

A Philosophy for a Fair Society

MARXISM has failed and welfare state capitalism is crippled. Governments need a strategy to lift the burden of debt threatening the economy, social harmony and family stability. *We can rebuild the community*, but only by adopting a policy based on a philosophy that guarantees property rights and prosperity for everyone.

MICHAEL HUDSON
G.J. MILLER and KRIS FEDER

GEORGIST PARADIGM SERIES
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A Philosophy for a Fair Society

Michael Hudson, G.J. Miller & Kris Feder

The Georgist Paradigm is a model of political economy that offers comprehensive solutions to the social and ecological problems of our age. At its heart are principles on land rights and public finance which integrate economic efficiency with social justice.

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A Philosophy for a Fair Society

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Prologue

**The Archaeology of Economic Collapse:
A 4000 Year Perspective**

Michael Hudson and Fred Harrison

WHAT is wrong with today's economy? WHEN and WHY did things start to go wrong? And HOW can we restore social and environmental harmony for the third millennium?

Despite the explosion in scholarship and political activism during the 20th century, we still do not have coherent answers to these questions. More books have been published in the past generation than in all of preceding history, yet like commercial television their subject matter has narrowed to absorb our attention without engaging our minds with respect to the great problem of our age: how to (re)structure our society and the world economy in which we live. If this is the Information Age, it threatens to bury the search for truth and insight under a crust of trivial distraction.

More people are graduating from universities than ever before, yet the social-science curriculum has narrowed to produce what Thorstein Veblen called an "educated incapacity" to recognize the flaws implanted in our economy, highlighted by the trained incompetence of professional economists.

Will society rise to the challenge? Unless we produce new diagnoses and practical solutions, the 21st century may prove to be a re-run of the past 100 years: more global poverty, ecological strangulation and commercialization of culture.

These are the time-honoured criteria of decadence. Indeed, future historians may gaze back in amazement on how narrowly the minds of

economic and political managers have focused on the short term and on the bottom line of the balance sheet even as society careered over the precipice.

Yet there is a bright side to the corner into which the economy has painted itself. If today's world stands at a philosophical crossroads, such crises are accompanied by a renewed spirit of enquiry. These windows of intellectual opportunity are rare, for society normally is closed around a body of beliefs and rules that form the basis for going about its daily business. It takes periods of social breakdown to provide social and ideological flexibility.

The first such expressions usually have difficulty rising above the trivial, to be sure. Anti-heroes precede heroes, and their first characteristic is a cynicism towards authority. Normally law-abiding people opt out of the mainstream by flouting laws and social conventions, pursuing self-centered lifestyles which offer the semblance of a new identity but which lack the politically binding force needed to consolidate new social takeoffs. The virtual reality of new electronic headsets is not yet a new social reality.

All we can say at present is that the ground is being prepared by wiping the intellectual slate clean of the paradigms that have guided private action and public policy during the industrial era. As these policies fall into disrepute, they create a culture fertile for the growth of new alternatives.

In the wake of Stalinism's death, socialism has not moved to reassert itself. Academic Marxism has moved more toward becoming a theory of language, of literary and ideological deconstruction rather than analyzing the quandaries of modern *rentier* capitalism. Yet even as socialism has been eclipsed in the former Soviet sphere, few countries in the West are convinced that our own particular brand of finance-capitalism has the binding force that is an essential ingredient of a sustainable social system. If the spectre of capitalist economic bubbles is haunting the new Russia (with the collapse of the MMM stock-market Ponzi scheme wiping out the savings of five to ten million Russian investors), the spectre of *rentier* parasitism and its debt-burdened insolvency are haunting the rest of the world economy.

The great irony is that capitalism's victory over communism seems to be coinciding with capitalism itself succumbing to a *rentier* cancer – one which the economics profession is welcoming breathlessly as “postindustrialism” rather than calling it obsolescence.

If the economy is becoming obsolescent, then so is its guiding body of

theory. This is the basic truth that most economists are professionally unable to acknowledge.

