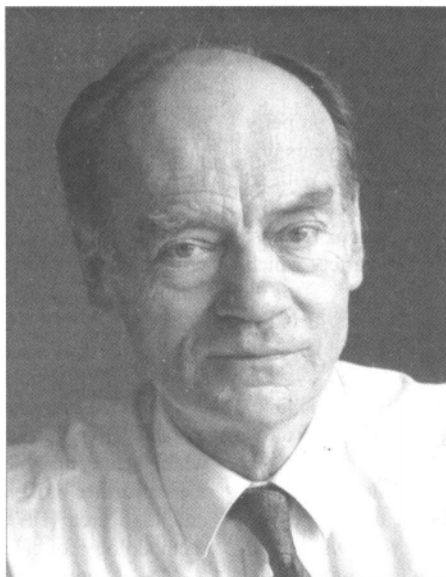


# 'Binary Economics' looks as if it could be one short

As Adam Smith put it nicely in his discourses on taxation<sup>1</sup>, the quantity and value of the land which any man possesses can never be a secret and can always be ascertained with great exactness. As the radical Georgists of the 20th century used to say, you can't put it in your pocket and say you haven't got it.

It is otherwise with capital. As Adam Smith again pointed out in his master-work *The Wealth of Nations*, the amount of capital stock which a man possesses is almost always a secret, and can scarce ever be ascertained with tolerable exactness. It is liable besides to almost continual fluctuations. "A year seldom passes away, frequently not a month, sometimes scarcely a single day, in which it does not rise or fall more or less."

The man who builds his hopes and fortunes upon accumulating capital is like the foolish man who built his house upon sand; whereas the man who builds upon the immovable surface of the earth is like the wise man who built his house upon the rock.



**John D. Allen turns sleuth to identify the missing third factor**

Why open a review of one of the latest expositions of economic theory with quotations from Adam Smith? The book is called *Binary Economics* by Robert Ashford, Professor of Law at Syracuse University College of Law, New York, who graduated with honours at the Harvard Law School; and Rodney Shakespeare, who obtained an MA from Downing College, Cambridge and qualified both as a teacher and a barrister.

One cannot help sympathising with Rodney Shakespeare who confesses that every book on economics he has ever studied has given him a headache. One could not promise that everyone who studies this essay in *Binary Economics* will avoid a similar malady.

Why is it that books on economics give people headaches? The subject itself speaks of the fruitful interaction between people who apply their labour, and the land which gives access to water, sunshine, fresh air and most important, space. But the fashion these days is for our most distinguished economists to dismiss land as a principal factor in this interaction.

Robert Ashford and Rodney Shakespeare appear to have adopted an approach akin to that of Kenneth Galbraith, Economics Professor Emeritus at Harvard, when he said:

It was to be one of the modern and more welcome triumphs of capitalist attitude and achievement to diminish this acquisitive need for more land. In the highly prosperous city-states of Singapore and Hong Kong, land has been shown to be entirely irrelevant.<sup>2</sup>

Are we to understand *Binary Economics* as the economics of duality, of capital and labour? Every binary system is based on two like the famous binary stars or binary mathematics, whereas true economics is founded on the unity of the planet and the human race. The product of this interaction, wealth, is shared out as the classical economists and Henry George alike agreed, according to a three-fold division or distribution. Nothing binary about that. For example, Adam Smith: "The private revenue of individuals...arises from three different sources, Rent, Profit, and Wages. Every tax must finally be paid from some one or other of those three different sources of revenue..."<sup>3</sup>

However, the authors of this latest interpretation of economic principles claim that binary economics provides a new way of approaching economic reality. As a new paradigm, they claim, binary economics con-

tains a uniquely powerful set of ideas. It provides a new way of enhancing everyone's economic well-being, which is what Henry George and other economic reformers aimed at in the past, but with no great measure of success.

For the benefit of those who get headaches when they come across words like paradigm, its meaning in this context is a pattern or model which facilitates understanding.

What this pattern or model offers, say the authors, is an economy of more equal opportunity, fairness and respect for all people individually; a free market way for all people to achieve increased levels of economic prosperity and autonomy; a systemic solution for poverty by way of a far more inclusive and efficient private property system (systemic, a remedy with the power to reach everywhere into the body politic and economic); and a practical market alternative to the redistribution of wealth.

