

LAND and LIBERTY

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*After Socialism : the
Georgist alternative*



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LAND and LIBERTY

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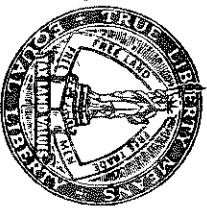
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Beware crackpots

LIFE is about choices. We make them every day when we enter a supermarket or choose which button to press on the TV set.

Occasionally, we enter into a collective decision-making process, as when voting for a government. Even less frequently, people are obliged to make choices that have epochal consequences, which shape the nature of the society in which they live.

Not everyone would agree with that. Karl Marx believed that, when it came to the large questions affecting political power and property rights, the average citizen had NO choice.

The dominant class, according to this thesis, controlled the very way people thought, thereby regulating their decisions in a way compatible with the interests of the rulers.

Marx believed he saw through that dastardly plot. And he concluded that the rulers could not override the march of history.

For Marx, it was only a matter of time before the excesses of 19th century capitalism were eclipsed by an enlightened socialism.

SOCIALISM has now been put to the test.

It is questionable whether the masses of Eastern Europe and China down to Cuba and Angola had much choice about participating in the Marxist alternative, but that would not have disturbed Marx: after all, the peasants and prois could not buck history, either!

Put to the test, and failed. Socialism is no longer a practical choice for those who feel that there is something fundamentally defective about so-called capitalism.

Millions of people died at the hands of the murderous Stalin and the misguided Mao, but perhaps not for nothing, we can argue that the socialist experiment has served a purpose.

The leaders of Russia and China now confess that the market mechanism is the superior way to regulate the economic process; the planned approach has failed dismally.

This lesson has now been taken to heart by the "social democrats" of the West, who in the past have experimented with a watered-down version of socialism. They are now searching for a new model, one which can somehow correct the excesses of 20th century capitalism.

Which is why, for the first time since the end of the last world war, people now have the chance to choose a new kind of society. There is no way to opt out of this process.

CRACKPOTS will undoubtedly emerge, in the next few years, to proclaim the new future.

Adolf Hitler was one such visionary, and it was the poverty of philosophy of the 1930s which allowed the maniac to be received as a saviour. There is no reason why it should not happen again, unless people enter into an open debate about practical alternatives.

We are optimistic about the course mankind will take into the 21st century. We believe that the time has come to reclaim the tenets of the philosophy articulated by an American social reformer, Henry George, whose social and economic philosophy has stood the test of time.

We do not ask anyone to take the words of Henry George on faith: they have to be subjected to continuous scrutiny, as with any other system of ideas. Eminent could not expose any fundamental flaws in the essentials of the Georgist critique, but others may be able to do so.

But bear this in mind: while we are talking the crackpots are plotting.

TWENTIETH century writers who have sought to predict the future have generally been pessimistic. As social critics, they believed we were destined for a dehumanised existence.

Some of them suggested we were collectively heading for the funny farm: George Orwell exploited this notion in a masterly way in *Animal Farm*, his savage satire of the dictatorial aspects of Soviet socialism.

But in alerting us to the dangers of regimentation, the subordination of individual freedom to the orderly process of central planning, and the amoral efficiency of scientific solutions, they made the fatal mistake of narrowing their readers' visions of what was possible.

Aldous Huxley's *Brave New World* is a classic example. Fortunately, the author was big enough to recant and tell another tale.

HUXLEY (1894-1956), after taking a first in English at Oxford, earned a living by writing verse. He was living in France when he wrote *Brave New World* in the early 1930s, before settling in California in 1937.

Brave New World offered readers the vision of two models. One was of a primitive existence on a reservation in New Mexico; here, the "savages" would be free to live their lives based on the nuclear family system, free to drown their pain and sorrows with alcohol.

In the other society, humans were bred in test tubes. They lived trouble-free lives of controlled bliss and sexual promiscuity. The price they paid: the abolition of all sense of individuality.

Scary, yes, but real? In the foreword to the 1946 edition, Huxley pinpointed the central flaw in this work.¹ He acknowledged that he was wrong to offer "only two alternatives, an insane life in Utopia, or the life of a primitive in an Indian village, a life more human in some respects, but in others hardly less queer and abnormal. At the time the book was written

Georgist World of Huxley

By Fred Harrison

this idea, that human beings are given free will in order to choose between insanity on the one hand and lunacy on the other, was one that I found amusing and regarded as quite possibly true."

Generations of students of literature and political philosophy have pored over Brave New World, the better to understand the future. And they came away blinkered!

Huxley redeems himself when he concedes that, if he were to rewrite the book, he would offer a third option, one which he characterised as "the possibility of sanity." In a few bold strokes he outlines the elements of this model:

"In this community economics would be decentralist and Henry Georgian, politics Kropotkin-esque and co-operative. Science and technology would be used as though, like the Sabbath, they had been made for man, not (as at present and still more so in the *Brave New World*) as though man were to be adapted and enslaved to them."

Huxley, now, did not want to

REFERENCES

¹ The first edition was published in London by Chatto & Windus in 1932. The 1946 foreword appears in the 1977 Granada paperback edition.

² A start has been made. See Paul Ekins, Editor, *The Living Economy*, London: RKP, 1986.

transport the Savage of the Indian tribe to Utopia "until he had had an opportunity of learning something at first hand about the nature of a society composed of freely co-operating individuals devoted to the pursuit of sanity. Thus altered, *Brave New World* would possess an artistic and...a philosophical completeness, which in its present form it evidently lacks."

THE tendency towards statism was one of Huxley's fears. This, he argued, was the result of rapid technological change, the adoption of mass production techniques, and the fact that the population was largely propertyless. This combination produced "economic and social confusion," the solution to which was centralised governmental control of a totalitarian kind.

"Only a large-scale popular movement towards decentralization and self-help can arrest the present tendency towards statism," he warned. "At present there is no sign that such a movement will take place."

On the latter point, Huxley has been proved to be wrong. There is now a growing demand for the decentralisation of power, both in economics and politics.

That demand is not, as yet, coherently articulated by either the libertarians or the "greens", the most vociferous opponents of statism.² In the main these two

HENRY GEORGE emerged on the American scene with the publication of his first book, *Progress & Poverty* in 1879. His stirring call for liberty through economic equity quickly captured worldwide attention and placed him among the front rank of economic and social philosophers.

His central idea was that poverty grew with advancing wealth because land monopoly and speculation absorbed all the increase brought on by progress. The thesis first appeared in a series of editorials, then as a pamphlet, in 1871. George had been a journalist. Still in his teens and trained as a printer, he had left his native Philadelphia in the 1850s for San Francisco. There, after failed adventures in search of gold, he practised his trade, working for several newspapers, rising from printer to reporter to editor. He became publisher of his own newspaper and a leading citizen of San Francisco by the time *Progress & Poverty* was published.

