collective benefit to be paid for by all on whom that benefit is bestowed whilst the users cover the running costs. This proposition is based on our research results which showed that apart from a few exceptional circumstances, that never lasted for more than about five years, no railway, anywhere in the world, ever covered its running costs and obtained a commercial return on its capital outlays, from its activities as a railway.

Further, our research gave the lie to the oft repeated assertion that an incoming freeholder pays twice for the railway, or some other public utility; once in the price of the freehold, and again when using the service. In East Kent the price of domestic and commercial freeholds tended to rise upon the announcement of the electrification scheme but this was reversed when the new fare structure was announced. In general under the present system sitting freeholders may be handed a free gift but it is the users who lose out absolutely and this is reflected in the current market price of freeholds. Not only do users have to pay a fare which is over the odds, but also as a result of the high fare, the service provided is less than it should be. For the most part government loans and subsidies go to meet the costs of under-using a system which has been laid down and paid for.

But to return to our main theme - do you note the grey area? On the issue of capital costs there are firm grounds for concluding they should be covered by the polity out of revenue collected from those who collectively receive the benefit. On the issue of running costs since it is possible for a bargain to be struck between the user of the service and the supplier of the service, then it is possible for the service to be a private sector operation.

Any decision on this latter issue will turn on the particular circumstances of the particular case and cannot be decided at this distance. What one can state with certainty is that the United States arrangements of providing a public sector railway service through

Amtrak over a privately provided railway system⁹ is, in basic Anglo-Saxon, 'arse-upwards'.

We may now sum up this section and answer the question: What economic activities are to be included within the sphere of the polity - the public sector?

These activities have two distinguishing characteristics which are both necessary and, in combination, sufficient.

First, the activity must provide a collective benefit to every individual person or firm within a certain geographical area or the whole of the trading community. Second, the activity does not automatically give rise to a direct bargain between the supplier and those on the receiving end.

Thus, it is necessary to make special arrangements for the polity to obtain the means for continuing the supply. In the normal case these special arrangements cannot include the imposition of a tax. The application of this principle will give rise to certain special cases in which a decision can be made only in the light of the particular circumstances of the special case.

Now, from what we have concluded, the polity is in effect a monopoly supplier of public goods and services - and, being a monopoly it is possible, therefore, for the polity to exercise these monopoly powers to the detriment of the trading community.

So what is *normal*? As we have agreed, from the stand point of economic science the polity is essentially a public sector firm, or a collection of public sector firms, and as such will be subject to the distribution we discussed.

Thus for the polity inputs of the *unmodified universe* and *location* will be free goods. But, to the extent that it takes inputs which are the outputs of other firms, it will have to pay the current market price. As a first charge its revenue will need to be sufficient to cover these costs. The polity, or its representatives, will enter the

9 The government-funded operator, Amtrak - the National Railroad Passenger Corporation - was formed in 1971 through a consolidation of private railway companies, but did not originally own the underlying railway infrastructure.

market as willing buyers and strike a bargain with willing sellers. No special arrangements are required in respect of this operation which in aggregate gives rise to self-cancelling claims.

However the polity exists to serve the trading community and from this it follows all labour within the sphere of the polity will be employed labour - the labour of public servants - there can be no master labour. Therefore the revenue of the polity which corresponds to *net added claims* will be required only to meet the *pay* of employed labour. Within the polity there can arise no income of the kind we have described as *wages*.

On this issue of pay however there are differences between the polity and the trading community. As we have agreed, within the trading community the level of pay will be determined by market forces but within the polity there will arise special cases which require market forces to be less than dominant. In the general case comparability with the trading community will be the determining factor but this will not always apply and in some cases may be impossible to apply.

In passing we may note that in the frequent disputes between the public sector unions and their employers more often than not the union is insisting on the right principle - comparability - which in present conditions is often unworkable, whilst the government insist on a wrong principle which is workable - what they can afford to pay. The impasse results from the employees being unable to go elsewhere and the employers being restrained from sacking and replacement. In the case of air controllers President Reagan was not so restrained. He called in the military air controllers.¹⁰

One case where comparability is insufficient is when the independence of the public servant needs to be assured and, in particular, it is deemed necessary to protect the public servant

10 The air traffic controllers' strike began in the U.S.A. on 3rd August 1981. As federal government employees, their contracts of employment did not permit them to take strike action, and they were dismissed *en masse* two days later.

against bribery and corruption. For example, on these grounds it was decided in Victorian times that judges should be very highly paid. Positive vetting may reduce the chances but it is foolish to ignore the weaknesses of human nature. However, given our concept of the normal there will be less likelihood of bribery and corruption, for when every individual's income is a return from their labour there will be less of a difference between the rich and poor.

Another special case is when the polity requires particular qualities of labour special to the polity and therefore not subject to comparability. In this case the pay will have to be a sum acceptable to those able to supply the special quality of labour immediately, and sufficient also to ensure a continuing sufficient supply. For example, the pay a trained fighting soldier might be prepared to accept may be insufficient to ensure a flow of recruits.

No good purpose is to be served by our attempting to lay down rules - the *normal* is too far off. Sufficient to note that in general comparability will be the factor determining the pay of employed labour within the polity but that there will arise also a number of special cases in which comparability does not apply.

So what is to be considered as the norm determining the price and quantity of public goods and services provided by the polity?

First the revenue of the polity must cover its outgoings which are purchases of output of other firms plus the pay of its employed labour. This is a minimum for if the polity incurs a persistent deficit then it is attempting to provide something for nothing. This, as Maynard Keynes emphasised 60 years ago, is an impossibility. Every public deficit must be covered one way or another. Those of you who have attended earlier seminars will know that whichever way a government attempts to cover a deficit will cause injustices and eventually lead to the breakdown of the system. Persistent deficits, therefore, cannot be considered as normal.

On the other side if the polity runs persistent surpluses then it is taking out of the trading community more than it is supplying. It is

using its position of power to take something out of the trading community and give nothing in return. This offends against the fundamental moral law and therefore cannot be considered normal.

It follows, the concept of normal implies that the polity operates on a balanced budget principle. It is required to supply public goods and services of a quality and quantity to a point where its revenue, taking one year with another, is just sufficient to cover its outgoings which are the cost of purchases from other firms at current market prices plus the pay of its employed labour.

