production. The margin of production is defined as, the point beyond which production is no longer viable and clearly labour and capital cannot earn any less than the amount which is acceptable there and, where rent is by competition from likeminded producers, an equivalent amount and quality of labour and capital can earn no more than at the margin.

Here we may see how, being obliged to pay the economic rent for the use of all locations, operates to provide an equalising influence on the distribution of wealth but does so in a way that still enables the most able and hard working to prosper without harming their less able or industrious neighbours. We may contrast this with the situation where taxes are levied on the employment of labour, capital or value added and where the land rent is either appropriated for individual advantage or not paid to the community that creates it. Under these circumstances economic inequalities are magnified and encouraged to expand still further.

If a tenant is always obliged to **pay** land rent the obvious questions that arise from this include:

- To whom is the rent paid?
- To whom is it due?
- If the land rent were paid to the community would there be any need to tax labour, capital or value added?
- Does having to pay the land rent discourage production or enterprise?
- What determines the amount of land rent that a business is willing and able to pay?
- If the land rent being asked is higher then the economic rent of land i.e. is too high, what happens to the site?
- If the land rent being asked is lower than the economic rent of land i.e. is too low, what happens to the site?
- What has this to do with economically depressed areas and unemployment?
- What has this to do with migration issues?
- What has this to do with government debt?
- What has this to do with government's inability to provide adequate public services?
- What has this to do with poverty and pauperism?

If Trade is Essential to Civilised Life Is All Trade Good?

It is one thing to observe that trade is natural and is capable of conferring enormous benefits on humanity but it is another to assume that all trade is 'good'. The most easily recognisable example of 'bad' trading is probably the 'slave trade'. Here clearly the buyers and sellers engage in the trade willingly whilst the slaves do not. Other forms of trade may not confer any general benefit or may even damage the wider community's interests even though both parties to the trade do so willingly. If an item, service or practice is inherently damaging to society as a whole it is not rendered 'good' or laudable simply because it can be traded and 'there is a market for it'. A society, as well as each individual, exercises both a moral judgement and an economic valuation when they permit or engage in a trade. The laws, customs, traditions and manners of a society convey a moral message to each of its members and where they prohibit certain modes of behaviour or trade 'economic man' is not necessarily engaged. However if a society seeks to discourage trade in something it considers to be undesirable by increasing its price through taxation, the pressure is clearly 'economic'.

A question arises here concerning what it is morally right to trade and what is not. I suspect no one would have a moral problem with the buying and selling of goods that are generally necessary for people's welfare such as food, clothing, and goods that enhance the quality of all people's lives.

Likewise few would seek to justify a trade in something that is bound to cause harm to some people or to society as a whole. It is beyond the scope of this pamphlet to examine this question in detail, however, it may be valid to observe the influence of virtue and vice on people's decisions regarding exchange.

In a free exchange, entered into willingly by both parties, each expects to receive something that they value more highly than that which they give. The result is that both parties are better off and society as a whole benefits i.e. a win-win-win situation is engendered. Whilst the circumstances of each party to a free exchange may vary, if both are in good economic health, and the items being traded are genuine articles of wealth which may be produced by human labour applied to what nature provides, there need be no compulsion on either side. If, however, one party is desperate to buy or to sell, the situation of course changes. In a healthy society one might expect desperation to be an exceptional condition but it may be significant that it shows itself frequently when 'vices' or 'poverty' are involved. A person held in the vice like grip of an addiction, certainly suffers from a sense of compulsion, and their sales and purchases will reflect this. Likewise an unemployed, homeless person or someone in poverty is in a poor bargaining position, and is usually obliged to pay more, like for like, than a person who is well off. Both the addict and the pauper are also vulnerable to the temptations, hazards and expenses associated with borrowing money at interest. Here as with gambling, theft, fraud and corruption, wealth, (through the medium of money), is transferred in a manner that does not benefit both parties, it is not 'free trade'. It gives rise to a win–lose-lose situation rather than the win–win-win that comes with genuine free trade in material wealth.

The gain that each party receives from a genuine trade where both parties have earned what they are selling is not unearned. In contrast where one or other parties to a trade is selling something they have not earned (or received in exchange for something they have not earned, such as what nature, or society as a whole has provided) the gain is clearly unearned. Unearned income in the form of a gift may, or may not, benefit the receiver or giver. However, there can be little doubt that unearned income acquired through the selling of what is not one's own, or by exploiting a monopoly position or a buyer's distress, harms (in different ways) both parties to the exchange, and to society as a whole.