In his youth, he was exposed to the anti-slavery sentiment alive at home in abolitionist Philadelphia. During periods of hard times and depressions in California, he personally suffered the pang of hunger, unemployment and uncertainty. This background helped to make him an ardent student of the science, which in his estimation,

Call that stirred the world

should explain the cause and supply the cure for the problem of the persistence of poverty with the increase of wealth.

Reading the economic writers of his time - Prof Henry Carey, Henry Fawcett, James Rogers, etc. - he found a jumble of confusion and contradiction in their definitions, analyses and conclusions. Even masters of classical economics such as John Stuart Mill and David Ricardo, who, like himself, took their lead from the great Adam Smith, author of *The Wealth of Nations*, fell into errors of thought that to George's mind befogged the subject. *Progress & Poverty* was not an attempt to redesign

GRANDFATHER CONNECTIONS

• Aldous Huxley was the grandson of Thomas Henry Huxley (1825-95), the British biologist who is generally agreed to have been one of the 19th century's top scientists. One encyclopedia describes him thus: "His remarkable powers

of research, his clear exposition of scientific facts, and his accuracy of deduction have rarely been equalled."

It was probably through his grandfather that Aldous Huxley became familiar with the works of George.

According to Agnes de Mille, Henry George's granddaughter: "Thomas Huxley had been historically the first of what Mother always referred to as 'disciples'" (*Speak To Me, Dance With Me*, Boston: Little, Brown & Co., 1973, p.71).

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schools of thought fail to integrate the economics of Henry George into their political philosophies. If they were to do so, they would realise that the concentration of corporate and political power that stems from the monopoly control over natural resources would automatically dissolve.

This is what Huxley came to appreciate. He saw that the socialisation of the rental value of land (using the tax system and

the marketplace) would liberate people, shifting the balance of power in favour of the individual. People would acquire the freedom to choose whether to work for themselves or others; be free to agree on the terms of employment without resort to the countervailing power of trades unions; and enjoy decent living standards based on the retention of the full value of the product which they produced by their labour.

In sharing the value of the resources of nature among all

members of a community, by using the money to fund socially-necessary projects, a new social spirit would emerge based on generosity and co-operation, rather than selfishness and conflict. This is evidently what Huxley had in mind when he incorporated the name of Kropotkin, the Russian anarchist, into his model of an alternative society. Peter Kropotkin (1842-1921) developed a theory of mutual aid in which social stability and individual welfare were promoted by the communal side of life.

The Georgist model is now receiving increasing attention (though not always with due acknowledgement to Henry George himself). It synthesises the best of the two major streams of thought of the past 100 years; the freedom of the individual associated with the rights and obligations which stem from the social and spiritual side of life.

economics. It was a search for answers to the problems of poverty, unemployment and depressions. But to find those answers, George discovered that he had to bring precision to the terms, consistency to their use and observation to the estimates, which his forerunners had not done.

In 565 pages George's eloquence, logic, passion and optimism was said to have fired the imagination of princes and paupers. Men of letters and the unschooled found his call a clarion, sounding the start of a better day.

Count Leo Tolstoy sang his praise. "People do not argue with the teaching of George," he wrote, "they simply do not know it. He who becomes acquainted with it cannot but agree." George Bernard Shaw credited *Progress & Poverty* and George's eloquence for his involvement with political economy and social problems.

REDUCING the effort required to transform natural materials into desirable objects has been the persistent aim of mankind since the dawn of civilization. We not only yearn to breathe free but strive to extend our lives, increase our comfort, gain more leisure and expand our scope while expending the least possible effort. This precept, posited as the motive force of economic behaviour, underlies Henry George's economic analysis.

The social analogue of the physical law that motion seeks the line of least resistance is, he explained, "that men seek to gratify their desires with the least exertion." The never ending desire of human beings for material goods propels the march of industry. Its stride, lengthened by invention after invention, reduces the toil required to produce each item and to satisfy every want. The resulting abundance fosters trade with ever more distant peoples, bringing with the exchange of goods different fashions, customs methods and ideas.

Perhaps being conscious of his physical frailty, of how quickly his energy gives way to fatigue, and driven by an unquenchable desire for more and better things, mankind stumbled on to the idea of using the results of his own actions upon nature not only for consumption but as instruments to lighten his toil and increase his rewards. Seeds are planted and through natural germination yield new crops. Iron ore is smelted, milled, fabricated and fitted together in machines that are used to make other desirable things. Labour stored up in all the ways that multiply productive efficiency and output, is a third factor of production. Capital, "wealth used to produce more wealth," tools in the hands of labor, acting upon natural resources, had

GEORGE COLLINS recalls the life of HENRY GEORGE

made production a thing of almost magical ease.

In his introduction to *Progress & Poverty* George wrote: "Could a man of the last century - a [Benjamin] Franklin or a [Joseph] Priestley - have seen, in a vision of the future, the steamship taking the place of the sailing vessel, the railroad train of the wagon, the reaping machine of the scythe, the threshing machine of the flail; could he have heard the throb of the engines that in obedience to human will, and for the satisfaction of human desire, exert a power greater than that of all the men and all the beasts of burden of the earth combined.

"Could he have seen the forest tree transformed into finished lumber - into doors, sashes, blinds, boxes or barrels, with hardly the touch of a human hand; the great workshops where boots and shoes are turned out by the case with less labor than the old-fashioned cobbler could have put on a sole; the factories where, under the eye of a girl, cotton becomes cloth faster than hundreds of stalwart weavers could have turned it out with their hand looms; could he have seen steam hammers shaping mammoth shafts and mighty anchors, and delicate machinery making tiny watches; the diamond drill cutting through the heart of the rocks, and coal oil sparing the whale.

"Could he have realized the enormous saving of labor resulting from improved facilities of exchange and communication - sheep killed in Australia eaten fresh in England, and the order given by the London banker in the afternoon executed in San Francisco in the morning of the same day; could he have conceived of the hundred thousand improvements which these only suggest, what would he have inferred as to the social condition of mankind? Plainly in the sight of the imagination, he would have beheld these forces elevating society from its very foundations, lifting the very poorest above the possibility of want, exempting the very lowest from anxiety for the material needs of life."

ALAS such was not the case. Poverty and want and all the social and political evils that grow

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'No-Tax' paradise

THE classical economists had no doubt about who paid when a government imposed a tax on people's incomes, or on the necessities of life: the landowner.