To take this issue further we have now to consider the special arrangements which will allow the polity to collect its revenue. On the practical arrangements I do not intend to waste time; most of you know the answer, and those who wish to study the mechanism cannot do better than study Hector Wilks' report on a pilot study at Whitstable published in 1964.¹¹

My argument is that the instructions given to Hector Wilks were wrong in theory and any errors in minor practical details in Wilks' report arise directly from him being given as an expert rating assessor instructions based on wrong theory.

As illustrated on the board (see Lecture 2, Figure 6) the polity provides the trading community with public goods and services but in the nature of things it receives no return. This is to be expected from an inspection of this diagram built up on the second evening. It is based on a scale exhibiting discontinuity and between the polity and the trading community there is a gap. Special arrangements need to be made to provide a link so that a return can flow from the trading community to the polity.

11 The supply of public goods and services, including transport infrastructure, typically creates a change in location values. A valuation survey was carried out in the area of Whitstable, Kent during 1963 for the Rating and Valuation Association by Hector Wilks and Company, to investigate the feasibility of site value rating as an alternative to the system of local government finance then in place. The method of valuation used for the Whitstable survey was, however, at variance with the line of reasoning presented in this series of lectures. The differences of approach are briefly discussed in Appendix 1.

Now the benefits arising from the provision of public goods and services distribute themselves in a variety of combinations at all the locations within the trading community.

Further, since every location stands in a certain relationship to every other location we find there is created within a trading community a power of attraction which operates similar to gravity in the physical sciences. I dealt with this phenomenon in the seminars on Location Theory.

Location, as we have agreed, carries the conditioning factor and thus determines the conditions of the point of interaction between the inert non-human inputs and the active labour inputs in any economic activity. Again, as we have agreed, the conditions are an important factor determining the outcome or output. It follows, certain locations will have an advantage over other locations for certain activities. It may be that some locations will have an absolute advantage over all other locations for most activities but what is important is that within a trading community it is to be expected that all locations will have an advantage for certain activities or at a very minimum will be feasible locations for certain activities.

This being so, those wishing to use a location to carry on an activity for which that location has an advantage, or is most suitable relative to other locations, will be prepared to pay a price for that location. It will be to their advantage. It will be to their self-interest. They expect to gain from paying this price.

As we are dealing with a trading community there will arise a market for locations and the price to be paid for the use of any particular location will be the current market price.

This will appear to be the price for the particular location but in the normal case this cannot be, for we have agreed that location is a free good. What then does this market price represent?

It is the current market price for the benefits manifested at that site as a result of the provision of public goods and services; it is in fact the current market price for public goods and services. In the

normal case this market price is assessed and collected by the polity and provides the public revenue from which it continues to provide public goods and services.

Now, as we agreed earlier, the polity is required to supply public goods and services of a quality and quantity to a point where its revenue, taking one year with another, is just sufficient to cover its outgoings which are the cost of purchases from other firms at current market prices plus the pay of its employed labour. But as we have now argued this public revenue is itself determined by market forces and so the polity is constrained from exercising monopoly powers.

Finally, in this normal order the polity is subject to precisely the same fiscal discipline as every individual person and firm in the trading community; taking one year with another it is required to adjust its spending to its expected income. Today the accepted principle of public finance is precisely the opposite; a government decides how much it will spend and then through taxation adjusts its income to cover that expenditure.

Thus we may interpret Maynard Keynes' statement. Economics is the trustee of the possibilities of civilisation in so far as, accepting civilisation to be the normal, it is the science that provides the know-how for establishing the return link for the trading community and the polity, for providing the polity with the means to provide public goods and services to the trading community. If this link is not established consistent with the fundamental social laws then civilisation cannot be realised.

5

Natural Resources

5th June 1984

I have now completed my outline of what I call the *normal spontaneous order* and the laws of distribution natural to that order. Tonight I intend to clear up a few pockets which I by-passed in earlier weeks. Next week, our last meeting of this series, I will sum up, but mostly it will be open for your questions and counter-arguments.

First of all let us consider the position of the extractive industries - an issue which has been studied in depth by Professor Mason Gaffney now of University of California Riverside and one of the very few academics in the Georgist tradition. I argue that the *unmodified universe*, what Professor Marshall described as the free gifts of nature, are in the *normal* case free goods.

The basis of the argument of Gaffney and others is, in our terms, that firms should pay for such *unmodified universe* as they consume in the processes of production. This sounds a very reasonable proposition but I counter that it rests on a confusion of terms. It confuses the process of consumption with the process of production.

It can be no part of the economic argument that either process, of consumption or production, are destructive or creative processes in the sense that they cause a quantitative change. Indeed, to argue along these lines runs counter to the conclusions of all scientific disciplines. I accept the conclusion from other scientific disciplines that it is not within human power to add to or subtract from the universe as a whole. My argument acknowledged this at the outset by taking the universe as a *real continuous whole*. I have no intention of taking on Einstein and all comers.

Having avoided denying the conclusions of all other sciences by

accepting the universe as a *real continuous whole*, it follows that the processes of consumption and production can be distinguished only on the basis of a qualitative change - that the two processes cause changes that are different in quality. In the terms we have been using, both processes are processes of modification, but the outcome of each process can be distinguished qualitatively.

Let us take as an example, a cup of water - not *unmodified universe*, but it will do for starters. When you draw a cup of water from the tap it is purported to be of drinking quality and this is reflected in the current market price. When, as the final consumer you drink that water it ceases to be of drinking quality. Nothing is lost, but a great deal of costly effort has to be put in to restore the resulting liquid to drinking quality so that it once again may command that market price.

Thus the process of *consumption* is a process of modification that subtracts from the quality, the desirability, the utility, or what have you, and this subtraction is reflected in a lower market price.

Old gardening books extol the virtues of "night soil" as an activator for compost but today most of us have to pay a sewage rate for the disposals of liquids we consumed and paid for as of drinking quality. It is the same with a car; as final consumers we buy a new car at a relatively high market price and having consumed part or the whole have to sell it off at a lower market price or even pay for its disposal. From the economic point of view, therefore, a distinguishing characteristic of the consumption process is that, in general the market price of the output is lower than the market price of the input.

The process of *production*, on the other hand, operates the other way round. A firm takes in *non-human inputs* and modifies them in a way that improves their quality, desirability, utility, or what have you, and this is reflected in an enhanced market price. If a firm fails to achieve this then it pays the penalty by being forced out of production.

