

BOOK REVIEW

REFORM LONG OVERDUE

A Philosophy for a Fair Society
Michael Hudson, G.J. Miller and
Kris Feder

London: Shephard-Walwyn, £9.95

AT A TIME when even politicians admit that society is in crisis this book examines the growth of welfare capitalism and explains why it is now crippled. The authors suggest a new policy that would guarantee property rights based on a philosophy that would bring prosperity for all.

Dr. Michael Hudson, one-time adviser to US, Canadian and Mexican government agencies, takes a 4000-year perspective to show how the social impact of debt and privatization of the land brought about poverty as families were deprived of the ability to earn their bread. He puts it like this: "The fiscal knot has been tightened around the necks of citizens in the kind of spiral that systems analysts call positive feedback. War gives rise to debt, thus to an inability of the private sector to support the public sector. Increased taxation or public debt results in more borrowing to pay the interest on public debts while the creation of a warlord aristocracy results in the privatization of the commons, leading to landlessness and the loss of the means of self-support for a growing proportion of the population".

Hudson warns of the debt overhead and the natural resource monopoly which threaten our economic system, as they did Babylonian public enterprise 2000 years before the collapse of the Roman Empire. But he provides an answer: what links ancient civilizations with our own are the phenomena of land monopolization, debt and tax avoidance by landholders which undermine social solvency for private profit. So deep is our present economic quandary that the modern world needs more than a fresh start: it needs a philosophy for a fair society. Dr. Hudson calls for a reconstruc-

tion of political economy, pointing out that neo-classical economists at the turn of the 20th century blurred the distinctions between land and capital, and between the private and public sectors. This fatally compromised the analysis of economic problems. Today's economists no longer acknowledge land-rent's role as a natural source of taxation.

DR. GEORGE Miller, drawing on his research at the Wolfson Institute of Preventive Medicine, at London's St. Bartholomew's Hospital, shows that not only have the lower social classes grown relatively poorer in Britain but their health has suffered to a greater extent than those in higher income brackets.

Tracing the history of the welfare state from its beginnings in the time of Gladstone to the present day, Miller shows how the gap between the health of the rich and the poor has been getting successively wider. A complex system of taxation of wages and profits cannot support an expanding social programme aimed at redistributing wealth to improve the lot of those that capitalism has left deprived. Partly in cash benefits, partly in health care, education or housing, there are still wide inequalities between the affluent and the poor; a similar situation exists in the USA and other countries. How can it be, asks Dr. Miller, that massive increases in public expenditures have failed completely to close the gap between rich and poor?

The data provided is consistent, believable and shocking. The reader is taken back through modern history to the evolution of health care in Britain, the popular Malthus theory that changed the Poor Law and swept the destitute into workhouses, the pressure from figures such as Charles Kingsley and Michael Faraday that led to reforms in slum clearance, the treatment of infectious diseases and sanitation.

But it was not until about 1880 that ideas began to emerge, largely by advocates of the philosophy of Henry George, that rent should be collected for central revenue. At that time a tax on the annual site value of all land could have covered the whole of state expenditure, leaving a surplus as a fund for social improvement. All taxes might therefore have been replaced

by a "single tax".

Unluckily, Britain did not go down that path, and the outbreak of war in 1914 disrupted progress towards any tax on land. Instead, as Miller describes so well, governments thereafter voted in ever-larger increases in income tax, and welfare capitalism was born. Britain's complex system of taxation on wages and interest is still failing to redistribute wealth from the richer to the poorer sectors of society.

But this book takes the debate a stage further; if taxes on wages and interest have failed for a century, the second option remains open. We should look again at proposals of those who seek to reap the site value of land to ensure equity in the distribution of the nation's wealth for the public good.

FINALLY, Dr. Kris Feder, who teaches public finance at a US college, clarifies just how the Single Tax could lead to a fair distribution of wealth and could also simplify our tax system. She writes: "The greater the revenue raised from a tax on land rent, the smaller the revenues required from inefficient taxes on production and exchange". This would lead to the virtuous circle.

Using liberal quotations from the works of Henry George and other economists in sympathy with his ideas, Dr. Feder challenges the critics who through ignorance and prejudice have denied the equity of the Georgist paradigm. By logical argument and clear evidence she dispels misrepresentations. It is encouraging to read that a rich and varied Georgist research programme is even now underway. It includes virtually every sub-discipline dealing with the urban economy, money and credit, savings, capital formation and growth. Even the grand issues of justice and political stability are tackled.

Readers will be left in no doubt that if a Georgist philosophy were ultimately to be accepted worldwide, it could provide a principle for peaceful resolution of territorial conflict for every country, reducing military requirements and bringing peace and prosperity in its wake. This book is essential reading for all legislators and government bureaucrats. It is also a book for every voter who knows that tax reform is long overdue.

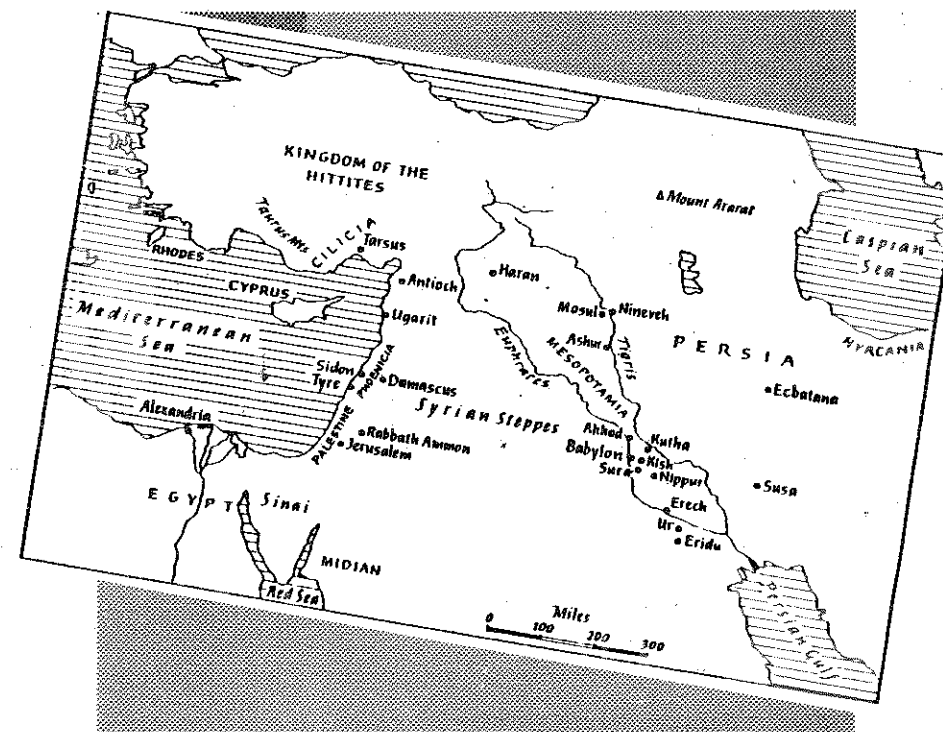
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EDITORIAL

BEWARE THE DOCTRINE OF NO HOPE

The world is at war with itself. Our "global village" is being torn apart by stresses which, because they are man-made, can be cured. The political ideology that now dominates society cannot generate reforms that would bring peace and prosperity. That is why the voice of *Land & Liberty* is vital. The sanity of its editorial philosophy - associated most notably with the name of Henry George - ensures that, one day, it will be heard and broadcast far and wide.

The challenge is to develop policies that will appeal to the public. We have to tread a narrow path between absolute conviction of the correctness of our philosophy and the pragmatism that would make it acceptable in a democracy.

We have waited a long time. A century has passed since Henry George synthesised the elements of a tax-led strategy that promised a cultural renaissance. But for most of the 20th century the advocates of George's philosophy largely failed to polish the diamonds that he dug out of the earth. The result was an increasingly lacklustre programme that did not command respect.

In recent years, Georgist activists from around the world have begun to pool their brains, to articulate the philosophy in terms that are relevant for the 21st century. There is still much work to be done, if we

are to sharpen the cutting edges of the only philosophy that can abolish the baneful influences that have destroyed civilizations for four millennia.

In striving for progress, we must beware those who preach a counsel of despair. They lack hope. They believe that the promised land is a long way in the future. Time, alas, is a luxury we cannot afford. For people die by the thousand every day that passes without reform. That is the onerous burden carried by Georgists: we know the truth, and that imposes a responsibility on us to do our utmost to broadcast it in a way that can find its expression in practical politics.

This issue of *Land & Liberty* examines the roots of the world's problems. Dr. Michael Hudson discusses the lessons that flow from the evidence being uncovered by the archaeologists in the arid regions of Mesopotamia. And our feature writers examine the contemporary consequences of the trends that originated four millennia ago.

It is a frightening state of affairs that offers hope only to despots. But change also brings with it the opportunity for those who are willing to work for a decent world. Can we afford to postpone action? Can we envisage more propitious times for the acceptance of the philosophy of Henry George?

INSITE REPORT

PLAN TO FUND TRANSPORT OUT OF RENT

TRANSPORT projects in London could be financed out of a special levy on businesses, argues a report commissioned by the Corporation of London.

The levy would be similar to the property tax levied on non-domestic properties. That means the levy would fall on the rental value of land. And since improvements on infrastructure would raise the value of land, the projects would be partly self-financing.

London's transport network is in desperate need of new investment. Government finance has allowed the rail network to deteriorate to the point where the economic viability of the British capital is being seriously compromised.

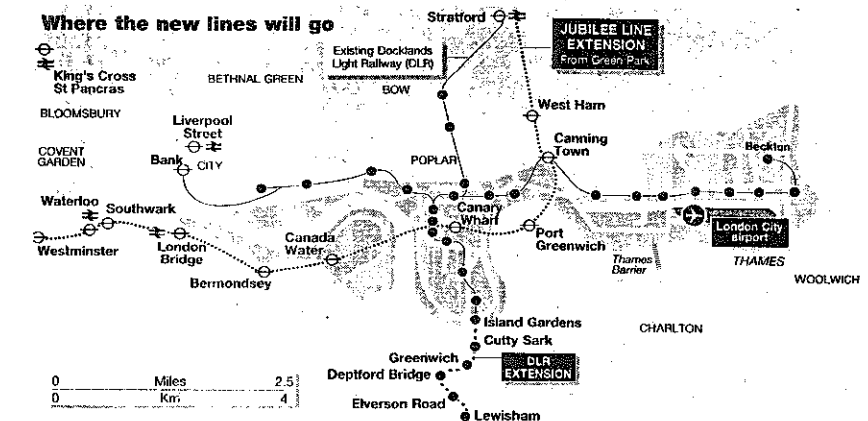
So the study, by two lecturers at the London School of Economics, suggests that a levy of 1p in the pound on business rates (the British property tax) in Greater London would raise £75m a year towards the capital cost of transport schemes.

But the Treasury opposes the plan. It argues that the levy would increase the burden on business at a time when rates are due to fall.

The Treasury's opposition reveals that it does not understand the economics of investment in infrastructure: improvements to the transport network would increase the profitable performance of enterprises, which could therefore afford to fund the investment.

And anyway, argue the LSE economists, the levy need only be imposed after businesses were invited to vote on whether to implement the plan.

* One example of how land values are increased is provided by the plan to extend the London Docklands Light Railway to Lewisham in south London. By improving people's access to docklands, costs of living and



working in central and south London are reduced - and this is reflected in a rise in the value of residential and commercial land. Rationally, therefore, the investment ought to be financed out of that increased value. At least five consortia are bidding for the £100-130m privately financed extension to the light railway.

* According to Chancellor of the Exchequer Kenneth Clarke, about £5bn of private investment will be directed to infrastructural improvements in the capital this year. This includes the £300m rail link from Heathrow Airport to Paddington station. But the government wants the finance to come from the private sector, and it does not regard a levy on business property as true private investment.

CHINA is an example of a country that needs to pay serious attention to the challenge of upgrading its transport system. It must spend at least \$111bn in the next five years if it is to maintain its planned export-led growth, according to the east Asia analytical unit of the Australian department of foreign affairs and trade.

Bottlenecks in the transport system are threatening economic growth. In 1992, for example, delays in the delivery of coal from northern mines to southern power stations and facto-

ries cost China an estimated \$70bn. The World Bank has proposed a doubling of capital investment in the transport system by the end of the century.

According to the Australian report: "So inefficient and inflexible is the infrastructure that it is slowly dawning on foreign investors that investing in China is not as profitable as it might have seemed. Producing goods in potentially the world's biggest market, where there is no efficient distribution system, does not generate good returns".