These are bold aims. How is this transformation to be brought about? How are the evils of poverty, unemployment and debt to be driven out of the economic system?

One element in the formula is what the authors describe as an economic foundation for voluntary control of population levels. This sounds suspiciously like a 21st century revival of the Malthusian doctrine which would have us believe that Nature aided by human wit can never provide fully for the needs of the whole human race.

It was Malthus, in a passage greatly approved by John Maynard Keynes, who said that if a man was unemployed and could not get work, he "has no claim to the smallest portion of food, and, in fact, has no business to be where he is. At nature's mighty feast there is no vacant cover for him."<sup>4</sup>

The authors evidently do not mean to raise this spectre, rather to lay it to rest. But it will never be done by voluntary population control. This was one of Malthus's ideas: as a clergyman of the established church in England he spoke of it as demanding prudent conduct among the lower orders. And yet it is self-evident that the forces of nature cannot be held in check by exhortation. It is possible of course that an improved economic order and better distribution of wealth would restrain the impulse to generate large families and thus reduce the pressure of population. But in fact the pressure of population is a figment of the economists' imagination. What this really makes manifest is the failure of economic doctrines to release people from poverty, hard labour and the fact or threat of unemployment.

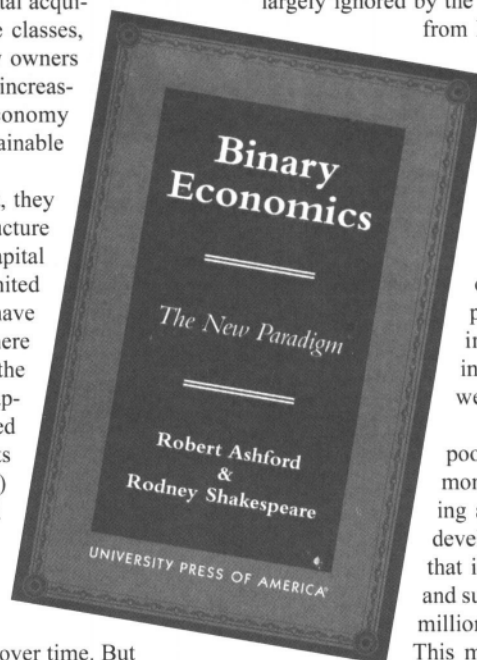
How do the authors of *Binary Economics* propose to counteract poverty, the shadow that lies across a world packed with abundant natural resources?

Justice in a binary economy, they say, would be achieved by opening up our private property system so that it becomes possible for all people to acquire capital on market principles ... the binary economy offers to eliminate the unnatural scarcity that now prevails even in the most advanced economies and to replace it with the greater bounty and leisure that was promised, but never universally delivered, by the industrial revolution.

"In the binary economy, as capital is increasingly acquired over time by people of the poor and middle classes, that capital will begin to pay

a capital income to its new owners, thus supplementing their labor income and reducing their welfare dependence. Each year, with growing participation in capital acquisition among people of the poor and middle classes, capital will increasingly distribute to its new owners the earnings necessary to buy what capital increasingly produces." Thus the binary economy establishes the market conditions for sustainable growth.

In this movement, the job of government, they say, is to open the legal and market infrastructure to the extent necessary for upholding the capital acquisition rights of all individuals. In the United Kingdom, this is exactly what governments have been doing over the past 20 or 30 years. There are many avenues whereby what are called the poor and middle classes may participate in capital acquisition. Instruments such as guaranteed bonds, tax exempt special savings accounts (TESSA), personal equity portfolios (PEP) and individual savings accounts (ISA) all encourage people build up capital assets and enjoy the income derived from them. Such incomes are relatively small in relation to what people can earn but as the authors of *Binary Economics* imply, they may build up over time. But then so does inflation build up in time: the £10,000 needed to buy a motor car in 1995 becomes £16 or £17,000 today. The gains are largely illusory. The house that cost £20,000 to buy in 1960 goes on the London market today at £17 million. The bricks, mortar and timber of which the house was built go on deteriorating but the land on which it stands rises steadily in value. As Henry George and others saw all those years ago, it is access to land and



its secure possession which gives rise to wealth and security. Hence the special place of land in the economy, which today is largely ignored by the economists. Indeed, as the quotation

from Kenneth Galbraith demonstrates, our most distinguished economists regard land as irrelevant in today's capital markets.