In the *normal* case the difference between the relatively low

market price of inputs and the relative high market price of outputs is the return to the *labour* that performed the modification. Today it is the firm's income, out of which it pays its employees with the remainder representing its profit, or net property income. From the economic point of view, therefore, a distinguishing characteristic of the production process is that, in general, the market price of the output exceeds the market price of the input.

Diverting from our main theme for a moment we may note that this distinction supports the view that subsidies can never be justified. If it is considered necessary to give a subsidy at some point, or points, along the production process then it means that somewhere along that process there is a failure which the subsidy is intended to obscure. Traced back to source this failure is a misuse of some part of the unmodified universe. The unmodified universe is collectively a free gift and for this reason is a "free good" distributively when used for the purpose it is given collectively. This argument does not, and cannot be extended to cover misuse. The so-called 'free market economists' have an element of truth in their arguments; what they usually fail to appreciate is that a market operates efficiently only in the right conditions. Adam Smith's "invisible hand" has a limited sphere of operation. But let us get back to our main theme.

This time we will start with a part of the *unmodified universe*. A firm wishes to explore for coal and to do so it will need, at least so far as possible coal seams are concerned, the exclusive use of some part of the *unmodified universe*.

It discovers coal, and immediately there is an addition to *natural resources*. There is now a coalfield, and this coalfield represents the output of the exploration firm. The firm has not consumed any part of the *unmodified universe* over which it was given exclusive use, but by its work and knowledge it has so modified that part that it has become a *natural resource* - a coal field - a part of the *modified universe*.

This *natural resource* - the coalfield - the output of the

exploration firm, is for the coal miner his raw material; the miner's output is the raw material for a power station; the output of the power station is the raw material for a manufacturing unit; the output of the manufacturing unit is the raw material for a corner shop; the output of the corner shop is the purchases made by its customers who are, say, the final consumers. Thus the process of production is completed.

This complete process, or cycle, of production will require direction but in Normative Economics this is not a matter for concern. In the normal case conditions will be right and the point will be filled by self-interest serving what justice demands. The concept of the "invisible hand" given us by Adam Smith has a place.

Now, each and every firm should pay for its raw material - inputs of the modified universe which are the outputs of other firms. Equally each and every final consumer should pay for the final output they consume. However, to impose an arbitrary levy at the first stage, as Mason Gaffney proposes, or at any other or every stage in the production process by whatever method is similar to imposing Value Added Tax (VAT) or a cascade tax; prices would be tax inflated with all the deleterious side-effects. Is such an imposition to be justified on the basis of the consumption of the unmodified universe? Let us consider where such a consumption may arise.

Where there was coal there will be no coal when the production process is completed. It is reasonable to conclude that the coal has been consumed. Let us accept for the sake of argument that the coal is a collective gift and that it has been consumed and that what has been consumed should in justice be paid for. If it has been consumed then it can only have been consumed by the final consumers as a whole, and in a trading community those final consumers would have paid the full current market price for whatever they consume. There is no need for any special arrangements so far as the extractive industries are concerned.

There is no need on their account for government to interfere or impose a levy on the process of production.

If we take the example of agriculture again there is no need for a special arrangement. A farmer does need the exclusive use of some fields and these might possibly form part of the unmodified universe. But a farmer does not consume his fields; indeed, to the extent that he is a good cultivator, he will improve them so that they too become part of the modified universe. A farmer's improvements form part of the output for sale.

Before concluding with this issue there are two other matters which are often associated.

First there is the question of husbanding our natural resources. On this I agree with Henry George: "It is a well provisioned ship on which we sail through space."¹² For economics the important issue is to ensure that our system encourages the discovery of natural resources and does not give rise to processes of production which are wasteful of them. I conclude that in the normal case both would be well served by self-interest.

Second there are all those questions which in economics are bracketed under the heading external dis-economies: damage to the environment, pollution, disposal of waste matter - including if you wish radioactive waste - which inevitably arise in both the consumption and productive processes.

Again this is another issue and one for the legal profession rather than for economics. We all have a duty to dispose of waste so that it does not endanger others or the environment. We all have a duty not to conduct ourselves in a way that damages the environment, and so on. Failure to fulfil these duties should incur a legal penalty.

This is part of the job of the polity but not specifically the job of economics. The job of economics is to point to an economic system in which external dis-economies are against the individual's self-interest. Bearing in mind the nature of self-interest, the most

12 Quoted from Henry George's *Progress and Poverty*, Book IV, Chapter 2.

sensitive part is the pocket backed if necessary by legal penalty. If it costs a fortune to safely dispose of certain kinds of waste then productive processes giving rise to that kind of waste will be avoided.

To conclude with this issue: I do not accept that the extractive industries, or agriculture, are special cases within a normal trading community. Arguments in favour of special case treatment are, in all cases I have noticed, based on a confusion between consumption and production - a failure to note that the distinction must of necessity rest on differences in quality as reflected in the market price and not differences in quantity.

Secondly tonight I feel bound to deal with the issue of what Henry George called “rent”, and which has no place in the distribution natural to what I have called a *normal spontaneous order*. Rent according to Henry George is the return to what he called Land. Land he defined as the whole of the natural universe, excluding man, which is accessible to the human race.

The first point to which I would call your attention is that George’s “land” is not a factor of production in fixed supply, irrespective of the time period under review. If we take as our time period the hundred years since *Progress and Poverty* was first published then the natural universe accessible to mankind - George’s “land” - has been significantly extended in all directions; below the surface of the earth, above the surface, as well as along the surface. Thus it follows of necessity we cannot apply to George’s “rent”, as a return to George’s “land”, the special fixed supply case of the theory of supply and demand which is the established generalised version of Ricardo’s “rent”. In particular, George’s “universe” was not a real continuous whole.

Second, Henry George lived and formulated his ideas in the United States during a period when a succession of events happened at speed. He did not specify as a prior requirement for “rent” the appropriation of land, as did David Ricardo. In the U.S.A. at that time there was an open frontier. Equally he did not

specify a trading community - the case we have been considering.

George began by imagining pioneer families settling their households on adjacent un-appropriated land. As St. Thomas Aquinas observed centuries before, men are gregarious by nature. These pioneer families co-operated one household with another but essentially they produced primarily for their own consumption and traded only their surpluses. In these conditions there arose in the nature of things what we may describe as a fertility rent. Some families happened to enjoy more fertile land and the fertility rent accrued to those families.