The authors of this volume offer an antidote, a framework to interpret the past, present and future in terms of a paradigm that neo-classical economics has vulgarized and misrepresented to the point where policy-makers have found it easy to ignore.

The *when* and *why* questions are confronted in the first study. In a series of waves of privatization extending over some four thousand years, our civilization has dropped its once-traditional ideology of periodic economic renewal in favour of irreversible linear progress. Under the circumstances, this means aggravating existing inequality and moving yet deeper into our quandary rather than acting to renew economic balance and cohesion. The result is that our particular brand of progress has been accompanied by a spreading poverty, burdened by debt accruals and the unaccounted cleanup costs (both social and ecological) that are needed to undo what economic self-centredness has left out of its balance sheets and bottom lines.

Dr. Miller, a clinical scientist, confronts the *what* question. Despite the humanitarianism that has guided social evolution during the past century of welfare capitalism, not every able-bodied person is enabled to earn a decent living by the sweat of his or her brow. The Welfare State was supposed to reduce disparities of income and wealth through the progressive taxation of higher incomes. It promised to create conditions for decent living for those who, by age or ailment, were not able to provide for themselves. Instead, the life chances of those at the bottom of society are either no better, or are even worse today than a century ago. The concentration of wealth into fewer hands continues apace even to the point where it is now the rich, not the needy, that receive most economic welfare from society at large.

The Welfare State – capitalism without risk, at least for the richest and most powerful – has become a social system to which we need to attach a Health Hazard warning. But what is the alternative? How can we devise a social system able to evolve sympathetically from current institutions so that the changeover need not involve a brutal “shock therapy”? This is the question addressed by Dr. Feder, an economics professor who reviews the problem of *how* to liberate people by providing them with the economic freedom to pursue the good life.

The privatization syndrome

Analysis of contemporary problems requires a cultural context. In our view, we need an appreciation of the sources of the friction points in our social system. These are traced back to what we call the privatization process. Economic polarization, financial strangulation and tax avoidance by the wealthiest property owners have been distinctive features of societies ever since Sumer yielded to Akkadian and Babylonian conquest over four thousand years ago. At first these problems were overcome, but matters reached an unprecedented critical mass with the Roman oligarchy's law of property, the land seizures of the Norman invasions and fiscal overlordship of Europe, and the modern financial indebtedness of the land and indeed, entire nations.

What would strike any visitor from antiquity as most remarkable would be our economic ideology. No Stoic or other philosopher proposed that Rome avert economic stagnation by sponsoring industrial corporations to borrow Roman savings and invest them productively. Debt was viewed as the surest path to perdition, in an epoch where productive borrowing was unknown. No philosophers advocated a self-expanding consumer-driven society. Just the opposite: they wanted to withdraw into austerity, idealizing the past and its image of the Noble Savage. The Bronze Age appeared to classical philosophers as having been a Golden Age, one that subsequently was corrupted by self-centredness, appropriation of the land and the consequent falling of entire economies into debt.

What shines through Livy's *History of Rome*, Plutarch's *Parallel Lives of the Famous Greeks and Romans*, Solon's poetry and his political acts is a decrying of the dynamics of usurious debt burdening grinding society to a halt, and the addictive *hubris* of wealth expressed most notoriously in monopolization of the land and money. This economic *hubris* forms the subject of the best early Greek poetry, such as that of Theognis and Archilochus.

Yet land privatization, debt, and the need to shape public laws and market relations so as to harmonise the private pursuit of wealth with the public interest are the most conspicuous blind spots in neo-classical economics. As an academic discipline, this narrow-minded economics was sponsored a century ago to replace classical political economy. It was the product of a well-financed campaign by men who had grown rich by

monopolizing land, minerals, oil and other natural, once-public resources, and by financial manipulations and stock watering.

These twin *rentier* interests – rent-takers and interest-takers – joined hands to create a new orthodoxy. One fount of economic shortsightedness was the University of Chicago, the legacy of John D. Rockefeller’s Standard Oil fortune. Another early fount was Columbia University, expressing the economic philosophy most congenial to J. P. Morgan’s Wall Street managers. From such academic nodes the new teachings came to pass for economic objectivity by an equally well-financed Congress and network of “public-interest” institutions.

