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Paradigm unearthed

Order is an essential ingredient of any dynamic system that is capable of sustaining its momentum.

Order comes in many forms, but the essence of that order can be instantly recognised: there is something beautiful about the proportions, the locomotions, the relationships, which define that orderliness.

When we recognise something as being "true" - whether in literature, engineering, town planning - we have little difficulty in articulating the principles that shaped the structural order.

In architecture, for example, we continue to marvel at the proportions of the villas built in the Venetian hinterland by Andrea Palladio (1508-1580), who remains the most famous architect in the western world. What is it about Palladio's methodology which "in diluted form affected Western architecture for four hundred years, and seems especially potent today"?¹¹ It is the order of his designs which he believed he derived from nature, and which he was able to translate into terms that made it possible to erect buildings that have stood the test of time and place. He imposed a rigorous control over the three dimensions, to ensure proportionality in both the functional and aesthetic characteristics of his walls, rooms and buildings.

One type of proportionality was called "harmonic", which was translated into numbers: 6:4:3, or $\frac{6-4}{6} = \frac{4-3}{3} = .333$. The significance of these 3-

term formulas has been uncovered: we now know that they enable the architect to design not only rooms and facades, but even whole plans.¹²

Modern architects are not mechanically bound by formulae developed in Italy in the 16th century, of course; it is possible to vary the proportions and still construct a building that is aesthetically pleasing. But no matter what the variations in design, the architect is still bound to conform to certain principles if his structure is to remain upright for as long as it takes the materials to deteriorate naturally.

The challenge is to find the correct relationship between the strength and combination of materials. Penalties are paid for incorrect solutions. A builder can compensate for a poor design by committing additional materials to make sure that the structure remains upright, but the price of poor design is a heavy one. By over-investing in one building, fewer materials are left to be deployed elsewhere (which means fewer buildings) and there is a loss in aesthetic and functional satisfaction.

And so it is with social systems. Because of poor design, they can be here today, gone tomorrow. The social superstructure that was developed out of the communist ideology was evidently a very fragile one: the Soviet Union lasted just over 70 years - a flicker in time! The stresses that flowed from the flaws in the superstructure were too great even for the intense coercion that was brought to bear to create and sustain the collectivist society.

Nevertheless, intrinsically unstable systems can be preserved for long periods of time, without resorting to the use of naked coercion. This has been the case with the market economies of Europe and North America, where governments have used what John Kenneth Galbraith calls compensatory power.¹³

The social reforms of the early 20th century in Britain, which led by osmosis to the welfare state, were an attempt to fine-tune an unstable system that was ready to explode at the seams if strenuous efforts were not made to ease the points of stress. The process was one of apparent incorporation: of setting up a structure of rights for those who appeared not to be able to meet their own needs, independently. Those who controlled the system were obliged to pay the price by buying a kind of stability.¹⁴ This amounted to a political confession that society carried an outclass in its interstices which, ultimately, could not be ignored. Action that recognised the needs of this outclass, however, was not based on the desire to empower

the individual. Rather, the solutions created a state of dependency.

Something had to be done, because the design of the 19th century capitalist system was a poor one. Governments had to wrap scaffolding around the market economy, to hold up the structure for a little longer. This response of the political system was motivated by the overriding need to preserve some of the fictions that underpin liberal democratic society.¹⁵

But the welfare state offers no more than a stay of execution. For as the needs of the outclass multiplied - as they were bound to do - a point had to be reached where the productive capacity of the economy would be stretched to breaking point.

Governments, such as the one over which Margaret Thatcher presided during the 1980s, may say they want to cut back on public spending; but confronted by social and economic realities, they end up spending ever more of the nation's income. In 1993, the British state and its bureaucracy spent 46% of gross national income, which was much more than when Mrs Thatcher came to power in 1979.

Disorderly conduct

It is not surprising, therefore, that, in the final years of the 20th century, the very tenets on which the welfare state was built have been called into question, suggesting that the eclipse of capitalism might not be far behind the fate of communism.

Neither capitalism nor communism could be expected to transform themselves from within, for transformation spelt liquidation! But doomed they were from the outset, for they were set in motion without an earthly anchorage. How did that happen?

The industrial mode of production came into existence on sufferance. The arrival of the new system was conditional on its acceptance of the social rules already established by the landowners, who had consolidated their private power over the public purse - and therefore the political process - during the centuries since Magna Carta. The two rules of relevance for present consideration are these:

(1) At the dawn of what was to be the post-feudal era, entrepreneurs were left in no doubt that they were outsiders. If they wanted to locate factories on land, they had to pay for the opportunity of creating jobs and wealth for the nation. There was nothing in Britain's unwritten constitution that gave

them an automatic, equal right of access to the benefits of the resources of nature which had already been privatised. So access to land was subject to negotiation with the private owners, who insisted on money up-front: future rental income had to be capitalised and paid to the current owners now, before the first brick of the factory was laid.