At the time the United States accepted St. Paul's dictum: "to one the gift of prophecy and to another the gift of good bottom land".¹³ Fertility rent caused no great problems. The differences were rarely excessive. There was an open frontier, and the condition did not last for more than a couple of generations. In similar conditions in this country there arose the manorial system of strip cultivation which helped to reduce the compounding of natural differences in fertility over a period of centuries.

I do not deny the existence of 'fertility rent' in the conditions as imagined by George. I point out, however, that the hypothesised conditions are not those of a trading community of a normal spontaneous order in which production is not for own consumption but for sale. Further, the hypothesised conditions are not those of a contemporary industrialised monetary economy.

George did observe that at a certain point in the development of his imagined community that what he called "land" began to manifest what he described as a "new kind of productivity." To him this appeared as a natural progression and he assumed continuity. This led him to attempt to explain the 'new productivity' in terms of the earlier 'fertility rent'. Like Alfred Marshall a few years later, Henry George assumed that what he was observing was no more than a different species of the same kind.

What George failed to note was that along the line of his

13 A light-hearted mis-quotation of the text of 1 Corinthians 12, verses 8 to 10.

argument he changed a number of the fundamental conditions. He begins with “un-appropriated land” but then later he states that the immigrant farmer can only realise on the rent arising from the “new kind of productivity” by selling part or whole of his original settlement. In other words a prior requirement for this new “rent” is the appropriation of land. He begins with subsistence farmers producing primarily for their own consumption and he ends with specialist firms producing an output for trade - producing primarily for the consumption of others. This end condition was not a *trading community* of the *normal spontaneous order* but what we may distinguish by calling a *trading economy* - something akin to the system we have today.

In the terms I have been using what Henry George calls “land” is a part of the unmodified universe at a particular location. Now I admit that if locations are appropriated then what George calls “rent” will arise in a trading economy. Indeed, the appropriation of locations is a distinguishing characteristic between a *trading economy* and a *trading community* - there are other distinguishing characteristics. Where I dispute with George is that I argue that this so-called “rent” in a trading economy is different in kind from “fertility rent”. If one considers “fertility rent” to arise from a free gift of nature then the “new rent” is most certainly not a free gift of nature.

Before a trading economy can become established a prior requirement for its development is the provision of a whole variety of public goods and services. These public goods and services manifest themselves by giving differential advantages to different locations. When these public goods and services are provided free of charge in the sense that that there is no direct or related payment then, given the appropriation of locations, those who wish to use a particular location for consumption or production activities will in general, human nature being what it is, have to pay the appropriator of the location a sum related to the advantages accruing to that location from the supply of public goods and

services.

This is the nature of what Henry George calls “rent” in a trading economy. That this kind of so-called “rent” arises I do not deny, given the required conditions. What I deny is that it is *normal*. It cannot be *normal*, for it offends against the fundamental moral law of economics. Some people receive free of charge public goods and services paid for by an arbitrary levy imposed on others by force or the threat of force. It is not the poor impoverished unemployed people that enjoy the good life at the tax payers’ expense, but the Duke of Westminster.

But here I agree more with Ricardo. The landlord - the Duke of Westminster if you wish - is not the villain of the piece. Such an argument, at best, amounts to an attempt to pass the buck. Central and local authorities bestow a multitude of gifts on the Duke of Westminster at the tax payers’ expense. Having made the gift he is free to sell them at the best possible price and live off the proceeds.

It is not specifically the fault of a landlord that his self-interest is other than what justice demands. The responsibility for this lies with every taxpayer and voter collectively.

6

Normal Spontaneous Order

12th June 1984

Whatever one says or does tends to be coloured by personal preferences or scale of values. This is more so when, as during the last five weeks, we have often pressed against the frontiers of economic science. However, I trust the outline presented on the two diagrams is at least passably objective.

What I have described as the *normal spontaneous order* (as shown in Figure 1, below) is a possibility that flashes in when a critical number of individual persons seek the means of pursuing their own individual ends through specialisation and trade.

The diagram on the left (Figure 2, below) shows the distribution natural to that order. What is important is that all claims to the product accrue as the return to labour. From this it follows, all personal property rights stem from labour. When an individual person produces goods and services by their own labour then they can state "This is mine." This gives them the wherewithal to trade.

To state "This is mine" requires the individual to show either that they produced it by their own labour, or they obtained it by way of a free exchange, or they were given it as a gift by an individual who enjoyed a valid title. This is in the nature of the *normal*, for the power to labour is given not collectively, but distributively, to each and every individual person.

But apart from labour all that we have is given collectively and thus it is in the nature of the *normal* that what is given collectively are *free goods*, freely available to any individual person who wishes to use them. They have free use but not the right to state: "This is mine."

It is not normal to allow individual persons to appropriate that which is given collectively and so state: "This is mine." It is not

normal to allow some individual persons to appropriate goods and services produced by the labour of others and so state "This is mine." It is not normal for the majority of individual persons to have nothing to sell but their labour, for them to be denied property rights over that which they produce by their labour.

Thus, in the normal case, there is no 'primary division of wealth'; no division as between rent, wages, interest or profits; no division as between labour income and property income. The so-called 'laws of distribution' derived from Ricardo, whether in their Marxist or Georgist development, are not normal, any more than is the distribution accepted by contemporary mainstream economics.

The economic order of the United States, of this country, or of Russia are not different in kind. They are all variations on a sub-normal theme. They are all based on the appropriation of that which is given collectively. They all reduce the majority of individuals to a condition in which they have nothing to sell but their labour. They are indeed to be distinguished from slave states only in one small particular: they allow those who labour to some small degree to choose their master.

The concept of the normal gives an alternative to the contemporary trading economies, which are to be distinguished only by their political hue. However, contemporary trading economies and a normal trading community have at least one thing in common - they both require to be provided with public goods and services from outside the trading system.

In the *normal* case, public goods and services are those goods and services which in the nature of things do not give rise to an automatic return to those who labour to produce them. Special arrangements have to be made and these arrangements are the special task of economic science. The job of economic science is to ensure that these arrangements are such as cause within the *trading community* individual self-interest to serve what justice demands. When these special arrangements ensure that condition then there will exist the possibility of civilisation.

This is my interpretation of Maynard Keynes' remark that economics is "the trustee, not of civilisation but of the possibilities of civilisation." So long as economics fails in its particular task, then the possibilities of civilisation do not exist.