One might ask the proponents of binary economics, why is it that wages have to be supplemented by interest and growth of capital values? Why is it that so many millions of the human race are classified as poor, and that not only in the developing countries but in the highly industrialised and productive ones as well?

And the last question is, where do the poor obtain the means to invest their money in capital assets? Who is collecting all this money to invest in profitable developments? How does it come about that in an age of accelerating productivity and superb technical efficiency, there are 18 million unemployed in the European Union? This malaise will never be cured by PEPs and ISAs.

What we really need is to return to the economic trinity of land, capital and labour, a trinary rather than binary economics. Indeed, that is what we already have. The problem is that the product of these three is badly distributed, with a tendency for the rich to get richer and the poor at best maintaining a customary standard of living with the help of payouts from pension funds and the welfare state. As this goes on the whole economy gets out of balance. What binary economics ought to take into account is the rent of land which creates and sustains all the capital assets into which people put what money they have. Most of that in any case is due to windfalls and handouts from insurance company, building society and banking mergers.

Instead of a new paradigm, let's have an old one:

Adam Smith: "The product of labour constitutes the natural recompense or wages of labour."<sup>5</sup> That in itself – that is, the full product of labour – would provide enough for everyone but of course it isn't quite that simple these days. The cost of employment could be reduced if governments followed the advice of Adam Smith and others, and eased the pressure of taxation on earnings. Not a word about that in binary economics. Easing the cost of employing people would bring many back to work. If taxation of earnings was radically cut people would stream back to work. The question then arises, where would the government obtain the replacement revenue? Well of course it wouldn't need so much if people could pay their own way from their earnings. Henry George said that governments ought to examine the case for shifting the burden of taxation on to the rent of land. That concept needs an understanding of the classical trinity of rent, profit and wages. So it would appear that binary economics is one short, and that one is the key to the whole mystifying issue of why deprivation is so widespread in a world of abundant resources and billions of willing hands.

#### REFERENCES

- 1 *Inquiry into the Nature and Causes of the Wealth of Nations*, 1776, University of Chicago Press edition 1976, Book V, Chapter II.
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  - 3 *Wealth of Nations*, Book V, Chapter II, Of Taxes.
  - 4 "An Investigation of the Cause of the Present High Price of Provisions", published anonymously in 1800, quoted by Keynes in his *Essays in Biography*, the Lives of the Economists, Royal Economic Society 1972 edition.
  - 5 *Wealth of Nations*, Book 1, Chapter VIII, Of the Wages of Labour.
- 📖 *Binary Economics: A New Paradigm* by Robert Ashford & Rodney Shakespeare, University Press of America Inc. UK enquiries, 12 Hid's Copse Road, Cumnor Hill, Oxford OX2 9JJ.

### Traditional Methods and New Approaches to Land Valuation

German, J.C., Robinson, D., and Youngman, J. *Land Lines* (2000, July) Lincoln Institute of Land Policy. The article first reviews some traditional methods of land valuation e.g.

1. Comparable Sales (where sales of comparable unimproved land are analysed)
2. Income Analysis (deriving the income remaining once the building value and income attributable to the building are calculated) and
3. Cost of Development (exhaustive appraisal of a plot with potential development alternatives).

Each option has significant practical problems in terms of lack of suitable data, inflexibility in the factors considered or being too expensive to achieve on a large scale. These difficulties used to mean that the greatest difficulties in implementing LVT lay in assessment.

Now however the benefits of Computer Assisted Mass Appraisal (CAMA) integrated with Geographic Information Systems (GIS) can reduce these difficulties as demonstrated by Batt. CAMA is a powerful mathematical model that can use site and location data to estimate value. GIS mapping technologies provide information relatively cheaply at the required level of detail.

The authors used Lucas county as a case study because of the sophistication of its appraisal system, which has been used for more than 20 years. They conclude that more work is needed to explore the impact of missing information in the models used, the effect of substandard building and less than best use on values. In addition they say that education of taxpayers, officials and lawyers who have to operate with this system is vital to its success.