What the report does not note, however, is that a major part of the huge gains from an efficient transport system are channelled into higher rents for land. This means that, even as the investment is taking place, the money for financing the improvements is automatically provided out of the increase in land-rents. The Hong Kong metro's extension in the 1970s was funded by this method.

Under conventional fiscal systems, however, those rental gains are pocketed by landowners - or, in China's case, the leaseholders who occupy the land. So public sector investment is financed by taxes on wages and profits: this creates a political problem for governments that fail to use the rational system of public and private finance.

Social Magic in Public Finance

GROWTH with justice: that is the magic combination that continues to elude politicians.

We can have economic development: industrialisation over the past 200 years has proved that, working with bountiful nature, mankind need not suffer material deprivation. But even so, the social system fails to liberate everyone willing to work. Today, in the rich countries, near 35 million people do not have jobs; and the list is growing of those who are classified as long-term unemployed.

Or we can have justice. Welfare programmes are constructed to redistribute income and deploy the might of the law to compel fair deals for the underclass in society. But this curbs the freedom to create wealth efficiently, and infringes the rights of people whose private property is taxed for the sake of keeping afloat the grand ship of state.

Minimal gains, because the social system fails to synthesise economic growth with social justice.

A CONFERENCE sponsored by the United Nations took place in Copenhagen, last month, to wrestle with this problem. Called World Summit for Social Development, delegates flew in from the four corners of the world to agonise about the flaws in the existing social systems.

The UN cannot hope to define a programme of action that yields the magical solution to the world's problems, because the politicians who control the governments of the world are philosophically constrained by a political ideology that precludes certain changes to our "core" institutions.

To conceal the frustration, there was much talk about the problems of "globalisation", or the opportunities presented by the "information revolution".

There was much hand-wringing about the collapse of civil society in the United States, political corruption in the leading democracies, the burden of debt in the Third World.... all of which are safe distractions from the fundamental question: who benefits from the rental revenue of the world's land

and natural resources?

This is the one question that delegates were not encouraged to discuss. It is the one issue that frightens the politicians. Most of them intuitively know that, for historical reasons, the power structure depends on the preservation of existing rights to rent revenue.

Thus, the Copenhagen declaration spoke piously about the need to extend people's access to markets. About the need for transnational political cooperation to offset the growing power of multinational corporations and footloose finance. Of the need to review the policies of the International Monetary Fund, which deepen poverty as the price of trying to reduce the debts of nations.

But the solutions that offer real hope - the ones that currently orbit in limbo, outside the realm of practical politics - were canvassed at meetings of the alternative conference. This

ran parallel to the official sessions. Here, the voices of the social outcasts were heard. These groups are the victims of generations of social "deconstruction", not social development.

ECHOS of the voice of Henry George were heard in Copenhagen. The Danish advocates of the American social reformer's philosophy were co-organisers of the alternative conference. One of the meetings was addressed by Ronald Banks, Chairman of the Land Policy Council, London.

The Georgist society combines economic growth with social justice. But the precondition is the restructuring of public finance. This is a tedious topic for high-flying UN delegates, and a politically dangerous one for statesmen: but all the rest is so much hot air, if we do not correct the revenue system in the direction that favours the abolition of poverty and the protection of every person's equal right of access to the fruits of nature.

HENRY WINSTANLEY

CAPE TOWN Cry Freeland

AFRIKANERS have spent their lives fighting ANC guerrillas based in Mozambique. The guerrillas dashed across the South African border in hit-and-run raids in their campaign for freedom. Now the Afrikaners are being enticed across the border by cheap land.

Mozambique's President Joachim Chissano is negotiating a deal in a plan to settle members of the right-wing Freedom Alliance on land that would be offered cheap. All the land of Mozambique is owned by the state, and land taxes are only 10p a year per hectare.

The Afrikan farmers have suffered from drought in the Northern Transvaal. The move to Mozambique would remove them from the influence of their arch-enemy, Nelson Mandela, who now heads South Africa's government.

LUSAKA CORRUPTION (1)

ZAMBIA'S Minister of Lands and Natural Resources, Chuulu Kalima, has been fired for "gross indiscipline and irresponsibility". And now President Frederick Chiluba, members of whose government have been accused of corruption, has ordered all ministers and members of parliament to declare their assets.

BANGKOK CORRUPTION (2)

THE land boom has put Thailand's banks at risk, reports Moody's Investor's Services, the US credit rating agency. Bank loans have fuelled property speculation: Thailand now has more than 350 golf courses.

The property boom peaked two years ago. Since then, premium office space

in Bangkok is 50% higher than in 1992, and rents are nearly 25% below their peak in 1992.

* Thailand's deputy agriculture minister, Suthep Thuaksuban, has resigned. This follows speculation that he influenced the allocation of land on the island of Phuket to 10 rich families - land that was supposed to go to landless labourers.

TOKYO CORRUPTION (3)

THE LATE prime minister, Kakuei Tanaka, was guilty of receiving bribes from American plane-builder Lockheed. That was the verdict returned by the supreme court on February 22 on the politician who dominated Japanese politics for most of the postwar years. He never went to gaol because of his appeals against the conviction.

* By the time Tanaka was accused of accepting a bribe from Lockheed, he had already resigned as Prime Minister after his crooked land speculation deals were revealed in the Press.

BARCELONA RUSSIAN INVASION

RUSSIA'S new businessmen are pumping profits into foreign real estate. Cyprus is one of the main targets for investment. The island is a convenient off-shore haven for financial transactions. Also on the list of favourite venues is the Spanish coast near the luxury resort of Marbella. One estimate puts Russian investment on this coast at 1,500 million pesetas (£7.5m).

SYDNEY LAND BUY-BACK

LEGISLATION designed to buy back land for Australia's aborigines is causing a constitutional crisis. Under the land fund legislation, A\$1.4bn

Round the world

would be earmarked by 2004 to buy land for dispossessed aborigines who are not expected to benefit from the Native Title law that was passed in 1993.

The Senate amended the proposed legislation, which the government refuses to accept. The Senate referred the legislation to a select committee amid rumours that the government would use the land fund dispute as an excuse to call a snap election.

AMBLESIDE BUS STOP

CITIZENS of this scenic town in Britain's Lake District are up in arms over plans to build 17 shops on a site that was formerly the bus station. Five years ago, when bus companies were deregulated, the station was closed down and sold to a property company for £75,000. The citizens want to raise funds to buy the site and stop the development. But today that site, which covers less than three-quarters of an acre, is worth £1.75m.

LONDON RENT REVIEWS

THE British government has decided against legislation that would prevent landlords from imposing upwards-only rent reviews on tenants.

Historically, landlords have imposed 20-year leases with upward-only rent reviews. During the latest recession, this type of lease was criticised by tenants who were finding it difficult to survive in a harsh commercial climate.

Landlords have also been favoured by a decision of the Department of the Environment, which has decided against banning clauses in contracts that enforce confidentiality. Under the Tory government's free market philosophy, the best results are achieved when there is trans-

parency in price-setting agreements - meaning, the removal of secrecy about contractual deals. But the DoE, while arguing that openness is desirable, has decided not to make it mandatory.

* 250,000 or more people could be housed in the vacant houses in Greater London. At any one time, there are about 160,000 empty houses in the capital.

LONDON TAX RELIEF

BRITISH farmers are relieved by the news that the rate of relief on inheritance tax on land rented to tenants will be increased from 50% to 100%. Owner-occupiers had enjoyed 100% relief. They estimate that about 1.6m extra acres will become available for tenants, now that they are freed of the inheritance tax. According to Chancellor of the Exchequer Kenneth Clarke: "These proposals will reverse the decline in lettings and help younger people without much capital to take on farm tenancies".

DOVER OUT OF THIS WORLD

THE CHURCH of England was one of the biggest speculators in the land boom of the late 1980s. And one of its biggest flops was an £80m investment in 1,500 acres of farmland in Kent. The Church's outlay now runs at more than £53,000 per acre. Agricultural land in east Kent is worth about £1,500.

Church Commissioners were persuaded to invest in a development near Ashford, to exploit - they thought - the commercial benefits of the new cross-channel tunnel. But the development did not go ahead, and is not likely to do so.

The reckless investment is to be featured in a report to be published by a House of Commons all-party committee.

WHY isn't the philosophy of Henry George more widely accepted? An important reason is often neglected, and sometimes actively resisted: there has been a too-exclusive concentration on site revenue.

Of course the site revenue issue is central; of course George hammered it constantly. But in his thinking it exists in a large economic context, which in turn is part of a larger philosophical vision. Unfortunately, the view of too many Georgists is focussed narrowly on site revenue.

Their zealous promotion of "the remedy" carries the danger that their hearers will conclude there is nothing else to Henry George, and that what they are being offered is another panacea. Most people see that economic problems are too complicated to be solved by one simple measure, and are quick to label as a crank anyone who gives the impression of thinking otherwise.

This applies to the average person, and it applies probably more to economists, who often have little knowledge of George except as the "single-tax man" - a limitation we can unwittingly reinforce if our presentation is to be restricted.

George's economic thinking is done in the light of his vision of human nature. His understanding of the dignity of man shows him that man must never be treated as a mere means to an end. It shows him that man is vastly more than an economic animal, and that the economic order, although fundamental, is for the sake of higher pursuits. These ideas permeate his economics, giving it a force and clarity and balance it could not otherwise have.

HENRY George discusses the nature of civilization, of natural laws, of scientific knowledge, and applies these considerations in his investigation of the economy. His final, uncompleted, book, *The Science of Political Economy*, analyses these ideas and establishes the status of economics as a true science.

For George the fundamental law of economics is the principle of the saving of effort: "...the central law from which its deductions and explanations may with certainty be drawn, and, indeed, by which alone they become possible" (*The Science of Pol.*

TAXATION

and the Georgist Vision

by John Young

Econ., Bk 1, Ch.12). It is from this position that he refutes the widespread notion that selfishness is the driving force in economic affairs - a notion which, if true, would make economics a sordid subject instead of the noble science which George sees it to be.

He makes a superb analysis of the nature of wealth (a concept still hopelessly confused by economists), then in its light shows what capital is. His perception of the two sources of value is essential if we are to profoundly diagnose economic ills - and to appreciate the truth behind Marx's theory of surplus value.

He clarifies the meaning of economic cooperation, showing its supreme importance and the ways in which it is achieved. The related concept of exchange is explored and its marvellous richness shown: its status as the highest form of production, its relation to credit and money, its basis in the principle of the saving of effort, its part in the growth of civilization. George presents a superb defence of free trade, especially in *Protection and Free Trade*.

We need to see deeply into the key concepts of Georgism, to relate them to each other, to view the system as a whole. This vision thus attained is a vision of the economic order as it should be. This is not to imply that George made no mistakes, or that no further work needs to be done. But the picture as a whole is true.

Others (or often the same people) give such obscure presentations that it is a struggle to grasp what they mean. Discussions about the meaning of value are a case in point.

PEOPLE will not be attracted to George's philosophy if its advocates seem to be a bunch of straw-splitters or obscurantists. And paradoxically, that happens to some who do attempt to delve into George's thought. What,

then, should be done?

We should deepen and broaden our own understanding, but be careful not to talk over the heads of people. Then that depth and breadth of vision will be apparent from what we say, even though we keep the presentation simple. And we will be capable of discussing the more difficult questions with people about to handle them - including some economists who assume George is simplistic.

On site revenue: our understanding will be vastly enriched by a grasp of issues mentioned above. There is a tendency to think of site revenue as basically a payment for amenities like roads, electricity and so forth. In fact it is far more than that. Through the exchange economy, and through the wider social and cultural networks found in society, immense intangible benefits are generated. This bounty which society bestows on its members is more accessible on some sites than on others, and so some bring a greater rent than others.

Therefore, the private appropriation of rent means that land owners make us pay for a common good which is not theirs to sell. It is far more serious than gaining simply from physical improvements. This truth is clearly seen if we view the rent situation in the light of George's total vision.

John Dewey said of George: "It would require less than the fingers of the two hands to enumerate those who, from Plato down, rank with him..." Compliments like that are not paid to George just because he showed that land revenue should go to the government.

* John Young's book *The Natural Economy* is to be published by Shephard-Walwyn, London.

✧ THE LAND & LIBERTY ESSAY ✧

by Michael Hudson

THE PRIVATIZATION OF LAND

How it all began

The Henry George School of New York sponsored the International Colloquium on Privatization at New York University. The conference was organized by the school's Research Director, Dr. Michael Hudson, author of this essay, and Prof. Baruch Levine of New York University's Skirball Department of Hebrew and Judaic Studies. Participants represented each major period and geographic region of antiquity. The colloquium papers will be published at the end of the year by Harvard University's Peabody Museum.