Finally may I remind you of what I said on the first evening. To have direction one must have a destination but having a destination one must know where one is and the first step on the road to the destination otherwise one remains utterly lost. The concept of the *normal* is one thing; the first step on the road is another, and requires a mastery of other techniques not even mentioned during the past few weeks.

There is one further technical point, for the technically minded. Previously I stated that the polity was required to operate taking one year with another on a balanced budget. That implies that total costs equals total revenue, but it does not answer what quantity is to be supplied along any particular line. Over twenty years ago when investigating the railways - the piece of research that started me off on this line of thought - we dealt with the particular question by analogy with the circulation of the blood. As I recall some 75% of our veins are a dead loss when their usefulness is measured in relation to the traffic they carry. But, insignificant percentages apart, if one tried to cut out the loss-making veins, then very quickly the whole system would collapse. This general principle applies to the goods and services supplied in the normal case by the polity. In general, the polity is required to provide public goods and services along all lines up to the point where marginal revenue equals marginal costs. Along a representative line this is likely to result in a surplus and therefore a surplus overall. In general firms operating within the trading community would stop at this point at which their wages would be maximised. So far as the polity is concerned, they can go beyond this point; whether they operate each and every line to a point where total costs equals total revenue or whether to go further in some than others so as to achieve an overall balance is a political decision.

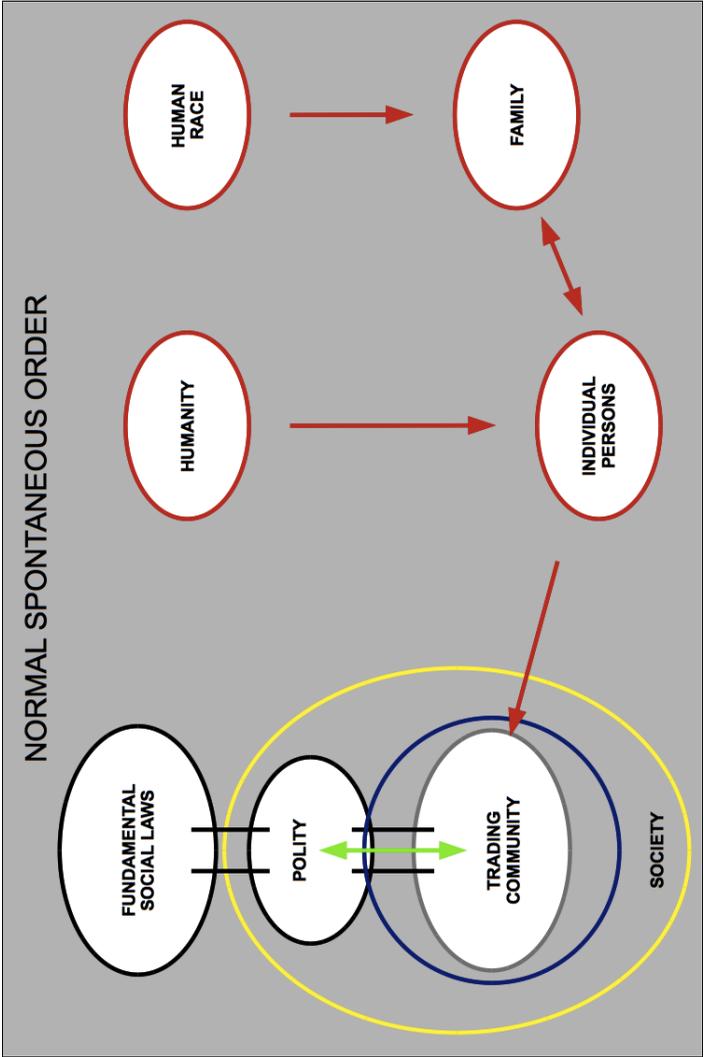


Figure 1

Table 1

Total receipts	£A
Less:	
Non-human inputs	
Unmodified universe	Free
Modified universe	Costs
Location	Free
Indirect labour	Costs
Net added claim	<hr/> £A - costs
Employed labour	Pay
Master labour	Wages
Net added claim	<hr/> Pay + wages

Figure 2

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Reading list

1. Marshall, Alfred. 1890. Principles of Economics, Volume 1. London: Macmillan. Volume 2 never appeared.
2. A. C. Pigou. 1920. The Economics of Welfare. MacMillan, London.
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4. W. Temple. 1942. Christianity and Social Order. Penguin Books, Harmondsworth, London.
5. F. A. Hayek. 1944. The Road to Serfdom. Routledge Press, and University of Chicago Press. Note: Hayek was brought to the LSE in 1928 by Lionel Robbins, and moved to Chicago University in 1950. With Anthony Fisher, he was instrumental in the founding of the Institute of Economic Affairs in 1978.
6. Samuelson, Paul A. (1948). Economics: An Introductory Analysis. McGraw-Hill. Note: The standard text, until the 1980s.
7. T. Gilby. 1953. Between Community and Society: A philosophy and Theology of the State. Longmans Green & Co. Ltd. London
8. T. Gilby. 1958. Principality and Polity: Aquinas and the Rise of State Theory in the West. Longmans Green & Co. Ltd. London
9. H. M. Wilks. 1964. Rating of Site Values: Report on a Pilot Survey at Whitstable. Rating and Valuation Association.

Appendix 1

This appendix provides some explanatory notes on specific topics, and a commentary to accompany the transcripts of the six lectures. An attempt is also made to extend the substance and methodology to a further analysis of the supply of public goods by the polity.

The topics covered are:

1. Use of the terms normative and positive.
2. The 'law of three forces', and the 'law of the sequence of events'.
3. Meaning of the terms real continuous whole, ends-connected organisation, and polity.
4. Explanation of the Scholastic method, and the terminology of Community, Polity and Society.
5. Some distinctive aspects of the work of John Maynard Keynes.
6. Moral aspects of the historical concept of taxation.
7. A brief summary of the work of Henry George.
8. An introduction to the Whitstable studies.
9. The 'trading community' as different from a 'trading economy'.
10. The nature and supply of public goods and private benefits.

1. Normative and positive

In the present context, the term 'normative' is used to indicate the emergence of a normal phenomenon that is not shaped or constrained by artificial customs or practices, and which accords with fundamental social laws.