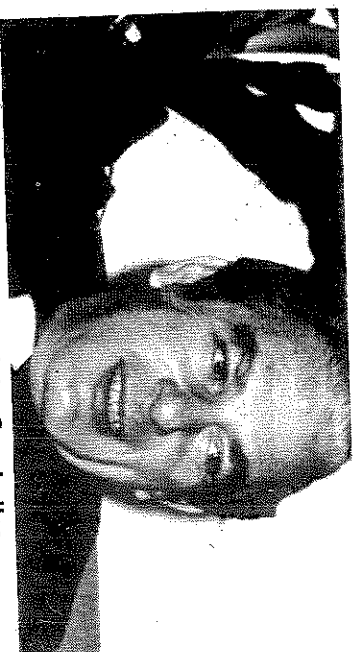
The tax was not absorbed by the payer, but treated as a cost and passed down the economic chain in the form of higher prices. Ultimately, this left a smaller "surplus" income, or rent, to be appropriated by the landowner.

That simple fact is ignored, today, with the result that a great deal of emotion is expended in a

meaningless way when some changes are made to public policy. For example, when a government announces an increase in taxes that fall on consumption, the tax payer complains loudly: he forgets - or is unaware - that gross wages will inevitably rise to offset the loss in real disposable incomes.

Likewise, when a government reduces taxes, it claims credit for making people better off. According to the Reagan/Thatcher supply-side thesis, this provides incentives to people to work harder. In fact, the claim is a neat exercise in deception: for one way or another, after-tax wages are reduced to their former net levels, as the rental value of land rises to "mop-up" the taxpayers' fiscal windfall!

The process at work was laid bare last year, when the socialist government of the Seychelles abolished income tax. It did so



• Albert René, President of the Seychelles

SEYCHELLES
Population: 67,000
Currency: UKE = R9.5,
US\$ = R5.4
GDP (1986): R517m
Politics: Controlled by the Seychelles People's Progressive Front.

without attempting to con its constituents, perhaps because there is no premium on duplicity in a one-party state where the politicians do not have to fear the consequences of the ballot box.

SEYCHELLES is a chain of 130-odd islands in the Indian Ocean. It is a former British colony, but the French slave-master had a greater influence on the culture of the people.

Today, the country lives off tourism and the export of tuna fish. Living standards are low, but not for nothing do the people

mortgage encumbrances, are open to the public.

The survey still has to complete its work in Victoria and the northern part of Mahe, and on the islands of Praslin, La Digue and Cerf.

Jack Moroney, the Commissioner of Taxes, says that a property tax could be instituted, but "you might as well take the money from them in the way we are already doing, instead of putting in a new tax."

ple promote their tropical islands as "paradise". Apart from two attempted coups in the past eight years, in which South African mercenaries figured prominently, life is good. *And now they do not have to pay income tax! Paradise?*

The government under President Albert René did not waste time and effort trying to delude the 18,000 people who lodge returns under the Pay-As-You-Earn system. In abolishing income tax from January 1, 1988, it had no intention of forgoing the Rupees 83m from individuals and R54m from companies received in 1987.

• The Business Tax Act (1987) simplified the sliding scale of rates, ranging from 10% to an upper limit of 50% on income over R110,000. Now, firms pay 20% on the first R36,000 of net income, and 35% on all profits above that figure.

• Employers were ordered to pay social security contributions on behalf of employees which just happened to be near enough the sum which workers were formerly paying as income tax. The rate of contributions varies from 10% to 80%, depending on the level of wages.

The cost of employing labour was not altered, because employers reduced gross wages to the old net, or take-home, levels!

PROPERTY TAX

PROPERTY in paradise is exempt from taxation: owners do not pay taxes on the value of their land or buildings in the Seychelles.

Until five years ago, the government did not have a working record of property ownership. It instituted a cadastral survey, and so far 10,000 parcels have been registered. The files, which disclose the identities of owners and

WHAT would have happened, if employees had managed to hang on to a significant slice of the wages they were formerly handing over to the government?

The single most significant effect - and the one which is singularly ignored by Western governments - is that land prices would have risen markedly.

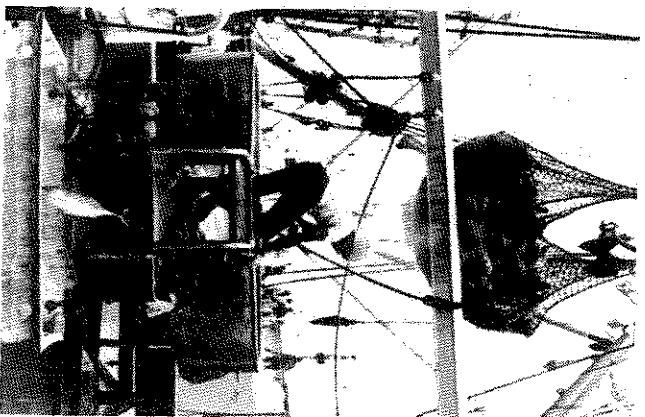
According to an official of the Ministry of National Development, land prices have remained stable for nearly 10 years. This, he believed, was because many enterprising Seychellois - presumably unhappy with the socialist "revolution" which the René government vigorously defends - emigrated to Australia and Europe.

Today, agricultural land prices range from R5-10,000 per ha, for poor quality land to between R40-100,000 for land suitable for coconut and cash-crop cultivation in areas like Grand Anse on Mahé. In Victoria, the tiny capital city situated on Mahe, residential land costs between R30-50,000 per plot.

SOLIFE goes on as usual. There were no street parties to celebrate the abolition of income tax, because the only advantage to the workers is that they are now relieved of having to fill in the tiresome tax form every year.

Mr. Jack Moroney, the Commissioner of Taxes, in an interview in his office in Liberty House, told us that the new approach was more efficient from the revenue-raising viewpoint, and it had not damaged commerce or industry.

"The government effectively decides the private sector wage structure, Companies have not been affected adversely, as far as the cost factor is concerned, because the cost of wages and social security contributions



• Tuna fish being landed in the harbour in Victoria, Mahé, the major export from the Seychelles

today is no greater than the cost of wages before income tax was abolished.

"The employer pays the same net wages as before, and the difference - the tax equivalent - now goes to the social security department. People are happy

enough about it. The complaints were minimal."

Mr. Moroney, an Australian who was brought out of retirement from his farm near Brisbane to administer the new tax system, does regret that the money is now collected by the social security department rather than the Tax Division.

But if the abolition of income tax is no more than a paper transaction, for workers, there are two groups - fishermen and farmers - who are better off. For if they are registered with the marketing boards, they are exempt from taxation.

"We say, 'We will leave you alone because we are not going to get much tax out of you, anyway'", explained Mr Moroney. "Farming is not a lucrative activity in the Seychelles. We don't have big farms; most of the big ones are government owned or they are cooperatives. Smaller ones make a reasonable living, but a lot of them are subsistence."