The seeds of civilization’s long evolution along the privatization path – indeed, the path to debt-financed privatization – may be found even earlier, in the collapse of Bronze Age Mesopotamian society at the end of the third millennium BC. This experience, history’s first Dark Age, shows how the *privatization syndrome* initially resulted from military overlayerings of one people (in this case, the Sumerians) by alien conquerors who parcelled out the land among their own ranks, and then supplemented the rent-lever with the debt lever to extract the economic surplus.

As in medieval England, the Mesopotamian overlayering blocked society’s ability to serve the interests of its component local groups. The economic surplus, hitherto used to maintain the local community’s infrastructure – including export handicraft production in Sumer’s case – was diverted to pay tribute to alien appropriators. Assets were stripped rather than productively managed. This asset stripping went hand in hand with deepening poverty for most people, ending in ecological and military disaster, even before there was a World Bank and IMF to give their economic blessing to the looting of man and nature by saying that all this made perfect economic sense as an “austerity program.”

Modern scholarship provides a chronological sequence of developments in antiquity which, to use a biological analogy, were rogue genes spliced onto the cultural DNA of Western civilization:

- **territorial conquest**, leading imperial conquerors to rely on local client chieftains for support, relinquishing more and more local authority to them, enabling them to engage in local exploitation, personal appropriation of the land, and consequent rack-renting.

- **monopolization of the soil** at the expense of social self-support and

fiscal collections, ultimately strangling the central government apparatus.

- **unproductive interest-bearing debt** kept on the books rather than being cancelled when it grows to overburden society's debt-paying capacity.

- **failure periodically to restore economic order**, letting creditors monopolize the land and other hitherto public resources *irreversibly*.

Territorial conquest The earliest conquerors of agricultural societies were obliged to preserve the primordial right of access to the land. At first the victors demanded what they could get in the form of whatever payment of movable wealth could be extracted on the spot – precious metals, slave women and other time-honoured trophies of war. In time, however, the land itself was made to yield its usufruct to foreign conquerors.¹

The land ethic of these conquerors, from Sargon's Akkadians to those of imperial Rome and, later, the medieval Normans and other Viking invaders, had the effect of undermining the customary social balance. As the combination of foreign tribute and the spread of local warfare throughout the archaic world elevated war chiefs to commanding positions, territorial conquest became an instrument for the ruler's own personal aggrandizement. The economic consequence of war no longer was merely a transfer of surplus movable wealth, but an ongoing support for oppressive regimes.

The result was an organization of warfare on unprecedented terms. Local headmen and imperial bureaucrats came to equate power with depriving local populations of their land-rights. This expropriation of the land was backed by the development of usurious credit. Interest was calculated on the arrears that resulted when local populations were unable to pay the tribute or other public fees that were levied. By Roman times, empires tried to seize from abroad the economic surplus they no longer could produce at home, as a result of their drying up the domestic market and reducing freemen and their families to economic bondage.

Forfeiture of land-tenure rights The archaic natural order had vested every community member with personal rights of access to the land as the basic means of self-support. These customary rights defined a family's freedom to live independently rather than for others.

However, there were times and circumstances when wars called men away from their land to fight. Some were wounded or even killed, or captured and held for ransom. Floods, droughts or insect infestations might ravage the land. In such circumstances cultivators had to pledge their land-

rights to creditors. This was to become a defining characteristic of civilization – a progressive alienation of people from the land, initially through the debt lever.

This was the first step in what was to become something unanticipated, a concentration of land in private estates, capped by the Roman *latifundia* plantations which, as Pliny decried, became the ruin of Rome. Landlessness became a general social phenomenon. Economic order was replaced by chaos, at least temporarily, for debtors could not earn their way out of debt simply by working harder. Interest rates of 33 % per year quickly increased the debt principal even further beyond the already strapped debtor's ability to pay, doubling his burden in just three years.

