Land&Liberty

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our throw-away culture

There is increasing awareness of how we are harming the natural environment. But there is little recognition of how our precious human built environment is endangered. At the local level we can all point to something lost or threatened. But we are throwing away cherished cultural artefacts and icons as a direct and systemic consequence of the way we govern our world's land and natural resources. In both the private and the public realms – from how individuals may become wealthy to the roots of global conflict – our choice of laws and institutions ensures that every step forward which human civilisation takes, stamps down hard on what our forefathers and mothers fought so hard to achieve. *see inside p5*

One by one the attractions on New York's **Coney Island** are closing down

Underfunded levies let down the Big Easy's **mardi gras** in the French quarter of New Orleans

The **Manhattan skyline** was decapitated on 9/11 for a fatwa on land

Copenhagen's world famous **Christiania** is being 'normalised' by the government

US forces tanks have been digging up ancient **Babylon**

THEME: bringing home the American debt

MARK BRAUND: democracy, money and reform

1220 vol 114 WINTER 2007-8

contents

cover story

the world is throwing away its culture by allowing obsolete notions of property to hold sway – the story continues inside on p5.

5

theme

the theme of this issue is 'bringing home the American debt'. Read what our contributors and columnists have to say about the future prospects for the US economy.

regulars

features

12

photos © iStockPhoto.com/Christine Balderas (ethernet cable) and Korapin Thupvong (ticket booth)

news in brief ...

intellectual property for the common good? The Geneva-based World Intellectual Property Organization (WIPO), a UN agency, has moved to resolve the problem of IP in international relations. A new 45-point agenda aims to bring intellectual property arrangements into line with the needs of developing countries. The initiative will address emerging problem issues such as rights over genetic resources and traditional knowledge.

UK pre-budget report This year's autumn Pre-Budget Report from the UK Treasury contains some interesting statements. Section 6.16, for instance, states that "the Government accepted that local communities should benefit more from the often significant increases in land values", and that it is looking for "a better way…to ensure that local communities receive more of the benefits…to invest in necessary infrastructure and transport." [*see also* good idea/bad idea, *p20*]

the treaty and the tax The Draft EU Treaty is silent on the questions of fiscal policy and practice. The UK Minister for Europe, Jim Murphy MP, writing for ePolitix.com, said "the EU has no power to levy taxes, and the reform treaty will not give it any new powers to do so." Addressing concerns at loss of UK sovereignty he added "we will maintain national control over key areas including tax."

commodities The hunger for development that's coming from China and the other new economies is ramming up world commodities prices – and with them the value of the earth's raw resources. Blips aside, the market prices of metals like copper and zinc are going up and up. But as well as a market response, prices can also be a market signal: gold has hit a 28-year high. According to *The Herald*, speculators often buy that less-basic commodity "as a protection against economic trouble and political turmoil, or as an inflation hedge".

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Land&Liberty has chronicled world events for over 100 years. It has offered a unique perspective with its reports, analysis and comment on the core issues of political economy. And that uniqueness remains. Land&Liberty aims to explore how our common wealth should be used – and to demonstrate that this is the key to building the bridge of sustainability between private life, the public sector and our resources – between the individual, the community and the environment. Land&Liberty – putting people at the heart of economics.

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HENRY GEORGE FOUNDATION

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After the Rock

Nine days after we published our Crash issue (L&L 1219) the Northern Rock story broke.

The experts are coming off the fence. Criticising ex-Fed Chairman, Alan Greenspan, Nobel economist Joseph Stiglitz told Bloomberg there was now a 50 percent chance of a US recession. Kevin Gaynor RBS head of economics agrees and sees "a 60 percent risk of recession in the first or second quarter next year".

"The forces driving the boom are clearly global in nature," Stiglitz said. He believes the era of releasing property equity for leisure spending is over. "House prices are going down. The impact of that is going to be a very major slowdown, maybe recession."

Houston Chronicle reports Wells Fargo President John Stumpf saying current conditions are the worst of his 30-year career. "We have not seen a nationwide decline in housing like this since the Great Depression,"

Frederik I Pedersen, economist with Arbejderbevægelsens Erhvervsråd, says in the Danish daily *Berlingske Tidende* "You could easily imagine a poisonous cocktail where, say, the dollar hits a downfall with negative effects on Danish growth and employment, while simultaneously house prices begin to drop".

It seems the market is preparing for the crash. Roland Leuschel, a German 'crash prophet' who foresaw the stock market collapse in 1987 says another crash is on its way. The DAX and Dow Jones indices are going to be halved. He says the DAX index is following the same pattern it did before 'Black Monday' 20 years ago: "I do not base my prediction on what people say on the road or at parties but on how they act," he told *Die Welt*.