This is different from the usage of 'normative' and 'positive' in modern economic analysis, where the term 'normative' refers to a moral prescription, and 'positive' refers to deductions made from observations of patterns of behaviour. This modern approach suffers from the defect of the observation of behaviour that is itself an outcome of its own teaching of economics.

A distinction is also made between 'normal', and 'natural'. It is natural for difficulties to arise from the pursuit of policies which are not in accordance with fundamental social laws.

2. Esoteric laws

The 'law of three forces', and the 'law of the sequence of events', also known as the 'law of seven' or the 'law of octaves', are ancient philosophical formulations of unknown origin.

The 'law of three forces' asserts that events arise not from duality, but from an interaction of three elements which are invariably active, passive and conditioning. Examples include the interaction of sunshine and rain, which may, depending upon the conditions, produce either a dull, cloudy day or a spectacular rainbow; or the interaction of a buyer and a seller under conditions of monopoly, or a competitive market; and with or without the availability of a stable currency and the rule of law.

The 'law of the sequence of events' proposes that any series of connected events exhibits the characteristics of the natural octave, such that an 'unfilled interval' (absence of an intervening semitone) exists between the notes *me* and *fa*, and between the notes *si* and *do*. If this interval is not filled by an external input of energy, the

octave, and hence the sequence of events, does not proceed to the intended conclusion, but may instead turn aside into a different and unintended path. Examples are commonly found in such areas as complex project management, the education of children, and the implementation of schemes of political or economic reform.

A fuller discussion of these concepts may be found in the works of P. D. Ouspensky.

3. Real continuous whole, ends-connected and means-connected organisations, and the polity.

Humanity as a 'real continuous whole'. This term implies the existence of an entity that is not merely a collection of other entities, but has a substance of its own, and therefore has both spatial and temporal dimensions. It exhibits an internal continuity, or uniformity.

Ends-connected and means-connected organisations. Within humanity, we find the family as an ends-connected unit, providing for the continued existence of the human race. It is also, as a household, a unit of both consumption, and production (even in the case of, for example, self-sufficiency).

In considering a fully developed trading economy, however, the ultimate unit is of necessity the individual member of humanity. The pursuit of multiple individual ends, or purposes, may then lead to the emergence of a means-connected order, in which specialisation and trade go hand in hand. We may note that, according to F. A. Hayek, a liberal society is likely to be means-connected, and not predominantly ends-connected.

Polity. The trading community nevertheless requires the rule of law and a degree of central authority to facilitate the supply of public goods (such as a stable currency). It is typically the case that parliamentary legislation, or some other form of collective action, is required to create and preserve a public good (such as the compulsory purchase of land, or the granting of a public right of way, or wayleave).

The trading community cannot of itself supply these public goods, and some arrangement is required to determine what is to be supplied by the polity. Under such a regime, however, a public good presents a self-evident cost benefit analysis.

Natural spontaneous order. The relationship between the trading community, the polity and the fundamental social laws may be viewed as a natural spontaneous order. In contrast to the alternative view of humanity as a real continuous whole, this view of humanity as a natural spontaneous order exhibits a discontinuity as between the trading community and the polity. It may, however, through its relationship to the fundamental social laws, keep open the possibility of civilisation. Realisation of that possibility is then a matter of choice.

4. Scholastic Philosophy and St. Thomas Aquinas

Scholastic method. Scholasticism is a method of critical thought which dominated academic teaching in the universities of Europe in the mediaeval period, from around 1100 to 1700AD. It places a strong emphasis on dialectical reasoning to extend knowledge by inference, and to resolve contradictions. Scholastic thought is also known for its rigorous conceptual analysis and the careful drawing of distinctions.

Scholastic philosophy. Aquinas' masterwork *Summa Theologica* is considered by many to be the pinnacle of scholastic, mediaeval, and Christian philosophical writing. At the height of the Scholastic movement, the nation state of the fifteenth century onwards had yet to emerge in Europe. Aquinas therefore in his writings deals with the question of how there comes to be such a thing as a centralised authority at all. In his answer he closely follows Aristotle's *Politics*, albeit within a theological context.

Thus, according to Aquinas, authority is said to be necessary to any form of society, and society is in turn a necessity of man's nature. In solitude and isolation from his fellows man is not a man; a hermit must be either a brute or an angel, for he is not within the

category of mankind. Man is a social animal more than any bee or ant. Bees and ants are gregarious, but man is social, and requires to be a member of a rational community. Nor is the community of family life sufficient: families must form societies, and the society of families is ultimately the state, or polity, in which some degree of authority must needs be established. Anarchy is the destruction of the state, and thereby the ruin of the individual.

But, 'man is not subservient to the political community to the extent of his whole self, all that he is and all that he has,' writes Aquinas, and the state has neither ability, nor the right, to control his thoughts. 'Even while he still lives one of its components, he cannot wholly be contained in the State.'

Nature of the polity. In the writings of St Thomas Aquinas (1225 - 1274AD), the state, or polity, stands intermediate between the conditions of community and society.

In the natural community, people are bound together by ties of family and kinship. This is an inherent aspect of the nature of humanity. Society, however, encompasses the whole of humanity in virtue and friendship, such that no centralised protection from the mis-deeds of others is required. Thus, in their pure forms, both community and society are aspects of the human condition. The first is not an historical precedent, nor is the second an ideal to be attained.

The aim of the state is to facilitate an ease of movement from community towards society. It may be necessary to encourage virtue and to restrain vice, but it is not the aim of the state to legislate for morality; on the contrary, the laws set up by the state, and its conduct, are to be appraised in the light of a generally accepted morality.

The success of the state is evident from a progressive elimination of man-made laws and a growing distribution of responsibility, leading to a wider participation in decision making and personal accountability. The centralisation of power in a totalitarian state is a sign of failure; a balanced combination of

monarchy, aristocracy and democracy (in the classical sense of those terms) is much more likely to be effective.

The state is not an independent entity with a set of aims different from those of the people of which it consists. It is, however, more than a mere arrangement of convenience between a collection of free individuals, for whilst it holds sway, its laws and its character will reflect something of the nature and condition of the people. Meanwhile, all its actions and functions are performed by individuals who remain subject to its laws and accountable for their actions.

The state does not contain the man; rather, every man has something of the state within himself.

In terms of Aristotelian analysis, the state may yet constitute a 'natural accidental whole', but does not, and can not, ever become a 'real substantial whole'.

For a fuller explanation of this particular point, the reader is referred to the work of Thomas Gilby - e.g. *Between Community and Society*, p107 - 116. See reading list for details.