Appropriation of the land started with incursions at the very top of the social pyramid, by the royal family and their allies. The first lands to be taken over were those which yielded the largest economic surplus, starting with those belonging to the temples (and of course the palace itself, which rulers turned into their own personal estate). These lands already were organized to provide a regular usufruct. Hitherto used to support administrative and workshop labour, this now was taken by administrators in their private capacity.

Officials in the royal bureaucracy used their position as tax or fee collectors to establish credit claims on those who fell into arrears. Unlike the palace rulers, the object of acquisition by these officials was primarily the subsistence-land of smaller cultivators. The object was to squeeze these lands to generate the same kind of *rentier* surplus and, in time, a body of dispossessed and hence dependent clients which was being created in the public sector.

Fiscal crises accompanying the concentration of wealth

Anthropologists have shown that in pre-monetary economies, the surplus took the form of labour services or the provision of food and other materials that were essential for the performance of public service. Mesopotamia's agrarian societies financed the public sphere out of surplus income generated from land, that is, its *rent*.

The first step taken by the privatizers was to keep the surplus crops for themselves rather than turning them over to the palace. They also appropriated the labour of their debtors, rather than letting cultivators perform their civic

corvée labour or even military duties. It was indeed this labour that the land appropriators wanted most of all, for it was needed to cultivate the land at harvest-time. Quite simply, the new landlords resented seeing the palace finance public services out of the rent of “their” land. Having obtained this land, they sought to make it exempt from taxes and communal labour obligations.

Increasingly, creditors coveted their debtors’ land. However, without labour to cultivate it, this land would not be of much use. There was as yet no supply of “free” labour for hire, that is, economically unfree labour dispossessed of its own land. This fact obliged creditors to leave their debtors and their families in place on the land.

This meant depriving the palace of the community’s traditional obligation to provide contingents of fighting men. Accordingly, rulers fought this privatization. By restoring order, cancelling the debts, returning the land to its cultivator-occupants and freeing the debt-bondsmen, they not only restored their army, but in the process blocked an independent oligarchic power from emerging which, in classical Greece and Rome, would succeed in overthrowing the kings and substituting their own, more narrowminded authority.

The spread of unproductive interest-bearing rural debt

Organized warfare drove subsistence cultivators into the arms of creditors. Most of these were officials in the royal bureaucracy; others were heiresses, whose families had placed them in temple complexes to invest the family money rather than marry and convey their dowries out of their clan. Still other creditors were merchants, who accumulated money through foreign trade, or war chieftains building up claims for payment on their clients.

What all these creditors had in common was a desire for collateral as security for their financial claims. Sometimes they accepted family-members as pledges; indeed, this debt bondage was civilization’s first form of dependent able-bodied labour. (Wage labour would take centuries longer to develop, and seems to have developed first for mercenaries and seasonal agricultural workers.) In the end, creditors took their gains in the form of foreclosure on the property and enslaving their debtors.

The new property rights were rights of permanent eviction and expropriation. In legal language, these rights displaced rights of person.

What Roman (and hence, modern) law called “security of tenure” actually was tenurial chaos, from the vantage point of ancient traditions of social survival and equity. Privatization of the land also deprived the community of its rights to the economic surplus for use in socially necessary ways. What modern economic terminology calls “market freedom” thus connoted the right of property to deprive the weaker members of society of their own freedom-of-person, and society at large of its freedom of economic self-determination and even economic survival.

Failure periodically to restore economic order by proclaiming Clean Slates

The Sumerian economic planners who innovated the charging of land-rent and interest back in the third millennium BC hardly intended this outcome. What they sought was a means to support the public infrastructure, which they organized in the first instance as temple corporations. These were history’s first business corporations. It is in them that one finds the first organization of dependent ration (proto-wage) labour, professional administrators and their account-keeping, land-rent to support these personnel, standardized prices, weights and measures, annual reports, and even yearend annual meetings with their grand banquets, replete with the presentation of audited accounts.