CAPITAL TROUBLE

SINCE the system of Provincial Government in New Zealand was replaced by a more fragmented one, site value rating has been adopted by 90% of all municipalities. Such a fortunate result has been made possible by the use of referenda for deciding how local revenue is to be collected; and selfish vested interests have been outvoted.

All this is now changing, warns Robert Keall, Hon. Secretary of the New Zealand Land Value Rating Association. In accordance with the Rating Powers Bill, which came into effect on April 1, 1988, the traditional

democratic right of ratepayers to demand a referendum has been withdrawn, so that councils alone now have the right to make a change.

The City Council of Dunedin has already evaded the referendum by splitting the General Rate into Separate Rates, which even before the Bill were not subject to it, and has adopted the capital value system. There was strong local reaction to this decision, but to no avail.

Worse still, the Officials' Co-ordinating Committee on Local Government, in a report published last December, has come out in favour of a

uniform national system of rating, which would remove the power of choice from councils and vest it in the central government. It also seems to be pointing in the direction of a mixture of site value and capital value rating, presumably in the hope of satisfying everybody.

The N.Z.L.V.R.A. is challenging this report, and at the same time urging the government, if it must have a uniform rating system, to opt for Site Value Rating. We await further information from Mr Keall, who is doing his best to increase the Association's membership and financial base.

LVT FOR FAIRN

By PADDY ASHDOWN

NIGEL Lawson would have laughed at anyone who warned him that the land market was about to send his economic experiment through a time-war, back into the stop-go era of pre-Thatcherite Britain. But it has happened, a timely reminder that land can exercise an extraordinary and largely un-detected power over our lives. The Conservatives have vigorously rearranged the labour and capital markets. It is therefore strange that they have ignored the problems of the supply and price of land.

The Chancellor's choice of high interest rates as his sole policy response suggests a continuing failure to analyse the source of his problems. The debt burden has more than tripled since 1980. The principal cause (and also one of the effects) has been the rise in residential land prices. Families have to borrow up to the hilt to buy their homes. Existing home-owners, exploiting the wealth effect of rising house prices (it is actually the value of the land under their homes that has risen), borrow heavily using the value of their land as collateral.

From this has flowed the speculation in the housing market and the growth in consumer demand that is generating the critical imbalance in foreign trade. Lawson's high interest rates are pushing up inflation, so employees are encouraged to seek compensation through higher wages. The higher cost of borrowing money and a high exchange rate is hitting investment and exports. The Chancellor has tapped himself into a vicious circle, because his only answer to these pressures is yet higher interest rates.

These immediate issues only touch on the long-term implications of the Government's failure to act, never mind on the exciting possibilities of reform. Consider the consequences of the vast amount of vacant land in our cities – one third of it privately owned – which is displacing people into the countryside. The costs of commuting include a fall in the quality of family and social life. The taxpayer also suffers: the capital costs of infrastructure are driven up as the boundaries of towns are pushed outwards. There is increasing pressure from developers on the green belt, at the same time as urban blight is encouraged by the fact that there is no cost incurred by holding land.

Changes in the Common Agricultural Policy also suggest that reform will be needed. A million or more acres of agricultural land will fall out of use as rising productivity enables farmers to grow our food on less land. This offers a wide range of new possibilities for the conservation of endangered species, recreation and experiments with growing food using methods that are less dependent on chemicals.

The experience of the Enterprise Zones confirms the penalties of not considering land values

The author is leader of Britain's Social and Liberal Democratic Party. In a paper presented to a seminar on industrial policy at the London School of Economics on January 19, he advocated the need for land value taxation as part of a 10-point plan for the 1990s. He elaborates on the proposal in this article, which first appeared in The Independent on February 17.

in policy decision. Tax breaks offered to investors were supposed to encourage the creation of jobs: they actually enriched those whose land was within the designated areas. Likewise, within areas controlled by Urban Development Corporations, owners of property have in some cases seen their assets rise in value to astronomical levels (from £50,000 to £5m an acre in London's Docklands).

What passes for the Government's regional policy may well become another victim. Oxford economists have already established that high residential land prices in south-east England impede mobility in the labour market and force up wages. This year, the rising price of industrial land in the regions may deter firms from relocating in areas of high unemployment.

So how can the price of land be restrained? Mrs. Thatcher's Government has so far resorted only to institutional and bureaucratic mechanisms. Its approach has comprehensively failed to meet the problem. A Civic Trust study has found that more than a quarter of vacant urban land has been idle for more than 20 years. The Government, while unlocking some land in the inner cities, has done so in combination with other policies that have more than outweighed the impact of this increase in supply. We need a policy that sits well with the price mechanism of the market place, and which is powerful enough to compel the constant recycling of land and the renewal of the built environment in response to evolving needs.

The recent report by the Confederation of British Industry on urban regeneration brought to mind one of the traditional Liberal Party policies: an annual tax on the rental value of land. It pointed out that "the prospect of higher land prices, however remote, has attracted speculative investors who can afford to resist purchase offers for years in the hope of reaping very large profits".

A tax on the value of land would represent a cost that would induce people to put their valuable sites to full use, within the constraints of the planning laws. The benefits of this change in the way

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ddy Ashdown: a plea for reform

se tax revenues are high-lighted by who have adopted the idea as one that their environmental goals.

action that people should share the t they derive from the increased value and is one that is likely to meet with roval. Other taxes which do not have pin-offs could be cut, giving greater ix reform and some balancing tax

nal attraction is that any increase in f land due to community activity, ause of re-zoning for a different use or infrastructure investment, would be in that community. Windfall gains ne more measured. One effect of the e to reduce average land prices, so ple - especially first-time buyers - e housing market.

tely, the Government is currently opposite direction. It is about to raise and prices still further through the rates on property at a time when the f land is by far the most serious pro- nting builders who are trying to pro- which families can afford. The switch isive poll tax will hit the economy as poor.

ie tax would be free from the charges ten thrown at local authority domes- tegories of land (agricultural, say) mpted if desired. The tax need not be as additional taxation but as a res- the direction of fairness and enter- d well facilitate much needed reform s of the tax system.

1 economy is facing some difficult A radical government should by now this gap in its thinking.

Builders attack Tories' strategy for the economy

BRITAIN'S builders have attacked the Thatcher Administration's economic policies.

The industry's leaders have challenged the government's claim that it has adopted a "hands off" approach to the economy.

Chancellor of the Exchequer Nigel Lawson says that the government's only legitimate role is the control of inflation. Otherwise, there is no reason to interfere with the markets.

But Brian Hewitt, chairman of Costain Homes and the new President of the House Builders Federation, said in his inaugural speech that the government was manipulating the housing industry in its efforts to correct the balance of payments.

Mr Lawson has forced up interest rates in what is turning out to be a successful effort to cut back the affordability of mortgages.