SCHOLARS from Russia, Germany, Italy, Israel, Canada and the United States gathered in New York last November for a colloquium on the origins of privatization in the Ancient Near East and the Classical World. The US scholars were from Harvard and the University of Illinois.

Leading archaeologists, cuneiformists and philologists traced the dynamics of privatization from 3500 to 500 BC, from Bronze Age Mesopotamia through Biblical, classical Greek and Roman times.

In his essay, Dr. Hudson argues that the forces unleashed in Mesopotamia 5000 years ago must be clearly understood if we are to solve contemporary problems like private poverty and public indebtedness.

POTS and statues do not tell much about social institutions that produced them. Bronze Age written records are laconic, consisting mainly of abbreviated notes (largely receipts and internal accounts from the public temples and palaces) that take for granted the economic context.

The colloquium was important because its participants were willing to compare their various data and venture a plausible context for just what kinds of societies produced the

artefacts dug up or the tablets recording resource flows within the temples, palaces and private households.

Their findings challenged many now-orthodox economic assumptions. There was general agreement that from Bronze Age Mesopotamia down through biblical times in the Levant, classical Greece and Rome, each society progressed through broadly similar (but by no means identical) experiences as they commercialized their economic life. The "wild card" proved to be how they handled interest-bearing debt, and the limits they placed on debt bondage and forfeiture of the land to foreclosing creditors.

In antiquity, as today, debt was the major economic lever of privatization. But whereas today's privatizations stem mainly from public debt pressures that encourage governments to sell lands and forests, mineral resources and public utilities, there were no public debts in antiquity.

Temples and the palace typically were creditors, especially in Bronze Age Mesopotamia. However, private debts with the land pledged as collateral led to its forfeiture for arrears. Personal indebtedness was the catalyst for transferring subsistence lands to absentee owners, in epochs when the outright sale or alienation of land

was prohibited for more than just a temporary period.

ECONOMISTS have long been notorious for taking private property as an elemental and original institution in human experience. This assumption is a carry-over of the Social Contract theories of John Locke and Adam Smith.

In these theories no role is played by the idea of land originally held by communal groupings and allocated to members who bore a military liability and other public obligations attached to the land. Whatever does not belong to the palaces and temples is deemed "private" ipso facto. Yet the idea of private property as it is understood in modern times developed relatively late.

"In the beginning," Sumer's temples (and in time the palaces) were the major profit-seeking entities (and even more, rent and interest recipients). The non-public communal sector functioned mainly on a subsistence basis. Indeed, all the basic elements of modern enterprise, including such basic practices as charging land-rent and interest, developing standardized production runs, lot sizes, weights and measures, and monetary standards of exchange were innovated by the Sumerian temples in the fourth and third millennia BC.

✦ THE LAND & LIBERTY ESSAY ✦

Accordingly, one riddle that we addressed was why entrepreneurial techniques were first developed by public institutions, above all by the Sumerian temples, rather than within private households. Why was there public enterprise to be privatized in the first place, rather than autonomous private enterprise to be taxed or otherwise made subject to social overrides? If private enterprise is an inherently superior mode of organization, why did civilization take the seeming detour represented by the Sumerian temples and, later, the palaces? The fact that the first commercially organized enterprise is found in Sumer's temples as early as the fourth millennium BC indicates that the state is not inherently antithetical to private property. It seems that public enterprise was needed as a catalyst.

Evidently some social blocks had to be overcome by creating the techniques of commercial enterprise - rent-yielding land, interest-bearing debt, account-keeping and production planning - to generate economic surpluses at least nominally for the community at large (in Sumer's case, the city-temple) rather than for purely personal gain. This community-wide social purpose is what seems to have made the pursuit of private gain socially acceptable, whereas in traditionally organized chiefdoms it was considered "bad manners" to take a surplus for oneself.

Sumerian cities needed to generate exports to obtain foreign metals, stone and other raw materials not found in local river-deposited soils. The city-temples solved this problem by putting widows and orphans, the sick and infirm to work in temple weaving workshops and other public welfare/workfare hierarchies.

Every early society ended up by privatizing its land, industry and credit systems. But some societies did this in ways that protected traditional social values of equity and freedom; others, such as Rome, did it in such a way as to polarize and indeed, pauperize its society.

THREE types of landed property emerged in southern Mesopotamia's cradle of enterprise: communal land (periodically re-allocated according to widespread custom); temple land endowments, sanctified and inalienable; and palace lands, acquired either by royal conquest or direct purchase (and often given to relatives or other supporters).

Of these three categories of land, "private" property (alienable, subject to market sale without being subject to repurchase rights by the sellers, their relatives or neighbours) emerged within the palace sector. From here it gradually proliferated through the public bureaucracy, among royal collectors and the Babylonian damgar "merchants". However, it took many centuries for communal sanctions to be dissolved so as to make land alienable, forfeitable for debt, and marketable, with the new appropriator able to use it as he wished, free of royal or local communal oversight.

Modern advocates of private enterprise argue that gain-seeking individuals manage resources more efficiently than do public agencies. No such economic rationale was developed to support antiquity's property transfers. No one suggested turning over wealth to the rich to manage in society's interest. Just the opposite: for century after century the acquisition of land by public officials or merchants was reversed repeatedly and indeed, almost regularly, by royal Clean Slates. These cancelled personal debts (including back taxes) and returned the land to its traditional holders.

Rulers sought to maintain a free land-tenured body of citizens to serve in the infantry and provide corvée labour services. Loss of land rights would have meant a loss of citizenship and military rank. Hence, rulers had an interest in avoiding social polarization between large landholders and uprooted landless individuals. Clean Slates also deterred the consolidation of a wealthy aristocracy as economic rivals to the palace.

In Roman times the Stoics denounced personal gain-seeking, hop-

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ing to return to what they imagined to have been a Golden Age - the Bronze Age - of social altruism. But by late antiquity the memory of royal Clean Slates to restore economic order and equity had faded. The rich themselves were Stoics. They tended to preach in favour of a return to a broader distribution of land and economic self-reliance, but they did not actively back this in practice.

Pliny claimed that the vast latifundia estates had ruined Italy, much as Isaiah a half-millennium earlier had decried the great landlords "who add house to house and join field to field, till no space is left and you live alone in the land." But as Christianity became the "political correctness" of the day, it removed the Judaic Jubilee Year from its original Near Eastern context, postponing it until the Day of Judgment. This effectively turned the Pentateuch's core of debt and land-tenure legislation into a utopian, even other-worldly ideal.

Did history have a choice?

Why were the warnings of Isaiah and Pliny not heeded? Was there another way to go? Did history have a choice? The answers are to be found more in the forces of social power than in a reasoned economic rationale.

Throughout antiquity, social efficiency was defined more in political and military than in economic terms. Land traditionally was supposed to be used to support a self-sufficient citizenry which originally comprised the armed forces and supplied public labour services. Yet from Bronze Age Babylonia through the Roman empire, privatization led to fiscal, economic and military collapse as local subsistence lands were cut away by outsiders (creditors, royal collectors, war chieftains and merchants).

Babylonian scribal exercises illustrated how rapidly debts mounted out at the customary 20% commercial interest rate, doubling in five years, quadrupling each decade, and multiplying 64 times every 30 years. Rulers such as Hammurapi who lived

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long enough to celebrate their 30th anniversary on the throne proclaimed new Clean Slates, as they did at the first New Year festival after they took the throne (and when circumstances warranted it at other times).

In antiquity, therefore, the public sector was not the enemy of economic freedom and private enterprise that it is portrayed as being today. Not only did the Sumerian temples innovate most of civilization's entrepreneurial techniques, but rulers preserved widespread economic liberty by periodically annulling the overgrowth of agrarian debt, freeing debt bondmen and restoring to their customary holders lands (and hence, citizenship status) that had been forfeited for debt arrears.

PRIVATIZATION of the land led to absentee ownership and monopolization. Ultimately, they also led to fiscal crises as wealthy landholders managed to avoid taxes by shifting these onto the rest of the population. This economic polarization was staved off by the tradition of royal Clean Slates, which finds its final expression in the Biblical Jubilee Year of Leviticus (Ch. 25).

What hitherto was a royal act was made the centrepiece of Judaic religion. The Jubilee Year restored the status quo ante by wiping out the overgrowth of agrarian debt, freeing debt bondmen, and restoring subsistence lands to the cultivators who had forfeited them to creditors. Prof. Baruch Levine pointed out that although the Jubilee Year seems to be a post-Exilic phenomenon, it was part of a living tradition extending back thousands of years. Indeed, biblical economic legislation represents the last major repository of Bronze Age Near Eastern practices.

Prof. Maynard Maidman argued that although Nuzi's rulers proclaimed Clean Slates in the 16th and 15th centuries BC, they seem to have been unable to obtain compliance by the large landowners, for private holdings survived intact for time periods spanning such proclamations.

As privatization spread up the

Euphrates from Babylonia into less centralized economies, the power of large landholders (often war chieftains) increased. Partly as a result of the ensuing domestic social polarization, societies such as Nuzi collapsed relatively suddenly, their economic and military base hollowed out by privatization of the land leading to fiscal strangulation.

One result was a rural exodus of men uprooted from their land. In 18th century England this rural exodus following the enclosures of the commons provided a key element of the Industrial Revolution, in the form of cheap urban labour. But in archaic times there was little industrial wage labour market. Manual labour in Mesopotamia's temples and palaces was composed of persons who could not make a go of things on the land, mainly because of physical infirmity or the misfortune of having lost their husbands and/or fathers through war, and not been incorporated into the households of relatives. (Skilled craftsmen were formed into company-type unions run by the palace, not by the craftsmen themselves. Hence, labour was not unionized and "privatized" along today's lines.) Much of the displaced labour joined floating vagrant bands of migratory workers, some of whom found work as mercenaries, pressing out of Mesopotamia into the Levant. Thus, the result of rural uprooting was to create a military force more than the industrial labour force found in post-feudal Europe.

The collapse of civilisations

Bearing in mind the manner in which each major ancient society collapsed, the colloquium's participants emphasized how privatization represented more than merely a shift of resources from public to private hands. This shift went hand in hand with economic polarization, fiscal crises, and the inability to field an army of land-tenured soldiers.

Often the process involved civil warfare, such as the overthrowing of landed aristocracies by popular ty-

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rants in 7th-century BC Greece, the popular walkout in Judah under Zedekiah c. 590 BC (Jer. 34), contemporary to Solon's cancelling the rural debts and banning debt-slavery in Athens in 594 BC, and the reputed refusal by Romans to fight behind Coriolanus until their debts were annulled or they were promised lands of their own.

"In the beginning," most land was held communally and allocated to citizens as subsistence lands for their self-support. These cultivators in turn owed military and corvée labour services. Gradually, the land was privatized and transformed into property in the modern sense of the term - property immune from social control and periodic redistributions, able to be alienated (either sold or forfeited to creditors for debt arrears) without recourse for the seller, his relatives or neighbours to redeem it.

Privatization in feudal Europe often took the form of seizure of lands by individuals through force or legal stealth (as in England's enclosures), but there is little evidence of this in the Bronze Age. There were three major types of privatization, each with its own set of dynamics.

(1) The first real "privatizer" was the palace ruler. Rulers acted in an ambiguous capacity, treating royal property - and even that of the temples, which they took over in time - as their own, giving it to family members and supporters. In this respect "private" property, disposed of at the discretion of its holder, can be said to have started at the top of the social pyramid, in the palace, and spread down through the royal bureaucracy (including damgar "merchants" in Babylonia) to the population at large.

Bronze Age Mesopotamian rulers are found acquiring property mainly by purchase (with tribute money), but royal appropriation of land within the ruler's own community was strictly circumscribed. When the Israelite king Ahab sought to obtain Naboth's vineyard, for instance, he was constrained to operate within the bounds of popular tradi-

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tions that dictated that kings could obtain property only by voluntary sale or confiscating it as punishment for a capital crime.

(2) A derivative form of private ownership developed as rulers gave away land to family members (as dowries), or companions, mainly military leaders in exchange for their support. The recipients tended to free themselves from the conditions placed on what they could do with the land and the fiscal obligations associated with such land. As early as the Bronze Age, such properties and their rents are found managed autonomously from the rest of the land (viz. Nippur's Inanna temple privatized by Amorite headmen c. 2000-1600 BC). Likewise the modern system of private landholding was catalyzed after England's kings assigned property to the barons in exchange for military and fiscal levies which the barons strove to shed, as can be traced from the Magna Carta in 1215 through the Uprising of the Barons in 1258-65.