5. Some distinctive aspects of the work of Keynes

Keynesian economics is generally understood as the view that in the short run, and especially during a recession, economic output is strongly influenced by aggregate demand (i.e. total spending in the economy).

In this short run view, however, aggregate demand does not necessarily equal the productive capacity of the economy; instead, it is influenced by many factors and sometimes behaves erratically, affecting production, employment, and inflation.

The theories forming the basis of Keynesian economics were first presented by John Maynard Keynes in his book, *The General Theory of Employment, Interest and Money*, which was published in 1936, during the Great Depression.

Keynes argued that the solution to the Great Depression was to stimulate the economy through some combination of two

approaches: (i) a reduction in interest rates (monetary policy), and (ii) government investment in infrastructure (fiscal policy). Keynes contrasted his approach to the prevailing 'classical' economics of the day, which concentrated on consideration of the aggregate supply. The interpretations of Keynes that followed are contentious and several schools of economic thought lay claim to his legacy.

6. Moral aspects of the concept of taxation

Two generally accepted examples of the fundamental social laws are not stealing, and not taking another human life. In this context, capital punishment, even when carried out by the state on behalf of the community, yet consists of the taking of a human life.

Similarly, although perhaps not of such gravity, the confiscation of property through taxation, even when carried out by the state on behalf of the community, remains an act of theft.

The historical origin of taxation is the pillage and looting that follows victory in war; taxation is the mark of a conquered people.

Whilst commonplace in the ancient world, and indeed in the not so distant past of many Western European states, it has no place in the natural order of human affairs.

Some further definitions of the term 'taxation'.

(a) Dr Hugh Dalton. In 'Public Revenue Without Taxation', published 1994, Burgess wrote: "We will rely on the authority of Hugh Dalton, a leading writer on public finance who was at the LSE until he became the first post-war Labour Chancellor of the Exchequer. In Chapter V of Part II of his Principles of Public Finance he defined a tax as: 'a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return, and not imposed as a penalty for any legal offence'."

(b) Burgess. Quoting Dr. Hugh Dalton in 'Economic Recovery', a talk given to the American-Hellenic Chamber of Commerce in

Athens in 1994, Ronald Burgess said: "What then is taxation? Hugh Dalton, a Reader in Economics and later a Chancellor of the Exchequer in post-war Attlee government, wrote what for years was a standard work called Principles of Public Finance. In this work he wrote: 'a tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payer in return, and not imposed as a penalty for any legal offence'. This is a good definition by a practical expert which has stood the test of time but misses one vital point. Although not legally an offence, taxation is itself an offence persistently perpetuated by governments throughout the world against the fundamental principles of private income and property. In total as much as a half of what is produced as private income is appropriated by government without any attempt to render to an individual an exact amount in return. There may be a macro-economic argument for taxation but there is no micro-economic justification. Put bluntly, it is robbery, albeit legalised stealing. This government stealing automatically inflates, to use the terms of Maynard Keynes, the aggregate supply price curve."

(c) Sir Kenneth Jupp, who joined the Army as a field gunner and was awarded the Military Cross in 1943. From 1958 to 1975 as Queen's Counsel he appeared in Parliament to advise MPs on Private Bills. In 1975 he was appointed a Judge of the English High Court. He retired in 1990. Tax, as observed by Sir Kenneth Jupp in 'Stealing our Land' on page 132, is described thus: "He must, therefore, have provided societies with a natural revenue to be used for their common purposes. It is our duty to discover what this natural revenue is, and the duty of governments to ensure that the publicly created revenue goes into the public purse. If they allow it to be appropriated by individuals, then the governments are driven to rely for revenue on taxation of all sorts and kinds levied on the product of labour: and this is a breach of the injunction 'Thou shalt not steal'".

(d) The British constitution. There is no constitutional provision for taxation in the UK. A 'constitutional fiction' is therefore used as the preamble to the annual Finance Act, such as the following example:

"An Act to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with finance. 17th July 2014. Most Gracious Sovereign. We Your Majesty's most dutiful and loyal subjects, the Commons of the United Kingdom in Parliament assembled, towards raising the necessary supplies to defray Your Majesty's public expenses, and making an addition to the public revenue, have freely and voluntarily resolved to give and to grant unto Your Majesty the several duties hereinafter mentioned; and do therefore most humbly beseech Your Majesty that it may be enacted, and be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows..."

(e) A contrary view, recently promoted by government in the UK, is that taxation should not be seen as "state-sponsored theft" because "taxation is the principal means by which the necessary functions of the state are funded." (GAAR, April 2013). This view, evidently an illogical *non sequitur*, is also known as the "shop-lifter's defence" - theft is not justified simply by being the principal source of income of the perpetrator, and the conclusion cannot be drawn from the premiss put forward. GAAR is the "Tax avoidance: General Anti-Abuse Rule" first introduced by UK Government on 15th April 2013.

7. A brief summary of the work of Henry George.

(a) Henry George (1839 - 1897) is widely remembered for his self-published book, *Progress and Poverty* (1879), and many other

related works. In 1888 Henry George visited England, where his ideas for the taxation of the annual value of land, not including the effect of improvements, such as buildings, were welcomed by the Liberal Party. In so far as Henry George recommended the use of a single tax to collect the whole of the annual value of unimproved land, his ideas were rejected by some of his opponents as being equivalent to the nationalisation of the ownership of all land. His accompanying proposal, perhaps even more significant, to remove all other forms of taxation was also not taken up.

(b) Novel principles of taxation, based upon the work and policy recommendations of Henry George, were included within the April 1909 budget proposals of the Asquith government, which had been elected with a strong Liberal majority in 1906.

This budget, popularly known as the 'People's Budget', proposed for the first time to use arbitrary taxation as a means of re-distributing wealth from one group of people to another, rather than as a method of financing public goods and services.

This became a key issue of contention between the Liberal government of the day, and the Conservative majority in the House of Lords, leading in due course to two further general elections in January and December 1910, and the enactment of the Parliament Act of August 1911.

The 1909 Budget proposals introduced higher rates of income tax (at 3.75% and 5%), and an additional 'surcharge' rate of 7.5% for very high incomes, and also increased inheritance tax.

More controversially, it also included proposals for a complete valuation of land, with a 20% tax to be levied on any increase in its value whenever land changed hands.