As the commercial practices which the temples developed came to be emulated by private individuals acting on their own account, rulers sought to correct matters by proclaiming Clean Slates. These restored popular rights to the means of livelihood to counteract personal debt and privatization of the land. Agrarian debts were abolished and bondservants were freed when new rulers took the throne or “proclaimed order” for immediate civic reasons.

For thousands of years, communities had erected sanctions to protect personal land rights. The reason was self-evident. Societies were not yet rich enough to support displaced cultivators on welfare. Each family had to support itself. This meant supporting oneself on the land, on one’s own plot with one’s own animals. These assets accordingly were made immune from seizure.

One way to protect personal right-of-access to the land was to limit its alienation, that is, its sale (usually at a distress price) or the practice of

pledging it for debt and subsequently forfeiting it. Public laws nullified such sales or forfeitures “below the full price,” e.g. by pledging land-rights as collateral for a loan at only a fraction of the land’s full value (in an epoch when land prices stood at only one to three times annual rent). Another sanction decreed that the land could be conveyed only to one’s heirs.

In the face of Mesopotamian rulers restoring order by proclaiming Clean Slates, creditors began to devise loopholes (and this in an epoch when *lawyers* had not yet become a profession; that would arise only in Rome). The Babylonians (and even more so the Nuzians, upstream along the Euphrates) developed the legal loophole of false adoptions. The debtor would adopt his creditor as his heir, to the exclusion of his own children. Creditors also forced their debtors to sign a waiver of their rights to recover the land under royal Clean Slate proclamations. Rulers declared such waivers to be illegal, but access to royal justice often ran by way of the local headmen who themselves were the offending parties!

After Babylonia fell to foreign occupiers after 1595 BC, these Clean Slate edicts stopped. As the military burden grew heavier, more people lost their land to foreclosing creditors. To compensate for this state of affairs, the new landowners were expected to become patrons to the clients they had dispossessed. Thus was created the culture of dependency which, a millennium later, would find its epitome in Rome.

But by this time, rulers had long been displaced by aristocracies who permanently blocked any attempts to restore order on earth. The idea became otherworldly, being postponed until the Day of Judgment.

The social impact of debt and privatization of the land

Starting in Babylonian times after about 2000 BC, in what archaeologists call the Middle Bronze Age, the seemingly intractable problems of the modern era appear as part and parcel of the privatization syndrome: conflicts between creditors and debtors over possession of the land, and a deepening impoverishment of economies locked in a spiral of indebtedness mounting up in excess of the capacity to pay. Poverty became a systematic element of normal everyday life as people were deprived of the ability to earn their bread.

Hunger, no longer a random result of inclement weather, became an inevitability. Uprooted families who had lost their lands to foreclosing

creditors sought whatever livelihood they could find. Many joined roving bands to find whatever seasonal harvesting or other work was available. Many ended up as mercenaries, or becoming predators on their own, such as the *hapiru* bands attested in the Levant ca. 1400 BC. This creation of a dispossessed labour force became another defining characteristic of our civilization. It signifies the origin of dependent labour-for-hire.

Private appropriation of the land, especially by erstwhile public officials and military commanders, was aggravated by the devastation of warfare, alien overlordship, and domestic monopolization of the land by local puppets of the foreign chieftains. This fragmentation of society into hierarchies based on the monopoly of land, a class-based tool to subordinate people to the new landlord elite, became yet another defining characteristic of civilization.

The nexus of warfare, rising rural indebtedness, fiscal strangulation resulting from private individuals appropriating the land (and taking the surplus that hitherto had accrued to the public sector), and indeed, the increasing polarization of landownership patterns, has wielded a fateful influence to this day. One professor of history has summarized Britain's experience during the century leading up to the industrial revolution in these terms:

Wars were never cheap, but they were fought over such a span that they became progressively more costly. Government both borrowed and taxed to finance them. It borrowed so heavily that the greater part of its peacetime revenue was mortgaged to service and repay its debt. Financing the industrial revolution was small beer compared with the cost of waging war. In 1785 it cost £63,174 to build the 100-gun ship *Victory*. That was five times greater than the fixed capital value of Ambrose Crawley's celebrated iron works – one of the industrial wonders of the age.²

Instead of serving the interests of its citizens, the state in 18th-century Britain, found itself locked into a vicious fiscal circle.