Much as modern privatization of the national patrimonial assets often follows from the collapse of centralized governments (e.g. in the former socialist states and Third World kleptocracies), so in antiquity the dynamic tended to follow when centralized palace rule fell apart. Royal properties were seized by new warlords, or sometimes simply kept by the former royal managers, e.g. the Mycenaean basileas, not unlike how Russia's nomenklatura bureaucrats have privatized Soviet factories and other properties in their own names.

(3) A third kind of privatization occurred in the case of communal lands obtained by public collectors and "merchants" (if this is not an anachronistic term used for the Babylonian tamkaru), above all through the process of interest-bearing debt and subsequent foreclosure. Ultimately, subsistence lands in the commons (or more accurately the communally organized sector, which often anachronistically is called "private" simply because it is not part of the public temple-and-palace sector),

passed into the market, to be bought by wealthy creditors or buyers in general.

The fiscal crisis and taxation

AS PRIVATE creditors and merchants appropriated the land in each region, they did not themselves take on the corvée labour, military or tax obligations (which would have been impossible for large land-grabbers such as Tehib-Tilla of Nuzi, who acquired hundreds of subsistence-land parcels), but shifted these onto the population that had been expropriated.

Antiquity's privatizations thus went hand in hand with a fiscal crisis not unlike those of modern-day America and Britain, Latin America and the former Soviet sphere. Landlords managed to cast off the social obligations "originally" attached to their property, thereby starving the public sector for funds. The fiscal problem was aggravated by the fact that the public sector was no longer self supporting as industrial enterprise passed out of the large public institutions (the Sumerian temples, emulated by the palace workshops in northern Mesopotamia and the Levant).

It is at this point that states were obliged to begin taxing the population. The taxes were used to hire mercenaries in place of the peasantry that was losing its lands (most notoriously in Rome), and to purchase from private suppliers the services and goods that formerly were produced by public institutions and the community's land.

The role of debt in social crises

DEBT and privatization problems are central to the economic histories of Rome written by Livy and Dionysius of Hallicarnassus, and have been traced back to the XII Tables. They are the central points of Solon's Athens and Lycurgan Greece as told by Plutarch, Aristotle and other early historians. And they are the central core of biblical law, as well as forming the centrepiece for Hammurapi's laws c. 1750 BC and those of earlier rulers.

However, conference partici-

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pants pointed out that what long have seemed to be ancient records actually were, in their own time, relatively late reconstructions. The story of debt and privatization thus has had to be rewritten on the basis of what can be more securely confirmed by modern historiography.

During the early centuries of privatization there was no market economy as modern economists use the term, i.e. an economy whose resources were allocated by price-clearing, self-equilibrating markets. Interest rates and rent rates remained fixed for centuries rather than responding fluidly to market conditions. When adjustments were made, they were more by royal, religious or political intervention than by commercial forces.

The new archaeological reading confirms that land tenure, the collection of land-rent and taxation are the most important economic phenomena of every ancient society, juxtaposed to the attaching of interest-bearing debt claims to the land. This central role of rentier income (rent and mortgage interest) hardly is surprising in view of the fact that the land was the basic resource producing the crop surplus which in turn was converted into industrial handicraft labour and output, military power, public infrastructure work and the accumulation of monetary treasure.

A second dynamic at work was a phenomenon that also disturbs today's Third World economies: monopolization of the land in the hands of absentee commercial owners who displace self-supporting food-growers. This was at least as problematic in antiquity as it was in the case of England's enclosures of the commons from the 16th to 18th centuries of our modern era. After about 1600 BC, many became landless hapiru, migrant seasonal labourers who doubled as mercenaries and formed themselves into bands troubling the Levant for two hundred years or so. In Greece and Rome, the displacement of cultivators by absentee owners led to the planting of luxury export crops,

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mainly olive trees and grape vineyards to make wine on large plantations worked increasingly by slaves. By Roman times the expropriated cultivators and their heirs formed part of the urban masses who turned the ancient cities into net economic drains.

The conference found that land monopolization, debt polarization and fiscal crises (as the new absentee landlords cast off the former public fiscal responsibilities attached to the possession of land) intensified over the course of antiquity, aggravated by three major factors.

* First, archaic safeguards preserving communal land tenure broke down, especially as the privatizers grew more powerful and ended up unseating central palace rulers. (Indeed, public officials in classical antiquity pledged not to cancel the debts and redistribute the land!)

* Second, there was less and less tradition of royal Clean Slates, and these seem not to have been enforced as effectively as they were "in the beginning" in Early and Middle Bronze Age Sumer and Babylonia.

* Finally, armies came to depend more on mercenaries than on free domestic cultivators.

It would be almost a truism to say that in antiquity, as today, economic progress was associated with poverty. What is now clear is that the very idea of progress - the irreversible arrow of time - represented an oligarchic refusal to periodically restore economic order and equity. The archaic royal program of annulling consumer debts and reversing land forfeitures and debt bondage gave way to debt strains and the loss of widespread land tenure which destroyed the economic balance of ancient societies.

Ultimately at issue was the idea of cyclical time restoring economic balance and equity rather than irreversible economic polarization. The fact that royal Clean Slates long were proclaimed afresh by each ruler (and for the Babylonian rulers of Hammurapi's dynasty, on numerous occasions during their rule) did not mean that they were ineffective.

Rather, it was recognized that market developments, if left alone, did not lead to economic balance but to just the reverse - a concentration of land and other wealth in the hands of creditors, public officials and war chieftains.

Poverty and the Bible's laws

Rulers had a concrete interest in alleviating poverty. To have permitted cultivators to lose their lands to creditors and merchants would have been to exclude these cultivators both from the obligation to provide public corvée labour and from the army. Such a society would have suffered emigration and other depopulation, or military defeat by rival communities. This is what we see in the Hellenistic and Roman periods at the end of antiquity (viz. Sparta at the end of the third century BC, and Rome at the hands of the northern invaders in the fourth century of our modern era).

It was in response to these impoverishing tendencies that Judaism sanctified the economic legislation that survives today as the core of the Bible. The Pentateuch took the idea of social equity out of the hands of rulers and made them the core of its religious commandments, attributed to Moses himself, whose story - along with that of the conquest and settlement of Israel - was elaborated into a foundation myth as a literary vehicle for the laws concerning the land and rural usury. In this way the spirit first found in the Mesopotamian response to privatization of the land passed into Christianity and subsequent European tradition. Indeed, biblical stories such as that of Naboth and his vineyard became rallying points for social reformers down through European feudal times to modern-day liberation theology.

Counterpoised to the spirit of Judaism and its Near Eastern predecessors was the Roman response to debt-strangulation and monopolization of the land into the great latifundia estates that Pliny blamed for ruining Italy. Roman society in the Western (European) half of the empire saw interest-bearing debt disappear along

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with the money economy (with the Christian Church condemning usury outright, as in the Mosaic laws of Exodus), while outright slavery was replaced by serfdom.

One can look at modern Western civilization as having been shaped by the particular way in which Rome's imperial economy collapsed. Its oligarchic spirit left a legacy of property-based law that has continued to shape European civilization since it emerged from feudalism. In the end, it was the force of Roman civil legal principles that dominated the Judaic laws in shaping Christianity, in contrast to the earlier Bronze Age Near Eastern overrides to the land's privatization and monopolization.

The upshot is that although the dynamics of land privatization inspired the economic core of biblical laws, this core is all but ignored today. Few people would think of applying biblical injunctions to modern debt and privatization policies. What is remembered is more the dramatic stories that now seem, in light of modern archaeological discoveries, to have been composed in large part to form a sacred mythic wrapping for the Mosaic laws.

No doubt it would be hard to fit the details of Leviticus and the Jubilee Year into a Hollywood movie, however. No Cecil B. de Mille has made a film of how Nehemiah and Ezra carried out their reforms and helped sponsor a school which edited and composed the Bible in the form that has come down to us. Despite the importance of the land question for the early history of civilization down through the present, the subject tends to be ignored in school curricula. Most economists identify the land with capital in general. Historians also tend to ignore the role played by land, despite the central role that land tenure and debt play in the Bible. But the lessons of history must be retrieved.

Ways of doing things that were invented in Bronze Age Sumer have shaped history ever since, but in ever-new ways as they have passed into private hands. The privatization of

land-rent in particular has had major fiscal consequences. The particular way in which the land has been privatized from one society to the next - and over time in any given society - has shaped the economy's distribution of wealth and income, the pattern of urbanization, freedom or slavery, and ultimately the rise and fall of civilizations and their religious responses to the economic imbalances associated with privatization.

The New York University conference thus outlined the extent to which the history of civilization will have to be rewritten to take account of the cuneiform and related archaeological discoveries made in the past few decades. A foundation was laid for placing the role of privatization of the land and economic enterprise at the centre of a new view of history's broad dynamics, the evolution of economic policy and the economic core of ancient religion.

The New York University symposium has defined a research agenda for the remainder of the decade. It has shown that privatization is more than just a shift in ownership from public to individual holders; it connotes a shift of social costs and other burdens from landlords and creditors onto the shoulders of the population at large.

One question to be addressed is whether today's resource owners and creditors will act differently from those of antiquity. Will they realise that there is a need for them to invest their revenue productively, or will they merely attach this income as interest-bearing debt to property? Will they strip assets in foreclosure proceedings and distress sell-offs rather than investing directly to bring new productive powers into being? Will landlords and creditors ultimately prove more efficient than public agencies in overseeing society's land, natural resources and other means of production? Or will they resist their tax obligations and deepen the fiscal crisis, as they have done so often over the millennia?

* Dr. Hudson is co-author of *A Philosophy for a Fair Society*, London: Shephard-Walwyn, 1994. See back page review.

OBITUARY

Robert Clancy

IT IS with deep regret that we report the death of one of *Land & Liberty's* distinguished contributors, Bob Clancy. The following is the report that appeared in the *New York Times* on February 18:

Robert Clancy, an educator who was director of the Henry George School of Social Science from 1946 to 1970 and founder of the Henry George Institute, died on Feb. 9 in Jackson Heights Hospital in Queens. He was 80 and lived in Jackson Heights. The cause was colon cancer, said George L. Collins, the executive director of the Manhattan school.

Founded in 1932, the school teaches the economic and social philosophy of the 19th century economist and philosopher Henry George, who saw land speculation as the scourge of the time and the cause of poverty and inequality.

George argued that society, not the landowner, was responsible for the increase in land value, and that the increase should be taxed and thereby returned to society. He saw such a levy as the only tax necessary and, thus, was an early proponent of a single tax. George twice ran unsuccessfully for mayor of New York City in the late 1800's.

Mr. Clancy expanded the school's role in adult education and through establishment of the institute set up a worldwide network of correspondence courses in subjects related to George's social and economic concepts. Students from more than 200 countries enrolled in courses. In 1952 he wrote a biography of the founder of the school, "A Seed Was Sown: The Life of Oscar Geiger." He was co-founder and chairman emeritus of the Council of Georgist Organizations, an international association of Georgist schools.

He is survived by a sister, Norma Hempe of Massapequa, L.I.

The Missing Clause in the Bill of Rights - Land for the People

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Enquiries to:

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OPEN FORUM

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ON SOCIAL STRUCTURE

THERE IS a useful analogy to be drawn between a Georgist and a diamond cutter. The common factor grows out of what seems to me an evident principle: all matter is mind. The immediate effect is that all phenomena are structured around ideas.

Out of this arises a natural order, built on ideas, for all things - for all amalgamations, groupings, associations. Such an order is there to be found, if we can but find it.

One advantage of the Georgist/diamond cutter analogy is to get this essay out of philosophical swampland. A diamond cutter knows that his raw stone, found in nature, is essentially an isometric crystal: defined by a mathematical idea. Its natural order is determinable. Once he has determined it, all the cutter has to do is to tap the stone with mallet and chisel correctly and the facets appear.

A mineral structure is simpler than a social one, but my premise here is that both exist, and that it is no less important for a Georgist to understand the idea or ideas around which his social environment is structured.

American author Thomas Sowell helps me with this premise in his new book, *Race and Culture: A World View*, in which he maintains that "group cultural patterns" are discrete and discernible, and that they have more to do with social and economic behaviour than race.

MY SOCIAL milieu these days is New Hampshire's legislature, or "General Court", especially its House of Representatives, which is unique in several ways.

* It is the third largest parliament in the English speaking world, made up of me (as Clerk of its policy committee on Municipal and County Government) and 399 other members.