(2) The factory system was urban-based; and to flourish, it needed a massive enlargement of the social infrastructure - roads, safeguards for public health, and so on. Who was going to pay? These were public services, and they ought to have been funded out of the public revenue - the rent of land. But that was unacceptable to the landowners! The rent of land was implicitly sacrosanct. The process of shifting responsibility for public services onto the private incomes of labour and capital began in a most determined fashion in 1799. Thus began the retardation of the potential of the new mode of production. Taxes pushed up the price of goods, which curbed consumption and investment, but that was not the landowners' problem!

If the capitalist wanted recognition of his services in the form of an elevated social status, he had to ape the country landowner by buying a large estate. The result was the birth of a crippled social system that was periodically prevented from literally delivering the goods.

Communism was no more than the mirror image of capitalism. Karl Marx did not like what he saw, so he postulated the need for the opposite: collective action and social ownership of the means of production. The opposite of an unearthly social system was another unearthly social system!

Over the decades, social scientists tried to develop the conceptual apparatus to reflect the facts: sciences which, as they evolved, were parodies of reality. The results can now be seen in the failure to provide solutions to crying contemporary problems. Consider, for example, the need to remedy dereliction in the city.

Because "land" has now been assimilated into "capital," for conceptual purposes, nature is treated as just another marketable commodity. Its characteristics are assumed to be identical to those of an office building or a lathe. Thus, owners of urban land are free to exercise their monopoly power. Result: land speculation is the primary cause of the collapse of the urban economy and the built environment. And yet, social scientists remain silent about this process, which to this day remains free to wreak havoc.

Communism fared no better. Regimented production and marshalled labour (the dictatorship of the proletariat was deemed to be necessary to oppose the individualism of capitalism) produced grotesque cities of conveyor belt monotony. The built environment of the USSR was a social desert.

The same ideological sterility produced the ecological crisis. Communism could not respect nature, because its guiding theory - on labour value - encouraged the administrators to turn a blind eye on nature. Land, after all, could have no value, because it was not made by labour! The Soviet Union's legacy to the world is a wounded environment that will take generations to heal.¹⁶

Capitalist societies, while marginally better in their treatment of nature, were also compromised, in their case by the formative mentality that was forced to focus on spatial mobility and the depletable, reproducible characteristics of capital. The unique characteristics of land, defined to include all of nature, were just not allowed to intrude into the equation.

The self-financing system

We can now develop a picture of the social framework prescribed by the Georgist paradigm.

The principles of proportionality can be highlighted by examining an economic relationship that offers a striking contrast with capitalism: income distribution and public finance.

We are not claiming that, in a Georgist society, the proportions are rigidly enforced: a healthy society is a dynamic, ever-growing organism, in which the numbers adjust according to particular conditions. Nonetheless, they do cluster closely around the long-run average.

Recall that wealth is produced by three factors of production: land, labour and capital, each of which receives income: rent, wages and interest. A society that had preserved the integrity of its evolutionary roots would be able to sustain itself in a harmonious manner without the stresses that are associated with the maldistribution of income: envy, greed, despair, and so on. But in an unnatural society, such as the one that was to emerge in Western Europe at the end of the Middle Ages, governments had to intercede in the distribution of income to buy some kind of stability.

There is no ambiguity about what went wrong. Traditionally, the

primary functions of society - territorial defence, political leadership and the administration of justice - were funded out of the income that we now call the rent of land. With cultural evolution, however - in the direction of the formation of the nation-state - those who were responsible for discharging the social functions were threatened with redundancy. In a nutshell, their jobs were being professionalised (standing army, bureaucracy and circuit judges). To preserve their status and income, they had to do something desperate: they stole the public purse. Public servants of the Middle Ages, who knew their redundancy notices were in the mail, shrewdly privatised the public revenue. They became the great landowners of enclosure fame: no social functions to perform, but a lot of rents to enjoy.

The greatest fraud in history remains undetected, transmuted into a lawful pastime by the skilful manipulation of historical documents: See Kenneth Jupp's contribution to *Private Property and Public finance*, another volume in this series. The beneficiaries can today be counted not in their few thousands - the major landowners - but by the million: homeowners fail to pay - directly - for the full benefits of the location of the land they occupy. And by the "trading up" process they participate in the game of land speculation.