The Henry George Foundation of Great Britain
PO Box 6408, London. W1A 3GY **Tel**: 0800 048 8537
www.henrygeorgefoundation.org henrygeorgefoundation@gmail.com
The Henry George Foundation of Great Britain is a company limited by guarantee
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Meetings and classes are held at 11 Mandeville Place, London, W1U 3AJ.
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HENRY GEORGE FOUNDATION

FREE TRADE

By
David Triggs

Trade

Trade here refers to the buying and selling of goods and services where each of the two parties to an exchange attributes more value to that which they agree to receive than to that which they agree to give. Human consciousness, manifesting in the time, intelligence and exertion that people are willing to spend in order to acquire the goods and services they desire, is the ultimate measure of value that they place on them. This is because, in the final analysis, that, or wealth that their exertion has produced, is all any human being has to offer. Of course, in an economy where money is the common medium of exchange, money becomes the common measure of value. This however should not blind us to the ultimate measure of value and the importance of human consciousness.

Our use of the term trade does not include other modes of human behaviour where people acquire wealth from others without appropriate giving in return i.e. by tribute, exploitation, monopoly, fraud, theft etc.

Free trade refers to a condition where trade is not prevented or inhibited by the imposition of barriers to trade. Such barriers usually consist of tariffs or taxes that increase the prices that people are obliged to pay for goods beyond what the seller receives from the sale. They may however also include physical obstructions to trade, embargoes, limits, and sanctions which can lead to conflict and war.

Wealth

Material **Wealth** can only be produced by human ingenuity and exertion, the economic term for which is '**Labour**'. Labour can only be applied to what nature provides, the economic term for which is '**Land**', or, to previously produced wealth. The economic term for wealth that is used to produce more wealth is '**Capital**'.

Man: A Social Being - Specialising and Exchanging

Human beings rarely live in isolation. They normally live and work together in a community of some sort. The ultimate community for economic consideration is the family but from this basis, economic communities may extend to form an extended family, a clan or tribe. They may further expand to include the village, town, city, nation or group of nations. When people socialise however, a remarkable change occurs in the way that they produce wealth. Instead of individuals and households providing exclusively for themselves they begin to provide for each other and a measure of specialisation begins to show itself. People discover that they have an aptitude and preference for certain forms of activity compared with others. They also discover that by cooperating and working together they can produce in aggregate much more material wealth than they could produce working separately. In some communities e.g. some families or religious communities, producing wealth for others may be an entirely altruistic practise, however, a more common situation, is where it is a reciprocal arrangement for mutual advantage i.e. an exchange or trade.

Man : The Remembering Thinker

This inclination to exchange is fundamental to economic life and shows itself in human beings at a very young age. Every parent (and grandparent) is aware of how the smallest baby will happily give up something it has become attached to if its attention is given to something different and more attractive. Dog owners may notice a similar tendency in their pets but they may also notice a fundamental difference. The capacity of human beings to think and reason things out is much greater than even our most intelligent domesticated animal. This capacity to think, remember and learn from past experience provides people with an ability to know how difficult some things are to come by compared with other things that may be easily obtained. This links with the root of economic valuation referred to earlier. People are obliged to attribute little economic value to something that may be got easily and much to something that is difficult to get. This is not to say that they may not value something that is easily available or are bound to value something that is difficult to get, only that the exchange value of one is greater or less according to its difficulty of acquisition. Here we may note a distinction between 'value in use' and 'value in exchange'.

Trade

When exchange becomes the norm it can take place with or without the use of money. Where there is a high level of trust between the exchanging parties no money is needed. It is easy, for example, to imagine how someone who produces eggs could exchange his eggs for a pair of boots of similar value even though the boot makers desire for eggs was not simultaneous. The boot maker may deliver the boots on one day and agree to accept payment in eggs from the egg producer over say many months. If the egg producer pays first he gives credit to the boot maker and vice versa. Where the level of personal trust is not so high, for example where exchange is contemplated between strangers, something that both trust may be used to bridge the lack of what is known as a 'coincidence of wants'. This may be money e.g. legal tender, or a token of credit or debt issued by a bank. (See the MONEY pamphlet in this series for more concerning the confusions that may arise from the use of money in exchange.

It was not necessary for anybody to invent the tendency to exchange that has enabled people to specialise and develop the skills and knowledge that has characterised civilised life throughout the ages. People's willingness to exchange seems to arise naturally - deliberate intervention is only required to prevent it! A moments reflection illustrates how, not only does this simple feature of human life enhance the wealth and prosperity of all who willingly take part in it, but that it may promote peace and harmony

between both individuals and communities. Trade that depends upon trust is rare between enemies.