* It is the "most nearly Georgist" parliament in the 50 United States, too, in that it stands guard over the first of Henry George's prescriptions: "...we must abolish taxes on labor and industry".

* New Hampshire's total state/local taxes take a smaller bite out of its average citizen's per capita income than does that of any other state. We have neither a general sales nor a personal income tax, and are not about to get one.

The author, **RICHARD NOYES**, is an elected Representative to New Hampshire's parliament, the General Court. For 35 years he was editor and publisher of a newspaper in Salem, NH. He was president of the International Union for Land Value Taxation and Free Trade from 1986 to 1993, and chairman of the US Council of Georgist Organizations for three years until 1994.

* New Hampshire is the property tax state, in that it depends much more heavily than any of the other 49 states on that fiscal device. There have been (what we here call) "broad base taxers" for as long as I can remember, but the people of the state want no part of such taxes on economic activity and have said

so at the polls time and again. New Hampshire still does not understand, I am sorry to have to admit, that the property tax is really two levies, one a tax on labour and industry, the other a payment for the privilege of holding title to land. Which brings me to why I propose this analogy between Georgists and diamond cutters.

AS A LEGISLATOR, I do not want to and do not intend to tap my 399 colleagues with mallet and chisel unless and until I have studied them long and hard enough to know where.

There is an individuality to the natural order of any particular social group. Sowell's book supports me in that claim. I do not here maintain that what is true of the New Hampshire legislature is equally true of every milieu.

Having just finished reading all the excellent chapters in the recent book, *The Corruption of Economics*, I am convinced the authors are correct. The seeds sown by Frank Knight, Seth Low, John Bates Clark and others have grown into major obstacles for us. We had one of their neo-classical offshoots on the staff of the State Senate in the 1993-94 session. He tried to convince me the famine in Ireland in the 1840s happened because they ran out of land. But he had little effect upon legislators' thinking, and since the election in November 1994 he is gone.

The rational impediment that keeps New Hampshire from taking the critical last step into Georgism is not neo-classical foolishness, but a misunderstanding which runs much deeper in the natural order of western culture.

It is the failure to understand *property*, with all its ramifications: what really belongs to whom, and why. I am convinced that, once we have rooted out all the neo-classical economists we will still have to deal with this fundamental confusion over property that goes back to John Locke and George Washington.

IT IS TIME TO THROW AWAY THE WORD 'TAX'

NEW WORDS FOR A NEW ETHIC

The words 'tax' and 'rent' express an oppressive history. The state gave to landed institutions and individuals power to retain communally created rental values and spread the burden of its own funding to those less able to afford or benefit from it. Over centuries 'rent' has come to express the unreciprocal burden of the relationship between the individual and the landlord or landed institution. The word 'tax' stands for the same immoral disequilibrium in the relationship between the individual and the state. The words whose meaning grew out of this relationship should not be in Georgist mouths. The term 'economic rent' means the value which we wish to be the basis of public revenue but while it has neutral uses in academic discussion for general public debate we must find new terms to disclose the essentially humane, inclusive and equitable social relations which are at the heart of Georgism.

WHAT ALTERNATIVES MUST EXPRESS

1) 'Rent' and 'tax' are distinct families of ideas

The 'rent' family contains the ideas of 'rent' meaning 'economic rent' - 'land value'. Related is 'market rent' which is the sum, in a market of bidders, obtained annually for land. This may or may not be the same as the former. Sometimes confused with this is 'rent', meaning the sum you pay the landlord, which may or may not be equivalent to the economic rent, or indeed the market rent, (e.g. a peppercorn rent). Rent falls on land or property.

We hold, as did Henry George, that rents and taxes are very different. The 'tax' family contains the ideas of a burden imposed, a sum you pay the government. Also it is an activity that the government and others do. 'They taxed me into my grave', 'The Tories are taxing us more than any other government in history', etc. Also where 'rent' is fairly specific, 'tax' is fairly general. You can pay many different sorts of tax on many different sorts of thing. Taxes can fall on labour and capital.

An alternative should not attempt to cover both these groups of ideas. Where they overlap is only in that, in the view of Georgists, rent should be paid to government. People commonly think that 'what you pay to the government' is 'tax'. So the word tax has been over-extended to cover rental payments to the state and it should now be peeled back and confined to its proper scope. The alternative to 'land tax' need only stand in for the meanings and uses of the word 'tax' in so far as they cover rental payments to the state or community.

2) Yet the range of linguistic uses must be similar

The alternative to 'tax' should, however, have the same scope of linguistic uses as 'tax' else 'tax' will remain in common usage for want of a better word. Unlike the 'rent' words, 'tax' swings easily between being a noun and a verb. People will not be able to say 'They are going to Market Rent us more', so they will say 'They are going to tax us more. Market Rents are going up'. In other words our alternative must swing easily between being a noun and a verb or else it won't be used. All the 'rent' words

or phrases are *nouns* or used like nouns, i.e. 'the rent', 'a rent', 'an economic rent'. Only the second is ever a verb as in, 'to rent a flat'. We don't 'economic rent' something. So, although the ideas of rent and tax are distinct, the term coined to cover rental payments to the government must have the same, or as similar as possible, range of linguistic uses as 'tax' else it will not function well in common speech.

3) It must express giving back something not ours

The alternative must express the element of giving back something which is not the payer's. This is the moral content at the heart of Georgism. The whole social point of economic rent is that it is a value which is created by the surrounding economic community. And so the payer is giving back to the community for an advantage received. This is not the case with 'tax'. From the Bible onward taxes have been thought of as a burden, needing considerable justification. The word 'rent' gives no hint of this central point.

SOME POSSIBLE ALTERNATIVES

Crown-Rent or Ground-Rent, which have been suggested, do not do very well on these criteria, and Community Ground-Rent only does better on the third criterion. Incidentally, though Crown-Rent might go down well with the Establishment, I can't see it as anything but a hindrance when trying to talk to organisations like Shelter, Survival International, black people's representatives, women's groups and so on, all of whom would benefit from the natural equity in Georgism. Also it has some feudal connotations which are not appropriate. Monarchs were not always very community conscious and were often the most rapacious of rent-seekers. Ground-rent is better than Crown-rent but the term rent comes from the same root as 'to rend' - a tearing off, 'he rent his clothes'. While its familiarity in academic discussion is useful in that context it has no positive associations in the public mind, deriving as it does from the all too familiar relation of tenant and private landlord.

After a thorough search of the dictionary and

thesaurus I found only the following which seemed to work easily as both nouns and verbs, and which express giving back.

A remuneration; to remunerate; remunerating the community.

A return; to return; making a return to the community.

A compensation; to compensate; compensating the community.

'Remuneration' although it expresses giving back does so with quite a weak moral content in many uses. "The director's remuneration for the year was...." Also the etymology of the word is to do with money rather than value. 'Return' gets a bit clumsy in some uses. Phrases like, 'Taxation is a necessary evil' become awkward in "making returns is a necessary evil." Also 'return' has so many mundane uses that it would have little expressive force. The one that works best on these criteria is 'compensation' which also has a stronger moral and legal force.

Community

SOME POINTS ABOUT COMPENSATION

a) Putting the Community in charge of the state

In the sentence, "We are being taxed more this year," the community is the passive recipient of government action. But the sentence, "We are compensating more this year," reverses things. It means the community is doing something to the government, or even to itself. Increasing the power of the community in relation to central government - making the state minimal - is an important part of Georgist politics. This language will be more suitable to that.

b) Distinguishing between 'taxes' and 'compensations'

Including the 'giving back' sense strengthens the distinction between taxes which impose burdens on labour and capital and compensations, which don't as they are returning a value given. It becomes easier to express a distinction between 'good' and 'bad' fiscal payments.

c) Weakening the landlords claim to compensation

The term immediately makes it clear why compensating landlords for loss of rent is morally dubious - the community would be compensating them for having to pay compensation! It would not obviate their case but it would help weaken it in public discussion.

d) A useful analogy for an economic science

'Compensation', with its origin in the Latin 'com', meaning 'with'; and 'pensare', meaning 'to weigh' (the OED gives the Latin sense as "to weigh one thing against another") and its use in mechanics, has a connotation of precision and balance suitable to a Georgist social science and politics. More specifically, the OED gives the meaning of the mechanical use of the word 'compensate' as, "To provide with mechanical compensation, to make up for (the variations to which a pendulum is liable)". This seems peculiarly suitable to an economic theory which maintains that compensating the community for land value advantage, through the payment of market rent, will 'compensate' for the wilder swings of the economy which are driven by land speculation.

e) Other reference book definitions

Other meanings of 'to compensate' in the OED would sit well with a Georgist usage and are as follows:

- 1) To counterbalance, make up for, make amends.
- 2) To be an equivalent, to make up for.
- 3) 'A compensation' is given as: "that which is given in recompense, an equivalent rendered, remuneration, amends".

4) *Roget's Thesaurus* gives a useful synonym with a double entendre on both value and hope - 'redeem'.

The length of the word is not a problem - it would soon get shortened to 'comps'! Pay your comps!

Compensation

'Compensation' alliterates well with 'community'. Does any phrase better express the central Georgist relationship between the individual and the society that nurtures him than "Community Compensation"?

NICK DENNIS

AN INVITATION TO READERS OF LAND & LIBERTY

OPEN FORUM is an innovation in the pages of *Land & Liberty*: four pages designed to give land reform activists the opportunity to share their experiences and views.

Land & Liberty believes that the global movement that has kept alive the philosophy of Henry George throughout the 20th century is moving into a new phase.

For a variety of reasons, Georgist organisations on three continents are now critically questioning traditional strategies for explaining their plans to the public.

Some activists believe that the time has come to revise

fundamental concepts. Even the names of organisations are being challenged.

* What is the image that should be projected to a sceptical world?

* Which are the convincing techniques for educating people, and what does it take to deploy them?

Readers are invited to submit their thoughts to:

OPEN FORUM,
177 Vauxhall Bridge Road,
London SW1V 1EU, UK.

MACHO POLITICIANS

POLICY-MAKING in Washington is assuming a dream-like quality, as the Republicans on Capitol Hill flex their muscles and begin to implement their vote-winning Contract with America.

In a court of law, that contract - it gave Republicans a landslide victory last November - would be

thrown out as being not worth the paper on which it was written.

But what if it is enforceable? In that case, the US is heading for a rapid escalation in the federal deficit, a deterioration in the finances of the nation that was last seen under the supervision of tax-cutting Ronald Reagan.

THE CONTRACT declares that Congress will legislate to "make us all proud again of the way free people govern themselves".

And what do the macho men from Washington plan to do to restore the nation's pride? First, they want fiscal responsibility. They want a "balanced budget".

What they do not reveal is that, to cook the books, it will be necessary to shift the costs of current spending on to the children of future generations.

But Congress has not forgotten the current generation. It plans to pass a Personal Responsibility Act, the centrepiece of which is to withdraw financial support for illegitimate children and children whose parents are receiving welfare subsidies.

How will such legislation translate into a massive increase in the federal debt? Congress wants to cut revenue from taxation. For example: it wants to grant a \$500 per child tax credit - to reduce the burden on people earning up to \$200,000 (£131,000) a year. That one stuck in the throats of 102 Republicans who signed a letter on March 21 urging that the credit be restricted to those earning less than \$95,000 (£61,000).

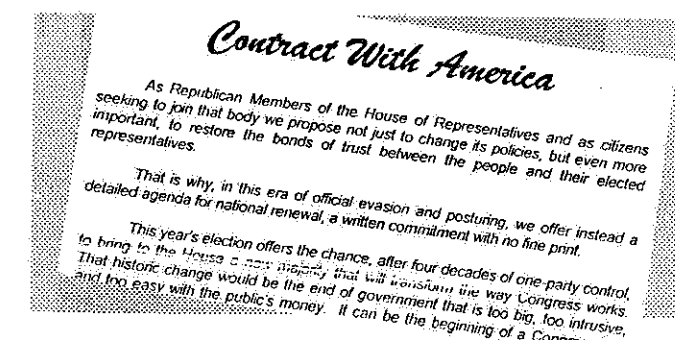
To show that Republicans are the hard men of politics, they want

- * an effective death penalty
- * more prisons
- * deportation of illegal immigrants
- * weaker controls over police investigation.

BUT NOT everyone is in for a hard time from the

GUNNING

FOR THE



New Republicans led by Newt Gingrich. Citing the record of the first Republican president, Abraham Lincoln, they promise responsible government. Land-owners will be the main beneficiaries. This is consistent with the philosophic roots of the American constitution (written for land speculators, by land speculators).