Opposition in the Lords reflected a preference for import duties as a means of raising tax revenues.

The Lords accepted the Budget on 28 April 1910 when the land tax element was dropped, but contention continued between the Asquith government and the Lords until the general election of December 1910. The result of this election was another hung

parliament, and the introduction of the Parliament Act of August 1911, intended to remove the ability of the Lords to further block the remaining proposals. The Lords passed the Parliament Act of 1911 when faced with the likelihood of the creation of sufficient Liberal peers to give that party a majority.

The Parliament Act 1911 thus removed the right of the House of Lords to block money bills (i.e. proposed changes to taxation) and effectively became part of the British Constitution. It also reduced the maximum term of a parliament from seven years to five.

(c) In the late 1930s, and again in the post war period, attempts were made to introduce a Site Value Rating Bill for London, by means of which public revenue could be raised using methods very similar to those recommended by George, but without the removal of other forms of taxation. These attempts did not succeed.

8. An introduction to the Whitstable study

Two very detailed studies of site value rating were carried out in 1963 and 1973, for the Rating & Valuation Association, and for The Land Institute, respectively, in and around the town of Whitstable, in Kent. The principle of valuation adopted for both of these studies was to determine the annual market value of sites, not including the value of buildings or other improvements, but on the assumption of full development of the best permitted use. Similar use by adjoining sites was also to be assumed.

The main conclusion of the studies was that the annual value of sites assessed in this way could be broadly equivalent to the yield of the existing system of rateable values. Some thirty years later, a research group from Kingston University conducted a further study (Plimmer & McGill 2004). The aim of the third study was to evaluate the interaction between a land value tax and the planning system using the latest methods of valuation and spatial analysis.

The concepts of public value and private value in a location do not appear to have been reflected in these studies.

9. The 'trading community' as different from a 'trading economy'.

Throughout this discussion, Burgess uses the term 'trading economy' to refer to the present system, in its defective state. In contrast, the term 'trading community' should be seen as an aspect of a normal spontaneous order, in potential and as indicated above, neither a historical state nor some future scheme to be realised.

The difference between the two concepts lies not only in the extent to which fundamental social laws are observed, but also in other respects, such as the appropriation of land, specialisation and trade, the prevalence of master labour, and the implementation of a return to the polity which keeps open the possibility of civilisation.

Thus, in the context of a trading community, if a man paints a house for another man, the painter is entitled to the full value of the work carried out, without deductions or taxes. This does not mean that the painter is entitled to the whole of the product, or even a share of the product, for the product is a painted house belonging to another person; but, the painter is entitled to the full value of the work done. Payment for the public goods and services which are reflected in the location value of the house would then be made directly by the owner of the house, and not by the painter.

10. The nature and supply of public goods by the polity and the market price of location.

In considering this view of humanity as a real continuous whole, which may be analysed as being composed of families (households), or of individuals, alongside the view of a normal spontaneous order in which there is a distinction to be made between a trading community and the polity in the light of fundamental social laws, we may attempt to extend the argument further and consider the nature of public goods and services and the arrangement whereby they are supplied.

The balanced budget principle, and the polity as a special kind of firm operating on a risk-free basis, require the use by the polity

of a cost recovery model only. The significance of the reference to a 'market price' in the present lectures is to indicate that, even under those conditions, the polity cannot exercise monopoly power, and that the question of whether or not a public good is to be provided is therefore to be determined by whether or not the trading community is willing to pay for it, taking into account the cost of provision.

TO BE DELETED: [The editors do not accept that the intention of Burgess was to suggest that those elements in the full market price of a location which do not arise from the provision of public goods and services should be charged for by the polity through taxation, as this would offend the fundamental social laws.]

Note also that the 'common good' does not necessarily refer to a public good. A desire to eat is, by nature, common to all men, but tonight's supper is consumed by each person as a private good, and does not constitute a public good. The prevention of the spread of a contagious disease does constitute a public good, and benefits all those who remain unaffected; it may confer no direct benefit at all upon those persons suffering from the disease. A fire service does not benefit the person whose house has burned down; it mostly benefits neighbours, whose houses remain unaffected by the event.

Again, in a small country village, some may wish for street lighting; it may be, however, that the majority do not. The majority may be willing to pay a higher price to live in a village which does not have street lighting. The minority must give way, because the public good of street lighting (or, indeed, its absence) is indivisible amongst residents in the same street.

TO BE ADDED: [Tommas Graves. In these works, Ronald Burgess achieves a remarkable conclusion, in that he reconciles Keynesian thought with the Georgist. Using special terms which he has devised for the purpose, he proceeds by impeccable logic to the fact that the value of a location is the measure of public goods and services supplied at that site, but that this will only be true taking a long view.

But the method of charging the costs of the polity to individual sites, he says, will be done by a market operation to determine what Marshall called “situation value”. As he says on page 100 of *Public Revenue without Taxation*: “The public value of freehold property rights over land is that part of its current market price a willing buyer is prepared to pay a willing seller for the net external economies, advantages and other benefits an occupier expects to gain from the occupation and use of the land”. This shows the quality of the man, and his consistency, as he knows that if the polity does not collect the full location value, then someone else will, and that would be theft of production belonging to another, and therefore definitely not “normal”.

But this raises a further problem – What is the polity to do with the likely excess of revenue collected over the costs incurred in any one year? The provision of this surplus will enable the polity to embark on works of improvement without incurring debt. By this means, the cost incurred will actually be the same as the values collected.

Thus, his foresight enables us to see a way to lessen and eventually remove the most significant burden on an economy. Then civilisation surely becomes realised.

TO BE DISCUSSED: [John Murfin. We can argue that locational values are due to the community as a whole. The major contributor, facilitator, catalyst may be Governmental Goods and Services but, as we have discussed, there are contributions from:-

- Use made of the location.
- Type of buildings erected.
- Type of people/businesses located there.
- The care the above take of the location.
- The facilities in the area e.g. shops, schools, medical facilities, places of entertainment, etc.
- Transport facilities.
- Size of the community (i.e. supply/ demand effects on locational values and pressure on facilities .), etc.

If the full market prices of the locational values are collected, then in principle it should be shared out amongst the above contributors. (It should also be emphasised that the actual owners / occupiers of a location are themselves a part of the community as identified above.)

In this way the full market value of community generated locational should be collected and then allocated according to proportions agreed at the time. These would then provide the basic costs available for making the contributions.

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