Mr Hewitt said: "The housing market has been targeted, via higher mortgage rates, as a means of reducing consumer demand, reducing the balance of payments deficit and the inflation that follows from higher demand for domestic consumer goods."

The planning system, he claimed, was planning an under-supply of housing of between 10-15%, which will guarantee the boom-bust cycles in economic activity.

By IAN BARRON

Responsibility lay with the government, "because it will not grasp the nettle of the release of an adequate supply of housing land."

The supply of land was the "root cause" of rising house prices, he said, a view echoed by Sir Lawrie Barratt, head of one of Britain's largest volume builders.

Sir Lawrie, who is retiring as chairman of Barratt Developments Plc, also claimed that it was the planning system that was creating the bottleneck in the supply of land:

"We must be the only industry in Britain deliberately denied our basic raw material. It should be clearly apparent to both central and local government that there is an appalling shortage of land for housing. This is evidenced by the land price explosion and the fact that land can now account for up to 50% of a new house."

Sir Lawrie warned that the first-time buyer underpinned the housing market, many of whom had now been priced out. Builders had to find ways to help them, "notwithstanding the fact that it has become increasingly difficult and, indeed, impossible on many sites due to the high cost of land."

LAND: the unique factor

THE WORD land in economics refers to all natural resources and their locations and extension in space. It includes many things not colloquially called land.

Any franchise, licence or privilege giving territorial rights is a right to land, at least in part. Red lights remind us of the critical value of space at central locations, since two objects cannot occupy the same space at the same time. It is worth a lot to have priority at intersections, as railroads do.

Land is not produced, it was created. It is the world, the planet on and from which man evolved, with the sun that warms it and the forces that hold it at an optimal distance. Capital has to be formed by human saving, investment and production.

Land is a free gift, variously expressed in different philosophies as spaceship Earth, the big blue marble, God's gift, Creation, The Promised Land, or Nature. Man did not create the Earth with its resources, but rather fights over it. Man at best improves and develops capacities inherent in the free gift. It is

Classical economists treated land as distinct from capital. Neo-classical economists denied the distinction, partly to refute popular proposals to tax or nationalize land. Some still deny that differences exist. Others blur the issue by writing "land" in quotes, or understating its value relative to other inputs, or referring vaguely to "quasi-rents" to incorporate a broad spectrum of incomes both from land and other factors of production. MASON GAFFNEY, professor of economics at the University of California (Riverside), describes some of the unique qualities of land as a factor of production.



• Mason Gaffney

surprising that economic analysis could ever lose sight of this overwhelming truth. Several points follow immediately.

- Cost of production places no limits on land rents and prices, neither a lower nor an upper limit. Rents may start at zero and rise without limit over time as demand rises. Land values are derived from rents.
- There is always a free marginal supply, the "extensive margin".
- Access to land is open by nature until and unless land is appropriated, defended, bounded and policed. No one claims land by right of production; no producer must be rewarded to evoke and maintain the supply;

"and submarginal land is not worth policing, unless to pre-empt it for its possible future values, or to preclude anticipated competition.

Tenure control of some land tends to drive the excluded population to untenured land (the "commons"), creating an allocational bias unless all land is either tenured or common. Thomas N. Carver styled this the phenomenon of "The Con-gested Frontier," and he might have added backwoods.

Land which is partly common today includes parks and public beaches, streets and highways, water surfaces, wild fish and game, and some at least of the "wide open spaces" in less hospitable regions.

Some land of high value is untenured or underpriced because consumers resist paying for what they think of as "free" because it has no cost of production, and which nature continues to supply even though the price is too low to ration the land economically.

Examples: water whose natural source is in southern California (it is tenured, but underpriced); city streets for movement and parking space, even in New York; air and water used for waste disposal in populated areas; housing subject to rent

EXPOSED: the 'too simple' seductive theory

ECONOMISTS teach that all economic values are either funds or flows. It is a seductive division, and often useful, but too simple by far. Land value is neither, but a third kind of value, *sui generis*.

Man kind cannot add to it, or draw from it as from a true fund. Individuals can and do, by exchange. Even nations can, by selling to aliens.

Thanks to the fallacy of composition that lets us forget that these are merely intermediate transactions which collectively accomplish nothing.

In famine, or war, or capital shortage, society cannot live on land values. These are not accumulations of stores, but merely the present value of anticipated future service flows

which cannot be hastened.

Further divisions are distinctive too, in other contexts. Exhaustible resources could be called "natural funds".

Fixed capital, slowly depreciating with time, is a "flowing fund". Soils have additional components. But basic permanent location value, is in no way an economic "fund".

controls; popular beaches and trails; oil and gas subject to field price controls; and so on.

Public capital used to grade and pave public rights-of-way is also open to general access, and may also suffer the "tragedy of the commons" of excessive congestion. But this is a deliberate positive public choice, and one closely associated with the social impossibility of denying free access to rights of way.

• Ownership and tenure rights derive only from appropriation, not saving, investment or production. Capital, by contrast, is owned by those who formed it. Only after that does capital bear much resemblance to land in that they coexist. Standard micro-economics obscures the differences because it deals mainly with relations of coexistence, ignoring the continual formation and destruction of capital, ignoring time and relations of sequence.

Thus it excludes from its purview the differences between land and capital. Micro deals mainly with how existing resources are allocated at a moment in time, not how they originate, grow, flourish, reproduce, age, senesce and die.

After land is appropriated by a nation the original distribution is political. The nature of societies, cultures and economies for centuries afterwards are molded by that initial distribution, exemplified by the differences between Costa Rica (equal partition) and El Salvador with its *Las Catorce* (The Fourteen Families); or between Canada and Argentina.

Political redistribution also occurs within nations, as with the English enclosures and Scottish "clearances" when one part of the population in effect conquered the rest by political guile and took over their land, their source of livelihood. Reappropriation and new appropriation of tenures is not just an ancient

SHORTFALLS OVERLOOKED

LAND INCOME is a prior claim to the joint product of combined resources. To consume land economically is merely to preempt a time slot from others, regardless of what one does with it. The unreaped harvests of idle land flow down the river and out the gates of time like water wasting through a desert. Lost water may sometimes be useful downstream; lost time never returns. To keep others from using a time slot is to consume it.

The value of preemption is the highest and best use that might have been made of the land preempted. That is the economic cost. The land is not responsible if the manager fails to realize its value at optimal capacity. Neither are the persons who are excluded. Only the preemptor is responsible, as a manager. This person is the residual impuree who deserves credit for performing above par and blame for falling below.

A great deal of land in fact is not allocated to its highest and best use. The shortfall of realized ground rent below potential ground rent is properly a debit to the manager's account, not the land's, and the

party responsible for the manager is the holder of title.