For example: there is to be a reduction in the capital gains tax. The principal economic result: an increase in the value of land hoarded by speculators. This is matched by a \$2.7 bn cut in rent subsidies for the poor.

And: compensation from the government for any reduction in the value of property due to limitations on the use of that property. That jeopardises land-use planning, and is a free gift to compensation-seeking landowners who will be able to apply for rezoning - and then demand "compensation" if the authorities turn them down (i.e., limit the value of their land).

ACCORDING to the Congressional Budget Office, the underlying deficit up to 2002 is 4.4% of GDP. The numbers will be worked and reworked, as commentators try to guess whether President Clinton will cave in to the demands of adversaries on Capitol Hill.

Whatever happens, one thing is clear. The Contract with America reveals no understanding of what makes a modern economy work, or how to rebuild

a moral society. The prognosis, therefore,

is frightening. The US is destined for a further round of civic harshness matched by a rise in crime and a decline in the quality of life for everyone except those rich enough to retreat behind private stockades.

BASTARDS

PAUL KNIGHT

UNEMPLOYMENT is now endemic in the world. It is estimated that 120 million people are unemployed or under-employed. And over one billion people are living in poverty.

Policy-makers are at a loss to understand what to do about the crisis. They resort to talk about the need for more "de-regulation". This is their way of confessing that they have no plans for action. But by "de-regulating" the markets, they effectively cut people loose to fend for themselves in an economic system that is demonstrably incapable of liberating people to earn a decent living by their labour.

There are a variety of explanations for unemployment which, superficially, appear plausible.

One of these is that people are insufficiently trained to meet the challenge of the age. The evidence from Britain shows how improbable is this theory.

In 1993, tens of thousands of middle-aged men over the age of 35 dropped out of the labour market, according to a report by the Trades Union Congress. These are people whose skills remain valuable. This began to emerge in 1994, when it became clear that there was a growing army of downwardly mobile middle-class professionals: highly-qualified specialists having to resort to conveyor belt jobs to make financial ends meet.

This problem of redundant men - rather than redundant skills - is partly disguised by the increasing number of people who are having to resort to self-employment. One-fifth of men over 45 are now in this category.

According to a survey by the Economic and Social Research Council, job insecurity is the biggest worry among all classes. An analysis by *The Times* has revealed that professional people in the highest social class had suffered a 267% rise in joblessness between 1990 and 1994, seven times more than for skilled non-manual work-

DIGNITY

and the Labour Market

by Ian Barron

ers. Conservative ideologists are increasingly worried by these trends. Nonetheless, they seek to justify the "reforms" of the Thatcher years, even while they begin to confess that there is something fundamentally wrong with an economic system that prevents willing, able-bodied people from working.

One of them, David Willetts, the MP for Havant, plaintively asks: "Now that we have a more competitive labour market with lower costs than our continental competitors, where do we go from here?"

The answer comes in several forms that can be characterised as whimsical in character. The truth is, the Conservatives lack a political ideology. Having destroyed the welfare state basis to the economy, they do not know how to reconstitute the system in a way that is both economically efficient and socially fair.

ANOTHER explanation is that jobs are being captured by a cheaper workforce in Third World countries.

This, too, is an implausible theory. For the relative wages of production workers in developing countries has also fallen. There is no convincing evidence that jobs are being relocated in those countries, at the expense of workers in the so-called rich nations.

So where does this leave the policy-makers? Their strategies are calculated to deepen the global crisis of unemployment:

* They call for further cuts in wages and living standards in the

name of "increased competitiveness". This is a self-defeating strategy, for it would shrink the aggregate demand for goods and trigger a further round of bankruptcies and loss of jobs.

* The IMF continues to insist on "stabilisation programmes" that have the effect of shrinking public sectors and private welfare just when there is a need for more spending. Third World governments may appeal for help in financing their debts, but the IMF now insists that the debt crisis is over.

But according to Oxfam's policy adviser, Patricia Feeney: "Perhaps the fact that the IMF has received some \$2 billion more in repayments from Africa than it has provided in new loans since the 1980s explains why the fund does not want the spotlight turned on debt".

THE ROOTS of the jobs crisis are now camouflaged by defective ideologies and unworkable institutions.

The world needs a new strategy for employment, one that would liberate workers and restore their dignity. "The markets" are not working, but the explanation will not be discovered while policy-makers continue to examine the problem exclusively in terms of the labour and capital markets, while ignoring the imperfections in the land market.

ECOLOGY AND TAXATION

A HOLISTIC STRATEGY FOR ENVIRONMENTAL SECURITY

BY FRED HARRISON

TRADITIONALLY, people respected nature, the community and the individual. This was a holistic relationship. It was sustained by a sophisticated set of rights to land linked to the correct system for financing the public sphere of life.

The abuse of nature stems from the same forces that encourage us to abuse our communities and to abuse people. My analysis of past mistakes applies to both capitalist and communist societies. The difference is one of scale only.

We cannot solve the ecology crisis if we do not develop a plan for the comprehensive renewal of civil society. This plan must include the restoration of the rights of every citizen.

PROGNOSIS. We have lost the traditional understanding of the intimate connection between ecological security, social harmony and individual liberty. Taking into account the laws and attitudes of modern society, we can say that members of the CIS will fail to develop a plan for rescuing their environment from further degradation. Because of the economic crisis in your countries, we can expect a deepening of the environmental crisis. This will correspond with the further loss of civil liberties of the citizen.

Can the problem be solved? Yes. There is no mystery about the mechanism that provides the

MEMBERS of the Commonwealth of Independent States - ten republics of the former USSR, excluding the Baltic countries - met for a top-level conference on the environmental crisis on March 1.

The CIS Interparliamentary Assembly's ecology committee is searching for solutions to the damaging Soviet legacy. Senior government ministers were addressed by three members of the European Parliament and Fred Harrison of London's Land Policy Council.

The conference was held in the palace used by the Duma in St. Petersburg before the 1917 revolution. We print here an edited version of the speech by Fred Harrison.

solution.

Can the problem be solved in time? Yes, if you adopt the correct policies.

Are there a range of policy options from which to choose? No. There is one policy only that offers the comprehensive solution. This policy integrates the needs of the environment with the needs of society and the needs of the individual.

What is that policy? Everyone must pay for the benefits they receive from the use of land. If they extract minerals from the earth, they must pay rent. If they pollute the air, the river, the ocean, they must pay rent. They are using those resources of nature as dumping grounds, and that dumping ground should not be treated as free.

What is the general model for achieving this?

First, the framework is the free market. It is in the market that rents are freely set by people who compete for the use of land.

Second, no-one should be allowed to use any part of nature without paying the market rent.

Third, the rent of land must be socialised. This means that, as people compete in the market, the more rent they offer the more revenue is received by the government.

This third point serves two main purposes:

- * it provides the financial incentive not to damage the environment. The less you damage, the less you pay. As users become more efficient, they reduce the rate at which they deplete scarce resources. This pricing system is the most effective policy for conservation.

- * socialised rent provides the money - the natural fund - from which to clean up the damage of the past. Investment in good ecological practices raises the rent of land, especially the rent of locations in cities. This in turn increases public revenue. The adoption of sustainable ecological practices also improves the quality of the social environment. This reduces social and economic problems which in turn reduces the tendency to abuse nature.

An example: paying rent for land removes the financial basis of land speculation. This leads to compact cities rather than the urban sprawl that characterises the modern city, which eat up fertile food-growing land and creates the kind of transport system that pollutes the air.

The historical lesson: if you have a rational social and economic policy, you also have a rational ecological policy. We can put it the other way round: you cannot have a rational ecological policy if it is not also a rational social and economic policy.

Question: will the CIS members adopt the rational policy? No. Why? Because you want to copy the system of property rights and taxation that we employ in the West.

Conclusion: history shows that the great civilizations disappeared as a result of ecological crises. We need not suffer that fate. We know what is the correct policy, and how to implement it. But the people who control society are the ones who control land. They make money from the practices that have, as side effects, the destruction of ecological security. So they will continue to put our societies at risk.

China and members of the CIS have the best political opportunity to adopt the correct policies. This is because you abolished the power of the landlord class. But today you are challenged by the ideological power of the West. Russia, in particular, is being forced by western financiers to adopt the system of public finance that encourages damage to the environment.

But the pressure to privatise rent is not coming exclusively from the West. There are internal pressures from the bureaucracies to create monopoly control over land. This monopoly power was described by Winston Churchill in 1910 in these terms: "Land monopoly is the mother of all monopolies". It is the main weapon used by landowners to abuse the community and the environment.

The optimum solution involves the restructuring of taxation. It involves reserving the rent of land as public revenue and removing taxes from wages and profits. This one tax policy simultaneously provides the maximum incentive to invest in the production of new wealth and reduce damage to the environment.

Western politicians pay lip service to the need to create

new jobs, increase productivity and protect the environment. In practice, they promote tax policies that have the opposite effect.

In Russia, the laws and decrees that define payments for the use of land transfer the largest part of rents to private users. The people who benefit include the so-called "managers" in the public sector. This is larceny on the grandest historical scale.

Unless you have the wisdom to challenge the West's philosophy of taxation, and the courage to adopt the correct policy, you are all wasting your time today. You might as well retire to your dachas, enjoy your private lives and not worry about ecological security.

DECLARATION on the Philosophic and Moral Basis of Property in Land: see p.16

МЕЖПАРЛАМЕНТСКАЯ АССАМБЛЕЯ
ГОСУДАРСТВ-УЧАСТНИКОВ
СОДРУЖЕСТВА НЕЗАВИСИМЫХ ГОСУДАРСТВ

Межгосударственный экологический Совет
государств — участников
Содружества Независимых Государств

МЕЖДУНАРОДНАЯ НАУЧНО-ПРАКТИЧЕСКАЯ КОНФЕРЕНЦИЯ

Проблемы охраны окружающей среды
в государствах Содружества

THE MORAL BASIS OF RIGHTS IN LAND

THE ST PETERSBURG DECLARATION

LAND includes all the resources of nature, including urban space, the fertility of rural land, the resources of seas, rivers and oceans, and air space.

Land is the common inheritance of humanity. Every individual has the natural and equal right of access to land. The equal right of every member of society corresponds to equal duties.

This right is universal, and is recognized by the representatives of all philosophies and religions as a birthright. It was observed in a practical way in ancient cultures, when access to land was provided on the basis of the equal right of every member of the tribe.

The peoples of Russia and of the CIS countries have the cultures of both the West and East in them. Today, once again, they have the opportunity to adopt the philosophic and moral basis of property rights to land in accordance with the wishes of the majority of the population. Mutual agreement has to be achieved on the following principal problems:

PRIMARY RIGHT TO PROPERTY IN LAND

LAND belongs to everybody as a birthright. This was accepted by ancient cultures, whose system of rights was developed to

MINISTERS of the CIS governments who led their delegations to the ecology conference in St. Petersburg (report: page 14) received a statement on the moral and philosophical basis of rights in land drafted for the conference and signed by:

* Dr. Anatoly Shesterjuk, professor in the Faculty on Legal Environmental Protection, St. Petersburg State University, who is Chairman of the Board of St. Petersburg Lawyers' Association

* Dr. Galina Titova, St. Petersburg Research Centre for Ecological Safety, Russian Academy of Sciences

* Tamara Chystyakova and Tatyana Roskoshnaya, Eco-grad, St. Petersburg

* Fred Harrison, Land Policy Council, London

provide the opportunity for every individual to use sufficient land for survival. Those rights included:

* the exclusive right to occupy and use land, which is the right of possession;

* the right to transfer the use of land while selling buildings and improvements on the land;

* the right to inherit and transmit by inheritance.

But those rights did not include the freedom to

* threaten the welfare of society by damaging or destroying

the environment;

* privatise what is called the Economic Rent of land, which is the revenue received as a result of better natural features and the location of one land site compared with others.

DUTIES RESULTING FROM RIGHTS TO LAND

ECONOMIC Rent is the annual value of urban and rural land and other natural resources. It is created by the whole of society.

Economic Rent can be precisely measured when individuals are free to compete for the right to use land under conditions of the free market. This approach provides the optimum revenue for both society and the individual.

The right to possess land and use other natural resources should be matched by the duty to pay Economic Rent to society. Development of the mechanism to extract and use rent for public purposes guarantees that everybody has an equal share of natural welfare even if he or she is not a direct possessor of land.

THE ROUTE TO PROSPERITY THROUGH RENT REFORM

NEGATION of the community's rights to land is the main

obstacle to the realisation of the rights of the individual.

The privatisation of Economic Rent is the main instrument for oppression. It results in serious social and ecological consequences.