Only a modest proportion of government expenditure went on civil matters, while between 75 and 85 per cent of annual expenditure went either on current spending on the Army, Navy and ordnance, or else to the service of war debts. Wars became ever more expensive, and with them the national debt rose to heights that to contemporaries seemed awesome.³

The resulting fiscal knot has been tightened around the necks of citizens in the kind of spiral that systems analysts call positive feedback: war *results in* private debts *results in* inability of the private sector to support the public sector *results in* increased taxation or public debt *results in* more borrowing to pay the interest on public debts. And: creation of a warlord aristocracy *results in* privatization of the commons *results in* landlessness and a loss of the means for self-support for a growing proportion of the population *results in* dependency on servile or wage labour, or on charity, culminating most recently in the welfare state which threatens to become a fiscal Leviathan in its own right — once again, inequitably benefiting the Few at the expense of the Many.

The Welfare State

There is now sufficient evidence to indicate that electorates have come to view the welfare state as a failure. It certainly is not what liberals and socialists campaigned for a century ago. Over the past hundred years the material conditions have improved for the population *on average*, but in Dr. Miller's view, that improvement should not be attributed to the welfare state. It would have happened anyway, through the hard work and capital accumulation of the last four generations of workers.

The test to which Dr. Miller subjects the welfare state is a fair one. Taking Britain as his case study, he explores the question of whether government intervention through the public sector improved the relative position of those who were at the bottom of the social scale in the 19th century. The answer is unambiguous: No! The luck of the demographic and hereditary dice has more influence than the law of the land. Each year over 40,000 deaths occur among people who would continue to live if they had been born into professional families. Each year more than 3,000 infants die because they had the hard luck to be born to parents who do not count as professionals.

Assuming that an infant survives his bad luck of being born to lower-class parents, he then suffers from an injustice that persists throughout his life. For although he may save money for his pension to finance the comforts of old age, he stands a poor chance of enjoying the benefits of the sacrifices of his lifetime. For as a member of the working class, he faces a shorter life span than that of professionals: five years may be cut off his life. For these

people it really is not worth saving up for old age; they do not live to enjoy the benefits.

Dr. Miller, who undertakes research for the General Medical Council at the Wolfson Institute of Preventive Medicine based in The Medical College of St. Bartholomew's Hospital, London, is not hostile to the goals of the welfare state:

In questioning the record of the welfare state, I am not out of sympathy with its basic tenets. I am diametrically opposed to Thatcherism, which espouses the virtues of the Victorian capitalist ethos and sees the welfare state as not merely ineffectual but as dissipative if not actually ruinous. To me, the welfare state is an acknowledgement of the need to reform the capitalist system as it had evolved up to the beginning of this century. My argument is that though reforms were most certainly needed, the welfare approach adopted has been largely ineffectual. The Victorian problems that the welfare state was meant to remedy are still there; the Thatcherites pretend they never existed.⁴

There are many ways in which the statistics demonstrate that little progress has been made over the past hundred years. One of these relates to the physical condition of young Englishmen. A century ago, in the 1890s, the government became alarmed about the poor physique of recruits who were needed for the Boer War. Something had to be done to strengthen the nation's fighting men. A Royal Commission was established to investigate the facts and propose remedies. A century later, and despite the cradle-to-grave welfare services – from the state provision of milk to new approaches in housing and care for the aged – we now find that the army is turning away up to 40% of potential recruits because they are “too weedy.”⁵

The welfare state did not and could not succeed, for it was not designed to remodel the foundations of society. Failure therefore continues to pile upon failure. If society is to restore order, it is necessary to recognise the need for a fresh start. What lawmakers now need to do is to define the terms for a new national Clean Slate.

The need for a fresh start

That our social system is grinding to a dead stop is confirmed by the governments of the world's richest nations. They are reconciled to the prospect that once the recession of the 1990s is over (imagining it to be self-