Most economic theorizing has failed to bring out this point. The tendency is to treat ground rent as a residual, a waste basket for all the errors and dereliction of responsible economic actors. This has resulted in greatly understating the value of land relative to other factors of production. Institutional and social factors, too, often obscure the opportunity cost of land.

This is a case where theorizing lags behind practice, in dividing value between land and a building affixed to it the standard practice of appraisers, and speculative buyers too, is the "building-residual method." The land is appraised as though vacant; the building gets the remaining value, if any.

The building, once attached to a specific site, loses the mobility of place and form that fluid capital possesses and has no opportunity cost but scrap value, often negative. Land, always lacking mobility of place, retains mobility of use because of its versatility, permanence, and irreproducible location.

or a sometime thing but a continuing, ongoing process.

This very day proprietary claims to water sources, pollution rights, access to rights of way, radio spectrum, signal relay sites, landing rights, beach access, oil and gas, space on telephone and power poles (e.g. for cable TV), taxi medallions, etc. are being created under our noses. In LDCs of unstable government the current strong man, perhaps hanging by a

thread, often grants concessions to American adventurers who can bolster his hold on power by supplying both cash up front, and help from various U.S. and U.N. agencies from the IMF to the USMC.

• Private tenure is often granted under customs that make it a prize for occupying or fixing some capital on land. Premature

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Athenian dreams

HENRY GEORGE'S theory of the Single Tax has so far not been fully tested, though trials in part for the gathering of local revenue have shown results of the kind that he predicted.

It might be useful, however, to remind ourselves of the improved world that he tentatively proposed for our consideration,¹ and to see whether the freedom that he said would follow from taking rent for revenue has ever been achieved in some measure, in another place and at another time.

What was it he thought would happen? To begin with, he foresaw improvements in government, particularly in the collection of taxes, and, with the coming of higher moral standards, a lessening of strain on the judicial system, with all its array of judges, lawyers, police and prison wardens. Then, as public expenditure on such functions and on standing armies decreased, national debts would become past history. These would be the administrative advantages.

As time went on, government would become less of a directive and repressive power, and more of a means for managing public business and providing amenities for all. Among the ones that occurred to him were theatres.

But, above all, the community would become more united and more creative. The present domination of selfishness as a motive is the result of poverty and the fear of poverty. Remove poverty, and people "would seek the respect and approbation of their fellows in other modes than by the acquisition and display of wealth"; and public affairs, as a

BY DAVID REDFEARN

consequence, would be managed with the fidelity and integrity that are now reserved for private ones.

Society would be strengthened and ennobled. "We are made", wrote George, "for co-operation - like feet, like hands, like eyelids, like the rows of the upper and lower teeth."

Released by this exercise of co-operation, he foretold: "Talents now hidden, virtues unsuspected, would come forth to make human life richer, fuller, happier, nobler." Does any of this have a familiar ring? Well yes, it does: it reminds us of the kind of thing we have been used to hearing about

IT'S TIME TO EMULATE THE LAND REFORMS OF THE GREEKS

Athens of the classical period. Let us pursue the analogy, and see how far it will go.

WE KNOW from Aristotle² that, in the 7th century B.C., as we now reckon it, "the whole land [i.e. of Attica] was in the hands of a few, and if the cultivators did not pay their rents, they became subject to bondage...."

This situation had been precipitated by the recent introduction of money, which made it easier for people to get into debt; and what would seem more natural, in a bad year, than to borrow on the security of one's land? Perhaps it worked in an isolated bad year; but, in a succession of them, it was disastrous. In the end, lively resentment

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investment, settlement and development are frequent results, seriously distorting the allocation of labor and capital and contributing to the "Congested Frontier" problem.

• The present value of land is not derived from or caused by or related to its cost of production. Present value is derived solely by discounting future ground rents, which are not a reward or an incentive for creating land.

With capital the sequence is that man saves to form capital, a

lump sum, which then yields a service flow. Capital formation precedes and causes the service flow. With land the sequence is reversed. The service flow is a free gift which simply exists, whether one pays for it or not. The expected service flow is then converted by economic man into a lump sum present value, a process called "capitalizing", i.e. making it superficially resemble capital for purposes of exchange. Thus land value adjusts to rent, rather than an equilibrium rent's being determined at a

level sufficient to reward producing the asset.

• Public policy needs to promote capital formation but not land creation, which no man can do. Land rent may be taxed heavily without discouraging capital formation. Indeed it would certainly encourage capital formation to lower the level of land prices, because there is a diminishing marginal utility of assets to private holders, and the loss of land values would stimulate new saving by individuals to make up the loss.

was aroused; for a state of affairs that seems to pass unnoticed in a modern nation was intolerable in a country about the size of Gloucestershire.

A solution, as Plutarch³ tells us, was found by the "tyrant" Solon in 594 B.C. He decreed the cancellation of debts and the reversal of foreclosures of mortgages; and citizens who had been sold into slavery were ransomed. The practical result was a redistribution of land to its original owners.

Subsequent economic difficulties of farmers were relieved by a succeeding "tyrant", Pisistratus,⁴ who made advances to them from his own capital, and aided them over the lean years until their newly-planted olive and fig trees reached maturity.

This policy linked up with another of Solon's, which was to encourage the immigration of foreign craftsmen. He must have understood the principle, later expounded by Henry George⁵ in his refutation of Malthus, that "the power of any population to produce the necessities of life is not to be measured by the necessities of life actually produced, but by the expenditure of power in all modes."

Unlike that of Sparta, the soil of Attica was not fertile enough to grow sufficient corn to feed its own people, though well suited to the olive, the fig and the vine.

So, by the 5th century B.C., the Athenians were importing the bulk of their corn from the Crimea, where the inhabitants grew it, "not for their own use, but for sale,"⁶ and paying for it by exports of olive oil, figs, wine, vases and other forms of pottery, together with metalwork, especially that made from their home-produced silver.

Archaeologists have discovered both artistic and homely products of these kinds, bearing Athenian makers' marks, in many parts of Europe.

The land reform instituted by Solon remained effective at least until the beginning of the 4th century B.C., when it was discovered, on the occasion of a proposal to limit the political franchise to

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A general obligation is also owing to Alfred E. Zimmern for his *The Greek Commonwealth: Politics and Economics in Fifth-Century Athens*, Oxford: Clarendon Press, 1911.



• David Redfearn

freeholders, that there were only 5,000 citizens out of about 40,000 who failed to satisfy the condition.⁷

This wide distribution of land is, of course, the kind of result to be predicted, and in fact has been experienced over the past hundred years in the California Irrigation Districts⁸ which enjoys some measure of a tax on the unimproved value of land.

Now for the ultimate effects of Solon's reform, the point of origin of the freedom (eleutheria) in which the Athenians took so much pride.