Social renewal is possible only when the *right to possess* corresponds to the *duty of the possessor to pay economic rent*. This new system of public finance would enable government to abolish the taxes that prevent the growth of public welfare and the living standard of the population.

CRISIS OF POLITICS IN RUSSIA

NOTHING can prevent Russia and the other countries of the CIS from becoming prosperous societies. They are rich in natural resources and the population is well educated. The crisis they have is a political one. This stems from the lack of agreement on the moral and philosophic basis of property rights to land.

New laws and decrees contradict each other and do not correspond to the interests of the population. They remove the individual's natural rights and they are the social cause of corruption and criminality. This can be illustrated by western society, which is the social order of the land owners.

In post-Soviet countries there exists a serious threat that science, culture and legislation will serve monopoly power, which the new class of owners and civil servants of the federal agencies are demanding for themselves.

If government acts in accord-

ance with the correct principles of property rights to land, it will be easier to undertake important reforms, including those contributing to the problem of sharing the public revenue between the budgets of the various tiers of government.

In drafting their new constitutions, Russia and the other CIS countries should not rely only on the constitutions and legislation of western countries, for they were written by the representatives of the class of land owners to protect their interests and rights to land.

THE PRECONDITION FOR SOCIAL RENEWAL

ADOPTION of property rights that correspond to historical tradition and the modern interests of society and the individual (via equal rights to land and private property in capital) permits harmony in the material and spiritual progress of society.

The precondition for the moral renewal of Russian society is the guarantee of natural rights on the basis of Russia's ancient tradition of public debate and social consensus.

This approach to a new world order is the only one based on principle. It is formulated in the documents of the UN conference on the environment held in Rio de Janeiro in 1992 and approved by the Russian Government as the basis for a strategy for stable and ecologically safe economic development.

GEORGIST PLAN FOR A POST-COMMUNIST GEO-NOMICS

THE Georgist theory of public finance offers the most effective strategy for transforming post-Soviet economies while simultaneously addressing the ecological crisis created by communist economics.

The detailed exposition of this thesis is presented by Fred Harrison in his contributions to two books.

The first, written while Mikhail Gorbachev was still the Communist Party boss of the Soviet Union, explains the ethical basis of a land-rent fund that could be established to share the costs of cleaning up the environmental damage inflicted by marxism.¹

The second study appears in a book devoted to the ecological problem in the European context.² Edited by Sara Parkin, one of Europe's leading environmental campaigners, this study explains how the Georgist model could help the USSR to remain as a political unit while devolving power to its constituent units (the republics).

Since 1991, the Soviet empire has broken up. But the environmental problem is so overwhelming that it will take an international effort to solve the problems created, for example, by Chernobyl.

That means the plans elaborated by Harrison remain valid. But to succeed, the republics of the Commonwealth of Independent States, which succeeded the USSR, will have to collaborate by pooling the rent of land and participating in a common strategy.

1. Richard Noyes (editor), *Now the Synthesis: Capitalism, Socialism & the New Social Contract*, published by Shephard-Walwyn (London) and Holmes & Meier (New York), 1991. This volume can be bought from CIT Ltd., 177 Vauxhall Bridge Road, London SW1V 1EU, £14.95.

2. Sara Parkin (editor), *Green Light on Europe*, 1991. Published by Heretic Books, PO Box 247, London N17 9QR, England. £9.95, US\$16.95; A\$24.95.

PEASANT UPRISING FORCES LAND QUESTION ONTO REFORM AGENDA

LAND SPECULATORS moved fast to exploit the riches that would flow from the new trade arrangements between Mexico and the United States.

When it comes to thinking big, no-one can match the Reichmann brothers, the Canadian developers whose legacy to London is the ill-fated Canary Wharf. In November 1993, backed by money from financial speculator George Soros, the brothers announced three mega-deals for Mexico City:

- * A shopping, residential and office centre in Alameda, an old part of town that had been flattened by the earthquake in 1985;

- * a 42-storey office tower in Avenue Reforma, the financial district; and

- * a 20-acre commercial and residential village in Santa Fe, on the western edge of the city.

The numbers looked good: developers had been reaping returns on their capital of around 30-40%. But even as the Reichmanns announced their plans, observers were pointing to a huge over-supply of office space. And: things were stirring in the jungle. The landless peasants of Chiapas were mobilising themselves into a fighting force that would challenge the capacity of the government to engineer an economic miracle.

A little more than 12 months after the Reichmanns announced their land deals, the crash came. President Clinton put together a \$20bn rescue loan, but on March 22 some of the private banks grew nervous and withdrew \$3bn. President Ernesto Zedillo is now under siege from the international financiers and rifle-toting peasants.

THE foundations of the modern

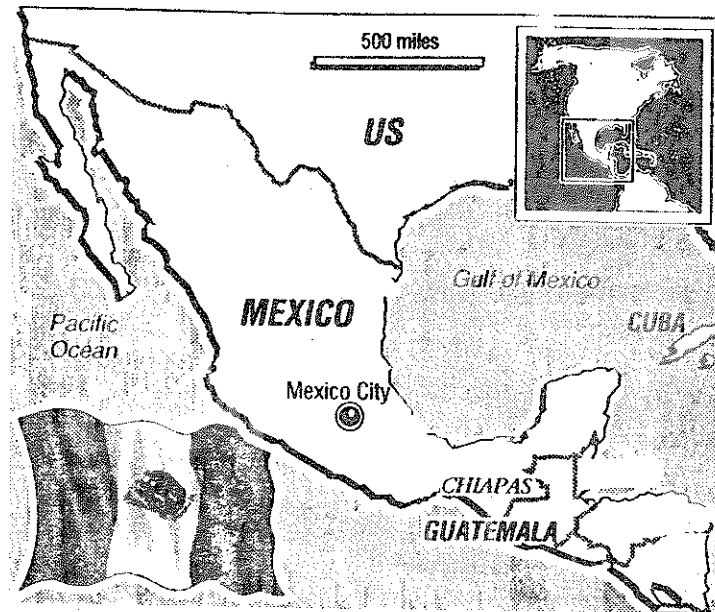
economy are so shaky that it does not take much to trigger a financial earthquake.

Foreign investors had assumed that, safely locked into the US's backyard, Mexico was a haven for their investments. It took the Zapatistas to prove them wrong.

The war has continued for 12 months, and is now spreading beyond the jungle. Landless peasants are occupying cattle ranches and growing maize and beans, which is causing shoot-outs and the death of squatters who are no match for hired killers. The army is now employing counter-insurgency techniques developed in Guatemala and Peru in the 1980s.

These events demonstrate that we are all at the mercy of the global economy.

* Mexico's financial crisis, which is due to a combination of intense land speculation (in 1990-92) and the political crisis, has caused a deterioration in the US trade deficit. The drop in exports to Mexico contributed to the trade deficit, which soared to \$12.2bn (£7.7bn) in January.



* In Britain, the government raised interest rates to 6.75% in February in the hope of preventing the pound from suffering from the crisis in Mexico. Homeowners and entrepreneurs had to pay more for their loans, making it increasingly difficult for the British economy to recover from recession.

The Zapatista rallying cry - "Land and Liberty!" - is again mobilising the landless peasants of Mexico. But whereas in the past the impact of the ensuing conflicts were locally contained, today the rest of the world is affected. This drives home the lesson that the land question ought to be back on the agenda for the international agencies that are supposed to be searching for solutions to world problems.

Mexico is typical of Third World countries that remain locked into the grip of an ideology that will prevent economic development and political stability. In the short-term, a large number of workers will be thrown out of work: according to the latest survey,

Turn to page 19

46% of firms expect to sack part of their workforce, and 16% expect to close altogether. This will frighten foreign investors, whose capital is necessary if the Mexican authorities are to be able to maintain a semblance of political stability.

But it will get worse, thanks to the failure of philosophy. The Mexican authorities are told that, to rescue the economy, they will have to sacrifice people's living standards - 20% of whom already live below the poverty line.

The finance ministry has begun to raise taxes and cut spending, in a strategy that will deepen the crisis. The overriding concern of the government is to reassure international financiers by shoring up the exchange rates and stock exchange indices. But the reciprocal of financial success - if it is achieved - will be a deepening of social discontent and political instability.

The ruling Partido Institucional Revolucionario has been in power since 1929, when Emilio Zapata fought for freedom. In recent years, Mexico has weakened the land rights of the peasants in the belief that this was progress to "modernity". If there is to be prosperity and justice in Mexico, the government will have to re-examine the meaning of "Land and Liberty".

GEORGE & DEMOCRACY IN THE BRITISH ISLES

Dorothy and Will Lissner
(Editors)

A collection of reports by economists, historians and specialists in other social sciences, establishing the significance of Henry George's campaign in England, Scotland, Wales and Ireland in the 1880s, in which he advocated democracy based on his ideas and those of Paine, Jefferson, Thoreau and others.

Obtainable from:
Land and Liberty Press,
177 Vauxhall Bridge Road,
London SW1V 1EU. Price £6.75.

MONETARY POLICY

Bank denies it bows to "pagan images"

THE BANK of England, which is responsible for Britain's monetary policy, is campaigning to defend its performance.

Rupert Pennant-Rea, speaking just before he resigned as Deputy-Governor, defended the bank's concern with policies that stress the need to curb inflation. He said that misconceptions made the bank look irrational - "bowing before pagan images while real life goes on elsewhere".

But, he says, the bank does not place overriding weight on financial markets. And to prove it, he analysed the bank's latest Inflation Report. Out of a total of 241 paragraphs, the tally broke down as follows:

Costs and prices	83
Real economy	114
Monetary developments	19
Financial markets	25

He told Manchester bankers on February 23: "In practice, we look at many more than a dozen indicators - and so we should, because we would be foolish to ignore anything that might shed light on the outlook for inflation".

Unfortunately, the bank is notable to track the price of land, because no such indicator exists. That was the reason why economists - including those at the Bank of England and the Treasury - were hopelessly misinformed about trends in the late 1980s.

The land boom began in 1986. It

drove the economy in directions that were not visible to the policy-makers, who thought the economy was buoyant - until it started to crash-dive in 1990. Their analysis was not helped by the inflation indices, of which there are a variety - three of which are illustrated in the graph below.

In the past 15 years, governments have redefined inflation to suit their political aspirations. Until the 1970s, everything was included in the Retail Price Index. Then the Labour government excluded the price of food, the volatility of which made the inflation figures look bad.

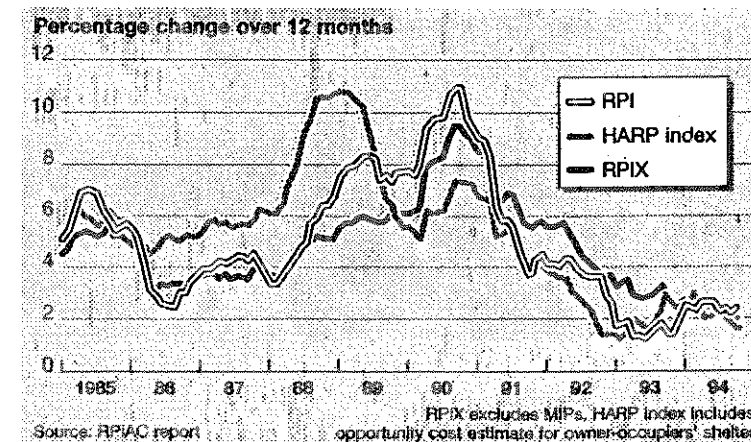
Premier Thatcher then devised the Tax and Prices Index: popular with ministers when taxes were going down, but unhelpful when taxes started to rise.

Nigel Lawson then objected to the Retail Price Index because it included mortgage interest rates - which, under his chancellorship, were rising. Thus was born the RPI(X), which excluded mortgages!

Now, the Tory government has shifted to the RPI(Y), which also excludes indirect taxes - which have risen under John Major's premiership.

Experts continue to disagree over whether the cost of housing should be included in indices on inflation.

Pagan or not, the symbols that are used for inflation are good for those who have faith in the skills of the monetary authorities. But they are of little use to social scientists.



JENNIFER DAVIS

Taxation: a dog's dinner

BRITAIN'S tax system is in danger of collapsing, according to the Institute of Taxation. But the appeal for a royal commission is rejected by the Treasury, which does not want a too-binding commitment to do anything about the way in which people's incomes are plundered by the State.

But reform of taxation would not only benefit the payers: it would also help the taxman, who has to administer a fantastic system.