Ability, Aptitude, Culture, Location and Trade

People in some places may be better able or more willing to produce certain forms of wealth than others. This may be due to their skills and abilities, the value they place on the non-productive use of their time (e.g. for religious practice, leisure, arts, and sport etc.) or due to locational features including; fertility or access to water in the case of agricultural production, the presence of valued minerals in connection with mining, easy access to materials, labour and markets, for manufacturing, or to finance and trade routes for the merchant etc.

An important point to note however is that even where a location, or the habits and preferences of the people, offer no advantage for any sort of economic production, this does not prevent it from trading with people who are more industrious or live in the more advantageous location. It is not the 'absolute' productivity of people that matters but the 'relative' productivity of people in different forms of production. More productive people can most benefit from a trade with less productive people if they concentrate their resources on the production of those goods where their superiority is greatest. Likewise, less productive people will benefit from trading with more productive people, if they concentrate their resources on producing those goods where their inferiority is least.

Consider:

Two communities, both of which are able to produce two similar categories of goods (X & Y) for trade but one is better placed to produce both categories than the other. Say that for a given input of resources (labour and capital) community 'A' can produce ten times more value in goods X than community 'B', but for goods Y the advantage is only two fold. The two tables below show how if community 'B' focused its efforts on producing goods Y and community 'A' focussed more on producing goods X they could jointly produce the same amount of X and Y with less resources:

	Goods Category X			Goods Category Y			Total
Comm- -unity	Input Units Labour + Capital	Goods Per Input Unit	Goods No.	Input Units Labour + Capital	Goods Per Input Unit	Goods No.	Input Units Labour + Capital
A	1000	10	10000	1000	4	4000	2000
B	1000	1	1000	1000	2	2000	2000
Total A+B	2000		11000	2000		6000	4000

Condition 1 - No Trade

Each Community Inputs 1,000 Resource Units (Labour + Capital) to produce their needs in two categories of goods. Community A gets 10, 000 units of Goods X, and 4,000 units of Goods Y. Community B Gets 1,000 units of Goods X and 2,000 units of Goods Y.

Totals: Input Resource (Labour + Capital) = 4,000 Units, Goods X = 1,100 , Goods Y = 6,000

	Goods Category X			Goods Category Y			Total
Comm- -unity	Input Units Labour +Capital	Goods Per Input Unit	Goods No.	Input Units Labour +Capital	Goods Per Input Unit	Goods No.	Input Units Labour +Capital
A	1100	10	11000	633	4	2532	1733
B	0	1	0	1734	2	3468	1734
Total A+B	1100		11000	2367		6000	3467

Condition 2 - With Trade

Community A now produces 1,000 more of 'X' and trades it for 1,468 of Y that Community B has produced by concentrating its resources on producing Y. Thus both communities end up with the same quantity of goods X and Y as before but both are able to do so more efficiently - by using some 13% less resources.

Here we may mark that while community 'B' is better off producing only Goods Y than it would be producing both goods X and Y, it is still, for a given input of labour and capital substantially worse off than community 'A'. If this is due to a locational advantage (rather than a cultural difference) we should not therefore be surprised if people tend to move from location 'B' to location 'A' and that people with capital to spare are more likely to invest it in 'A' rather than 'B'.

Tax

Assume now that both A and B exist in a common economic community e.g. a state or nation and subject to the same tax regime. A tax on labour, capital, production, or trade will hurt both communities but community B, being already poorer, is clearly less able to bear it. As marginal producers in B fail, their situation relative to A worsens and the pressures for migration of people and capital away from B to A increases.

Rent

Consider now the economic rent of land that would arise at our two locations A and B. In our example it has been assumed that A yields a better return to labour and capital than B by a factor of between 2 and 10. Lets us take an average of 6. Thus for every unit of added value at B, six units of added value are produced at A for the application of the same labour and capital. An uncommitted potential tenant faced with a choice of locating at A or B would obviously, other things being equal, prefer to set up his business at A. The question now arises as to how much more he could afford or be willing to pay in rent at A than at B. Let us assume the rent he would have to pay at location B to equal say £1,000 per month and that this represented say 10 percent of the £10,000 value he can add there per month leaving him with £9,000 per month in earnings on his labour and capital. Our prospective tenant could afford to pay around £51,000 per month at a site at location A to earn a like amount (£60,000 - £51,000 = £9,000). If our business person was more able or the capital at his disposal was better than that being generally used at location B he/she might well be prepared to pay still more to secure a better site. Indeed he/she might have to, in order to out bid competitors for the better sites.

This imagined situation illustrates how the general level of earnings that labour and capital can command in an economic community is governed by what labour and capital can earn when employed at the margin of