THE SPLENDOURS of 5th century Athens – its architecture, sculpture, drama, and its epic poetry, recently perfected but handed down from previous ages – are too familiar to require repetition here, save by way of a reminder that the drama and poetry were no mere entertainments, but a combination of religious cere-

mony and social encyclopaedia of cultural progress.

They were also examples of "leitourgiai" (liturgies), or public services financed as a kind of voluntary taxation by wealthier members of the community, who thereby earned, in the words of Henry George, "the respect and approbation of their fellows, in other modes than by the acquisition and display of wealth."

These contributions were both welcome and necessary: for, until 483 B.C., when a rich vein of silver was struck at Laureion, the sources of State income were few and limited. They were: the rents from the State lands (so that some at least of the land had its rental value returned to society), a tax of 5% on farm land (but based on produce, not unimproved value), law-court payments and fines, and various dues and indirect taxes.

From 483 B.C. onwards, however, the collection of royalties from the silver mines, another recognition of public rights, brought in about 50 talents a year, the value of which may be judged from the fact that the first year's payments covered the cost of the 200 extra triremes that made possible the naval victory at Salamis in 480 B.C., the first blow in the expulsion of the Persians from Greece.

The Athenians by this time may or may not have been moving towards a simplification of their tax system; but there is no doubt that the reforms of yet a third "tyrant", Cleisthenes,⁹ put into

Continued on Back Page →

upon it were everywhere increasing. Wages failed to keep pace with the growth of wealth because monopoly and speculation kept land out of the reach of working men, leaving the great majority no alternative but to work at subsistence wages or not at all.

George's remedy, to establish equal rights to land by collecting its annual value in lieu of taxes, was an appeal to justice, for "unless its foundations be laid in justice the social structure cannot stand." Justice dictates what belongs to whom. And the rightful possession of property, the ability to say that something belongs exclusively to someone, without reservation and without injury to any other person due to that possession, is the unalterable standard of justice. George made the case that labor was the sole basis for such claims.

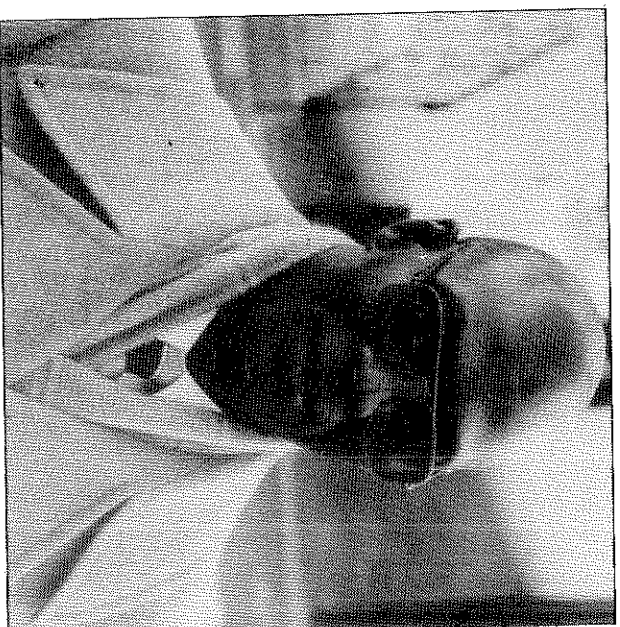
"What constitutes the rightful basis of property?

What is it that enables a man justly to say of a thing, It is mine! From what springs the sentiment which acknowledges his exclusive right as against all the world? It is not, primarily, the right of a man to himself, to the use of his own powers, to the enjoyment of the fruits of his own exertions? Is it not this individual right, which springs from and is testified to by the natural facts of individual organization – the fact that each particular pair of hands obey a particular brain and are related to a particular stomach; the fact that each man is a definite, coherent, independent whole – which alone justifies individual ownership? As a man belongs to himself, so his labor when put in concrete form belongs to him."

By that standard no one could claim rightful, exclusive ownership of land for no labor produced it. Nor could the rent, or value of land be individually claimed for it is the entire community of people and their actions who make it what it is. The reform was based on sound economic reasoning and ethical principles.

HIS monumental work in the hands of a New York publisher, George moved to that city in 1880. Success for the book was not immediate but by 1881 it had been published in England, was translated into German and French and had begun to attract considerable attention.

George, and the leaders of the Irish Land League, who were battling English landlordism in the struggle for a free Ireland, found common cause. His second work, *The Irish Land Question*, made its appearance in 1881. The same year, he set sail for the British Isles as a correspondent for the New York newspaper, the Irish World. He found



• George Collins

great acceptance of his ideas in Britain and his popularity flourished there.

In the ensuing years, his lectures and articles, both at home and abroad, placed him at the center of philosophical debate, social ferment and agitation for economic reform. George was convinced when *Progress & Poverty* was completed, that he had unveiled a timeless truth which, if heeded, would right the basic social wrong and bring abundance to all who labored and would justly reward all who prudently used their capital. And all his enterprises thereafter were undertaken with the aim of promoting the adoption of his land tax reform.

In the concluding chapter of *Progress & Poverty* he wrote: "The truth that I have tried to make clear will not find easy acceptance. If that could be, it would have been accepted long ago. If that could be, it would never have been obscured. But it will find friends – those who will toil for it; suffer for it; if need be, die for it. This is the power of Truth."

In *Social Problems* (1883) George addressed the critical issues one by one. Arguments from every side of the question – concentration of industry, unemployment, machinery and inventions, public debts, farm problems – were examined with the precision and perceptiveness he had displayed from the beginning of his career. The solution to the problems was everyone's charter: "Let no man imagine he has no influence. Whoever he may be, and wherever he may be placed, the man who thinks becomes a light and a power."

The Scottish philosopher, Duke of Argyll, wrote a stinging denunciation of George's ideas, labeling them communistic. It was issued under the

title, "The Prophet of San Francisco," an obvious attempt at ridicule. George's followers turned the slur into a mantle which George wore with pride. His reply to the duke's attack titled, "The Reduction to Iniquity," was published in 1884, together with "The Prophet of San Francisco," in a book with the title *Property in Land*.

In the spring of 1886 George finally published his brilliant defence of free trade, Protection or Free Trade. He had been working on it off and on for three years, had even lost the first manuscript and had to rewrite it. The book was read into the Congressional Record by his fervent advocate and patron, Tom L. Johnson of Ohio, and five other congressmen.