* Did you know that there are dogs, and there are dogs? According to the tax code, discrimination that would not be tolerated by the equal opportunities legislation in the labour market is acceptable in the dog market. Household dogs must continue to pay value added tax on their food. Greyhounds, because they are racing animals, receive their food

VAT-free. To be zero rated, however, the food must be "a complete feed providing all the required elements for a balanced diet for a dog".

* Thinking of growing a lawn? Customs & Excise maintain that grass seed should be zero-rated because it is used as animal feed, but pre-germinated seeds were designed for commercial purposes and should be subject to VAT. However: because the pre-germinated variety is widely zero-rated within the industry at present, exemption will continue "for the time being".

* And then there's the loss of revenue. If you buy your beer in Britain, you pay tax. But if you buy it in Calais and ship it across in your car, the lower tax rates mean you save a lot of money. According to the Henley Centre, Britain's Treasury loses £150m because of the cross-channel beer-shopping sprees by drinkers!

Can you blame people for wanting to avoid the taxman? As a result of tax increases in last November's budget, the typical worker will give an extra five days' labour to the government. Employees now work 142 days for tax - 10 more days than when

Margaret Thatcher came to power in 1979.

The Adam Smith Institute calculates the day of the year on which the average employee has earned the equivalent of his annual tax bill. This year, earners will have to work until May 29 (not including holidays) to keep the taxman happy. Then he can start earning money to pay his mortgage...

It is not surprising, therefore, that the Treasury does not want too close a look at taxation. Even so, it has given its blessing to an unofficial enquiry that is based at the Institute for Fiscal Studies.

Lord Howe, a former Chancellor of the Exchequer, is heading an independent group that will review the UK's "complex and inefficient" tax system. The Bank of England has donated funds to oil the enquiry, which will "focus on the workability of the

Working for a living, these days, is a dog's life. If you want to keep more of your earnings, you have to be as fleet-footed as a greyhound

system rather than policy".

Yet it is policy that matters. To make any difference to taxpayers, taxes have to be abolished: tinkering at the edges of the system, worrying about the minutiae of administration, will do nothing to reduce the costs and complexity of the system.

The government is already using all of the cardsharp's three-card tricks it can muster to con people into thinking that it is making life easier. For example, from this year people will enjoy the benefit of "self-assessment". The government has sold this "reform" on the basis that it gives greater "freedom" to people to declare their taxable earnings.

In reality, this is a ruse for shifting more of the costs of tax collection onto the payer, who will have to employ more accountants and lawyers to compile his returns to the Inland Revenue. And to make sure that the payer is not avoiding his obligations, the Inland Revenue plans to give inspectors wider powers of search and entry.

Working for a living, these days, is a dog's life. If you want to keep more of your earnings, you have to be as fleet-footed as a greyhound.

PETER POOLE ON COMMUNITARIANISM

BEWARE THE GOSPEL OF FALSE PROPHETS

AMITAI ETZIONI is a US professor with a mission: he wants a renewal of community, to balance the individualism on which he blames so many contemporary social problems.

Fragmented families in the inner city ghettos, he claims, are the result of selfishness at the expense of community. The sense of duty and obligation has been lost and needs to be retrieved.

From whence does the malevolent influence of selfishness spring? Not from a malfunctioning economy, he insists. To blame the economic system is to resort to a vulgar marxist determinism: such an explanation won't do, in his view, because "morality drives the economy" - not the other way round.

Etzioni's communitarianism, in other words, is profoundly conservative. He frankly acknowledges that the global movement that has sprung up around his philosophy accepts the status quo - the "shared values" of the American constitution, for example, which would not be threatened by the emergence of a new morality based on communitarian ethics.

POLITICALLY, Etzioni is proving to be influential. American Republicans and British Labour leader Tony Blair are attracted by the emphasis on the need to retrieve communitarian behaviour.

Insofar as the argument develops the need to reintegrate the individual into a healthy society - building from the functional family to the stable community - this is hardly exceptional. What is alarming is the denial of the influence of some fatal systemic feature.

* Common sense tells us that when women are driven to abandon their children to go to work, so that the family can meet the mortgage payments, tensions

will arise that lead to breakdown in human relationships.

* Casual observation reveals that decay in the core of our great cities has something to do with poor housing, fragmenting communities and the social alienation that results, for example, in the fleeing of the middle classes to leafy suburbia.

* Protracted periods of unemployment even for the educated professionals suggests that anxieties stemming from economic insecurity has a corrosive effect on breadwinners, who might be tempted into escapist behaviour of the kind that undermines the primary bonds of family and community.

THESE forces are explained, in part at least, by an economic system that deprives people of the liberty to determine their moral behaviour. It suggests an oppressive economic environment over which the individual has lost control of his destiny.

In arguing this, however, we are not accepting a banal determinism: the argument that people are robots without free wills. For if determinism did rule, there would be no prospect of change in the rules of the game, such that people could begin the process of rebuilding the bombed-out communities.

On the other hand, the critique of communitarianism is equally sterile. One version, provided by Oxford don John Gray, maintains that the threat to communities is the trend to globalisation of economic life: from free trade to the electronic mobilisation of capital.*

This is a wholly unsatisfactory reply, for it ignores a process that has been with us for two centuries. The destruction of communities has been a persistent feature

of industrial society, and is causally unrelated to free trade or the mobility of capital.

This is not to say that the threat is to be found in the industrial mode of production: it isn't. Industrial society is a distorted social system, but it was born as a spastic, nurtured in the womb of a set of property rights that prevented it from flourishing, from realising its full potential.

We need only look at the tax system to see how society, through government, inflicts a punishing regime of dispossession on those who seek to improve people's productive capacities. Why does government adopt an injurious form of public finance? Because it is not allowed to employ the most sympathetic form of revenue-raising: drawing finance from the natural fiscal base, the rent of land.

This one insight enables us to analyse just about every social problem that ought to concern the communitarian moraliser. For these social problems create a weight of prejudice against the liberty of the individual which, from time to time, explodes in the form of anti-social behaviour.

The world is currently passing through such a phase. These are dangerous times, because the social problems - when pinned on the alleged moral failings of individuals - invites simple-minded solutions that are traditionally associated with the extreme right in politics. And the morality of the extreme right, as we know from history, leads to some devastating reactions in the pursuit of a false path back to stable communities.

* John Gray, "Hollowing out the core", *The Guardian*, London, March 8, 1995.

What would it take to bring back the "feel good" factor?

BRITAIN'S Chancellor of the Exchequer, Kenneth Clarke, says that voters won't "feel good" before the next general election. This frank assessment has created panic in the Major government, which wants a heightened sense of "feeling good" among the electorate before going to the polls.

Unfortunately, no-one can agree on what it would take to make consumers feel good enough to go out into the High Streets and spend their money. The government must bear a large part of the blame, for it keeps issuing contradictory assessments of the state of health of the economy.

The government, however, is itself the victim of conventional notions of economics. This is illustrated with policy on the housing market.

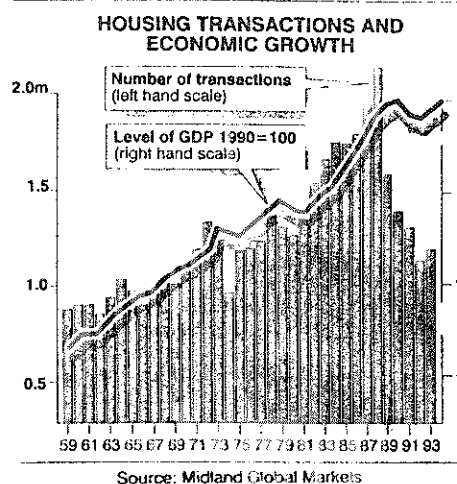
- * Rising house prices make owners feel richer. This encourages them to spend money. That expenditure then translates into lengthening order books for manufactured goods, which in turn stimulates investment and employment.

- * Rising house prices, however, make life tougher for first-time buyers. They also encourage employees to seek higher wages.

The correlation between transactions in the housing market, and economic growth, is tracked in the graph.

THE PROBLEM for policy-makers is that, while the economy needs investment in housing, it does not need the side-effects that apparently cause "over-heating".

Because of the confusion in economic debate, families are proving reluctant to borrow money to buy consumer goods. They have been led to believe that static house prices are bad. In fact, stable house prices do not necessarily mean that owners are worse off. In a period of low inflation, the



real value of homes may make this asset an attractive investment. And when house prices start to rise - as they will, in some parts of Britain, within the next few years - the economy will actually be creating the conditions for the next slump. The lead will be taken by the south-east. Here are some of the reasons:

- * The population of Greater London is projected to rise by about 470,000 between 1993 and 2011.

- * Britain will receive nearly 1m immigrants over the next 20 years. And during that period, the government predicts that the number of households will grow by over 4 million.

- * Speculation has already returned to some areas of the property market, starting with areas like London's Docklands.

PEOPLE ought to feel good about the low rates of inflation.

As savers, the real value of their cash-in-the-bank is not being eroded as fast as it was in the 1970s.

As borrowers, they are not paying interest rates as high as they were in the 1980s.

But people intuitively distrust the official version of economic performance. Their instincts are correct. For while the Press pundits - many of whom are ready to swallow the official line presented by the government - are claiming that inflation is "licked", the underlying reality is different.

Low inflation today is not the result of a more efficient administration of monetary policy. It is the result of price-slashing by desperate retailers, and cautious wage settlements by employees who are anxious to avoid being made redundant.

Furthermore, dark clouds are gathering on the horizon.

- * Pension funds, now paying out more than they are taking in, will reduce the flow of funds onto the stock market.

- * Some world prices are rising, which have a serious impact on a trading economy like Britain's.

- * The UK economy is about to bump up against bottlenecks in its output capacity, which will encourage a rise in wage costs.

Thus, a new round of price increases is in the offing, and the safest hedge against inflation - once again - will be land. And as speculators move into the land market, they will be magnifying the disruptive trends that lead directly to recession.

Before that happens, however, the economy is in for another round of government-induced turbulence. The illusion of happy times for some people will provoke a response from the government: more short-term "corrective" policies to "damp down" inflation. And so a new round of confused policies will be launched, designed to hold production and employment below their natural rates.

LETTER

Curing World Poverty

SIR,

Having read Mary Rawson's review (L&L, No.1170/1), I entertain serious doubts as to how carefully she read the book.

Apparently the effort of checking basic facts overwhelmed her - e.g., the correct title of the work is *Curing World Poverty: The New Role of Property*. The editor, the Rev. John Miller, is a Holy Cross Father ("C.S.C."), not a Jesuit, and is clearly identified as such on the cover. While these and other mistakes may seem trivial, such sloppiness highlights the fact that much of what Ms. Rawson said about the contents of *Curing World Poverty* was also in error.

In her superficial and misleading analysis of the binary economics of Louis Kelso, Ms. Rawson makes no mention of the central article on binary economics by Prof. Robert Ashford. She then devotes about a fourth of her review to other books. Based on her review, a reader, whether "economically literate" or not, would have no idea if *Curing World Poverty* was worthwhile.

One of the major flaws in Ms. Rawson's analysis, which also demonstrates her lack of understanding of the institution of property, is her ambiguous use of the word "access." In *Curing World Poverty*, the term is used to describe how property and ownership are acquired. Ms. Rawson, however, seems to confuse "access" with the actual use of productive assets - and separates "use of productive assets" from the property rights in productive assets. (These rights include "use" and are traditionally referred to as "ownership.") For example, in her critique of an article by Norman Kurland, Ms. Rawson makes "access" and "ownership" mutually exclusive, rather than interrelated, concepts.

"Curiously, Kurland attributes the productivity to 'ownership', not to access. But it should be remembered that the Homestead Acts gave access to land, and on condition the land be used. Only after a period did users get 'ownership'."

Ms. Rawson repeatedly confuses the right to property and the rights of property. This distinction is critical to understanding *Curing World Poverty*. Unlike Ms. Rawson, Henry George, the 19th

century American social reformer, understood property and based his social and economic insights on this understanding. Much of what he wrote about the concentration of ownership of productive assets is consistent with the analysis in *Curing World Poverty*. Ms. Rawson, on the other hand, clearly does not understand property, access or ownership. This is reflected in her analysis, to the detriment of anyone who actually attempts to gain an understanding of *Curing World Poverty*.

Based soundly on universal principles of economic justice, *Curing World Poverty* offers a practical program for addressing the root causes of poverty by removing structural barriers to widespread ownership of productive assets. It aims at a systematic - though not immediate - elimination of widespread poverty. In the interim, as noted in the article "Charity or Justice: Where is the Hope of the Poor?" charity and other expedients will still be needed to address the immediate subsistence needs of groups and individuals who lack a sufficient ownership stake to generate a living income.

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