The outcome of this feat, of transforming public revenue into private income, is that modern governments continue to be obliged to tax the wages of labour and the profits of capital. Thus was born a system of politics based on class and conflict rather than consensus. Politics became a process dominated by two overriding dynamics:

(1) rent-seeking: the manipulation of politics by the landowners, who by virtue of their control over land were the most influential class in society; and

(2) the desperate needs of the underclass, which could only be assuaged by appropriating part of someone else's earned income.

This was an unstable system: people resent having to pay taxes out of the income that they earn. And the social, economic and personal costs of financing government out of taxes on wages and interest are enormous.

There is a superior approach to regulating social and economic activity, and it is most fully elaborated by the Georgist paradigm. If we want to move in the direction of a rational social system, we need to retrieve the philosophy of public finance which, from time immemorial, served mankind

so well. This will not happen, however, until there is a thorough debate about the philosophy of public finance.

One of the first questions that we need to ask is this. What, in a tax-free society, would be the distribution of income between the three factors of production?

In present conditions (i.e., in societies whose governments take anything between 35 to 50 per cent of national income), the imputable rental income of land is of the order of 22 to 25 per cent. This is the conservative estimate for both the UK¹⁷ and the USA.¹⁸

Empirical research and scholarly reflection by economists who have studied the Georgist paradigm suggests that the share of rent in the modern society, if the current system of taxation were abolished, would be about 35% of national income. The figure may be higher, in the view of Mason Gaffney, a Professor of Economics at the University of California (Riverside), who has spent a lifetime investigating this question. He believes that, in a tax-free society, the rent of land might be as much as 40%.¹⁹

What of wages in a tax-free society? In Britain, according to Ronald Burgess, the author of *Public Revenue Without Taxation*, income from employment net of taxation has been stable at 50 per cent of national income for the past 100 years.²⁰ The figure fluctuated up or down by about 5 per cent, but it returns to the long-run average of half the total income of the nation. Adding up rent and wages provides us with the figure that rewards the owner of capital. The distribution of income between rent, wages and interest, then, in a tax-free society, may be approximately this:

$$35 + 50 + 15$$

These figures, if they are validated by further research, yield an important conclusion: taxes on wages and interest can be abolished, to leave the income to land free to discharge its traditional role, that of underwriting the costs of public services. Our confidence in this conclusion is heightened when we take into account three facts:

(1) If the social system were a rational one, a large slice of the existing financial commitments of the state would evaporate. The public provision of certain services of a welfare character would be eliminated, once the obstacles to employment and decent wages were removed. Poverty would be diminished, if not abolished, so dependency on the welfare state would be voluntarily reduced.

(2) The state, which must necessarily provide some services that cannot be more efficiently provided by the private sector, is entitled to charge users for the services rendered. This revenue, however, takes the form of fees from customers, not across-the-board taxes imposed on every member of the public.

(3) For social reasons - such as health - it might make sense to retain certain taxes: for example, on tobacco.

When the revenue from these three sources are added up, we could abolish the existing system of taxation and rely on the rent of land as the major source of public revenue. This thesis is fully elaborated in *Private Property and Public finance*, a companion volume in this series.

The beauty of treating rent as public revenue is that it sets up a virtuous circle: public investments become self-financing. A new highway or public amenity adds to the rental value of land, which feeds back into an increase in public revenue!

The Physiocrats spotted this truth. They explained that all the public expenses of the French state could be met out of a Single Tax - the *Impôt Unique* - on the rent of land. They developed the first body of economic literature, and they were praised by Adam Smith who acknowledged that the rent of land was indeed the distinctive source of public revenue.

The significance of the work by the Physiocrats is that they assembled their economic theories, including the role of public finance, into a vision of the total system. As a mark of the poverty of modern economic philosophy, however, they are now criticised for a single nebulous reason.

The Physiocrats based their doctrine on the contention that all wealth was derived from land. To reject this statement out-of-hand is facile. The objection disregards two facts: first, that they lived in an agricultural society; and, second, that their primary concern was with public finance. If we focus on the second issue, and recall that rent is the measure of the locational value or the fertility of land, the statement by the Physiocrats is not, after all, as outrageous as modern scholars would have us believe.

So the correct fiscal principles for the modern nation-state were enunciated in the 18th century, in good time to be incorporated into the foundations of industrial society. A soundly-based system of public finance would have made it possible to avoid the most traumatic of social and economic disruptions that are inevitably associated with the transition from one social

system to another.

Adam Smith, in *The Wealth of Nations* (1776), alerted Britain's parliament to the ideal system of public finance, but the aristocrats who dominated politics were no more interested in yielding the rent of land than were their cousins in the *Ancien Regime*. Thus was established the conditions for misaligning the distribution of income, which was to disfigure the wealth-creating enterprises of the 19th century. Society was misdirected along a path of institutionalised poverty even as new techniques for the mass production of wealth were being invented.