Shares of Freddie Mac are down almost 30 percent and Fannie Mae 25 percent, both at their lowest for 20 years, which was just before the last housing crisis.

Buying a good education

The housing market – key influencer of educational success?

photo by Bowbrick (flickr) CC 2.0

Almost half of parents would relocate to get their children into a good school. A new survey of schooling choice commissioned by The Children's Society brings the phenomenon into sharp relief. The 'postcode lottery' problem in the UK is being recognised as endemic.

The Herald investigated Jordanhill Academy, considered Scotland's "best state alternative to private schooling." It reports Angela Wright of estate agents Slater Hogg & Howison: "Without a shadow of a doubt property prices in Jordanhill are higher because the school is so good".

Bob Reitemeier of The Children's Society, was reported saying the situation risked creating an education system increasingly based on ability to pay. "For many parents the costly exercise of moving house to get their child into a good school is simply not an option. The current system is in danger of embedding inequality by making a child's social class the key influencer in their educational success".

By moving to areas like Jordanhill and enjoying privileged value gains on their homes, many parents can take personal advantage of local public spending decisions.

Postcode profiling is now routinely used by companies to identify potential customers.

HGF report

Following the successes of the Henry George Foundation's autumn season of Library Group Meetings at 11 Mandeville Place in London, attention is now being given to the development of an exciting new spring programme of events. There is no shortage of ideas.

The Foundation is likely to continue with the proven Friday format: lunch followed by an afternoon meeting – talks, debates, or films being presented on alternate weeks. Some speakers from the autumn programme are expected to return. Recent guests have included Fred Harrison, Dave Wetzel, Tony Vickers, Roy Douglas, David Triggs, Phil Anderson and Tommas Graves. Speakers will be invited from other socially concerned organisations less familiar with the Foundation's areas of interest.

Spring will see the Foundation seeking to build on the success of its new eleven-week course on 'The Science of Political Economy'. The course is being presented by Executive Chairman David Triggs at the School of Economic Science. Based on Henry George's book of the same name and the web course prepared by Lindy Davis of the Henry George Institute in New York, the course explores how modern events are shaped by the economic system. Some forty attended the autumn classes. The signs are good for a healthy enrolment in January for a follow up course exploring the implications of the 'science'. The book and course have also proved a major discovery for some existing supporters who had little prior familiarity with George's seminal work.

These activities, together with the established HGF library, highlight the mutual benefits of cooperation with friends in sympathetic organisations.

Scottish affordable housing heads for meltdown?

The Scottish government says rising land and house values run contrary to the needs of good governance.

Firm Foundations, the government's latest housing discussion paper, was published in October. It states high land values are "incompatible with our commitment to getting better value for all public expenditure".

The paper discusses the problem of increasing dependence on subsidy for new homes. "Housing Association Grant meets an average 67% of the cost of each new house built by Registered Social Landlords" the paper states. "Over the three years 2005-08, most of the Government's £1.2 billion expenditure on affordable housing will be spent on HAG subsidies".

The paper highlights where the problem lies – and it's not in the houses themselves. "While the proportion of building costs per house covered by HAG has remained broadly constant", the paper says, "the amount of HAG per house has risen – from £52,000 in 2002-03, to £79,000 in 2006-07, an increase of 35% in real terms over four years".

The paper blames "the price of land" – but, contradicting itself, blames also "inflation in the construction industry". "But whatever the cause", the government says, "continuing to increase the amount of subsidy per house is unsustainable".

Government policy may be on shaky ground, even in the short-term. Success will ride on the future vagaries of the housing market. A fall would take out some part of that unaffordable land value.

Launching the document, Deputy First Minister Nicola Sturgeon MSP said "our wellbeing, as individuals and families and as a society, depends heavily on our ability to find a decent house that we can afford in a place where we want to live. Our proposals are ambitious and radical".

But it seems the proposals are anything but. There is no recognition of the fiscal dimension of the problem, nor even anything to deal with this "unsustainable" land problem which the government identifies as a barrier to "good value" in the public sector. So perhaps no 'firm foundation' for the future after all.

our throw-a

There are many despairing high profile cases of go
lost around the world. Here L&L presents to you five
backwards for the sake of a better appreciation of c

Ancient ruins – like these, possibly of Babylon's Hanging Gardens – destroyed

Babylon

Babylon – the four and a half thousand year old capital city of ancient civilisation, site of the Tower of Babel and the Hanging Gardens of Babylon, one of the seven wonders of the ancient world – suffered "widespread damage" and "severe contamination" at the hands of the US-led invasion force in Iraq. Lord Redesdale, head of the all-party parliamentary archaeological group, lamented the American forces who were "actually damaging the cultural heritage of the whole world." But, as Alan Greenspan says in his new book – "it is politically inconvenient to acknowledge what everyone knows. The Iraq war is largely about oil." Ancient Babylon has been broken in the global resource war to alienate people from their birthright.