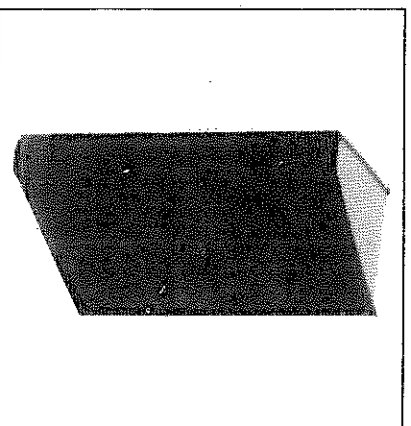
AS 1887 began, George founded *The Standard*, a weekly newspaper of thought and opinion. The paper waded into the controversy in the Roman Catholic Church which arose out of the political advocacy and active campaign for George's candidacy by a priest, Father Edward McGlynn. George's ideas were ruled contrary to church teaching and McGlynn was ordered to cease and desist. He refused and was excommunicated, but ultimately, reinstated.

The controversy in the church reached the highest level. In 1891 Pope Leo XIII issued an encyclical, "Rerum Novarum." It was seen as a repudiation of George's philosophy based on a perception of it as socialistic and anarchistic. George immediately replied with *The Condition of Labor - An Open Letter to Pope Leo XIII*. He very carefully and respectfully set out the tenets of his doctrine in five chapters with this succinct summation.

"Here is the answer, the only true answer: If men lack bread it is not that God has not done his part in providing it. If men willing to labor are cursed with poverty, it is not that the storehouse that God owes men has failed; that the daily supply he has promised for the daily wants of his children is not here in abundance.

It is, that impiously violating the benevolent intentions of their Creator, men have made land private property, and thus given into the exclusive ownership of the few the provision that a bountiful Father has made for all. Any other answer than that, no matter how it may be shrouded in the mere forms of religion, is practically an atheistical answer."

In the remaining years of the century respect for George and his reform philosophy grew. All around the world land value taxation was debated and adopted in many places. His thoughts about the money question, a subject he intended to



• The famous tome, "spine" of the Georgist movement

elaborate in the book which was to have been his magnum opus, *The Science of Political Economy*, was beginning to crystallize. His recommendation that a failing Johnstown, Pennsylvania company pay its workers with certificates backed by the bonds of its debtor, saved the company during the financial crisis of 1893.

Henry George had been distracted from his work on *The Science of Political Economy*, begun in 1891, by the many demands for lectures, speeches, travels and other books, over the years. But the final interruption came in October, 1897 when he was once again persuaded to run for Mayor of New York. His public support was thought to be as great as before, if not greater, but he was in failing health and the strenuous effort claimed his life five days before the election. *The Science of Political Economy* was left unfinished.

HENRY GEORGE fills a prominent place in the history of economic thought. He was an active reformer but he developed an economic and social philosophy which in the minds of many noted scholars rank him among the great minds of the ages.

Will Lissner, until recently the editor of *The American Journal of Economics and Sociology*, wrote in a centennial tribute to *Progress & Poverty*: "It is a work in the utopian tradition of Plato's Republic, one of the works that, like the various sacred scriptures and other timeless creations of the human mind, have spurred the human species on to greater heights of cultural achievement."

In a similar vein Prof. John Dewey has said: "Henry George is one of the great names among the world's social philosophers. It would require less than the fingers of the two hands to enumerate those who, from Plato down, rank with him.... No man, no graduate of a higher educational institution has a right to regard himself as an educated man in social thought unless he has some firsthand acquaintance with the theoretical contribution of this great American thinker."

Wall Street jaundice

QUOTE...by Gordon Gekko, the corporate raider with a cynical view of business ethics and a jaundiced perspective on what he claimed was the capitalist free market at work:

"The richest 1% of this country owns half our country's wealth, five trillion dollars. What I do, stock and real estate speculation. It's bullshit. You got 90% of the American public out there with little or no net worth. I create nothing. I own. We make the rules, pal."

The character was portrayed in the movie *Wall Street* by Michael Douglas.

**MAJOR
NEEDS
ON UK
HOMES
FRONT**

FACTS: Government statistics show that by the year 2,001, Britain's 2m additional households will require homes. In England, 2.5m homes (nearly 13% of the stock) is in poor repair; over 900,000 are statutorily unfit for human habitation.

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operation in 503 B.C., had set them firmly on the way to Henry George's co-operation, union, and elicitation of "talents now hidden, virtues unsuspected."

The Assembly (ekklesia) of all the adult male citizens (c.40,000) became the supreme authority. This met once a month, and any citizen could propose business to it. To prepare its agenda, however, and to deal with matters of urgency, there was a Council (boule) of five hundred, elected annually, 50 from each tribe.

There was also, for the conduct of day to day business, an Inner Council (pnyx) of 50, which was chosen by lot from among all those wishing to stand. It remained in session for one-tenth of the year, and one member of it was chosen by lot each day to be chairman.

The judicial functions were provided for according to similar principles. The chances of any individual citizen's having an influence on public affairs were thus far higher than they are now.

It is not hard to imagine what would happen if we were to take one of our modern cities of comparable size, and to attempt to let it run itself according to any such system.

Yet, until 431 B.C., the year of the beginning of the disastrous Peloponnesian War, the citizens of

Athens managed, without the aid of professional civil or military services, not only its own affairs, but those of an extensive confederacy, in effect an empire, of Greek city-states (poleis) in the Aegean, and kept the sea-lanes open for the trade that was essential for their own survival.

On the whole, they managed successfully, and it was only the deterioration of morale resulting from the 27-year war, and a final error of judgment of which any government might have been guilty, that in the end brought about conditions in which genuine democracy became impossible.

Such a record of achievement postulates average personal qualities of a high order, such as only freedom can bring out. No wonder that Thucydides,¹⁰ when the glory had departed, attributed these sentiments to Pericles:

"In a word I claim that our city as a whole is an education to Greece, and that her members yield to none, man by man, for independence of spirit, many-sidedness of attainment, and complete self-reliance in limbs and brain."

IT IS OFTEN asserted that the Athenian economic and social system was dependent for its mere existence on the institution of slavery. The question of Greek slavery requires an essay in itself, but two brief items of evidence will show that such a view must be considered at best as not proven,

and that, if the citizens of Athens enjoyed ample leisure for the service of their polis, it was because it was fairly shared, and their material needs were few and simple, not because they had slaves.

We have it, for example, from a contemporary author known as the 'Old Oligarch'¹¹ that the Athenians "established a democratic equality" between her citizen and alien populations, and that slaves employed as craftsmen or house servants were included in this dispensation.

The same author tells us that it was impossible in the street to distinguish, by his dress or bearing, the slave from the free man. He was not in the strict sense free; but at least he was well cared for and could look forward in the end to formal freedom without political rights.

The admitted exceptions to this general rule were the slaves in the silver mines, a minority, who were treated abominably, but no worse than many people nowadays, who are described as free but have to compete for jobs under a system of land monopoly.

The great achievements of the Athenians in the 5th century B.C. were made possible by wise land reforms. We ourselves, with more material needs perhaps, but superior means of satisfying them, could still emulate and even outdo the Athenians by adopting the wiser reform of Henry George.