Christiania

Founded in 1971 the Freetown of Christiania occupies an abandoned military barracks in the centre of Copenhagen. From the beginning Christiania has been considered a 'social experiment' by the Danish government who has tolerated the widespread use and sales of certain drugs and the prevailing 'inventive' building methods, on the condition that the 850 residents enforce a strict self-policed line of action that excludes hard drugs, weapons and the violent biker gangs that have plagued Denmark.

In 2004, however, the parliament passed an act to intiate a 'normalisation' process of the area. Intensive policing efforts have ensued (only to drive away the hash sales to covert locations in the rest of Copenhagen) and the

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Beyond our failed democracy

Mark Braund looks forward to the retirement party for the caretaker managers of a failed protoype democracy

It must be a long time since mainstream politics was so bereft of ideas. People are turning away from the ballot box in their millions having lost all faith in the ability of politicians to address the mounting problems facing society and the planet. This has led to talk of a democratic deficit, but the real cause of the political malaise is a profound deficit of economic understanding.

Although politicians are never slow to take credit for perceived economic successes (which these days only ever amount to staving off the inevitable downturn for another year) they generally consider the economy beyond their remit. Having settled on a particular set of economic arrangements, the modern politician prefers to concentrate on other issues. What nobody seems to have grasped is that every issue has an economic dimension, and that none of the most pressing has a solution without changes to the economic structures and institutions that underpin society.

For more than a century now, mainstream economics has gone about its work in a determinedly value-free fashion, choosing to ignore the obvious connections between the way the economy is configured and the kind of society we live in. It has been left to politicians to take measures to protect the social fabric from an economic system set on tearing it apart. It would have been far easier if, in the aftermath of the industrial revolution, steps had been taken to level the economic playing field so as to provide genuine opportunities to all citizens. But at least, through the welfare state, it was possible to address the direst social consequences of the economists' neglect.

The welfare state grew out of a common commitment among politicians of all parties to the ideal of a just society. If democracy was unable to mount a serious challenge to the root causes of centuries-old inequality, then at least politicians could speak up for the interests of those of their constituents not well-served by the economy. By contrast, and against growing evidence to the contrary, today's politicians insist that current economic arrangements offer the only chance of delivering wellbeing and security to all. In a world dominated by a monopoly-controlled media with unprecedented influence, politics has gone the way of economics: hijacked in the interests of minority wealth and privilege.

What does this mean for the prospect of building a more inclusive and sustainable world? If economics holds the key to a just society, but practitioners of the dominant neo-classical model glibly accept a raft of assumptions which bias their discipline in favour of minority interests, and if representative democracy is unable to challenge the prevailing order, then the outlook would appear bleak.

> **"politics has gone the way of economics: hijacked in the interests of minority wealth and privilege"**

On the other hand, the failure of economics, and growing apathy towards politics, could provide an opportunity. If sufficient numbers were persuaded that change is possible, and that continuing social injustice is not a consequence of having reached some natural limit on progress but of our failure to challenge minority interests, then a revitalised economics could inform a new politics adequate to the challenges of the twenty-first century.

Today, there are three major threats to society: climate change, the growing gulf between cultures, and deepening poverty amid unprecedented wealth. These three can only be tackled in concert, and then only if economics and politics are transformed to serve the interests of all citizens, including those yet to be born. Fortunately, a great deal of theoretical work in opposition to neo-classical theory has already been completed. The legacy bequeathed by Adam Smith and David Ricardo is honoured in the work of many brave individuals who recognise the centrality of economics to questions of social justice.

Notwithstanding the absence of an authoritative set of contemporary academic texts, I believe a viable alternative economics already exists. It may lack a name, and it certainly needs a great deal more exposure, but much of the ground work has been done. We already have the requisite theoretical understanding. The challenge now is to use it to galvanise the political landscape in pursuit of a more just and sustainable global society.

Today's political and intellectual context is quite different from that of a century ago. Despite the best educated citizenry in history (or perhaps because of the means by which it has been achieved) it is unlikely that two million people will read and be inspired by a book about economics, as they did in the decades following the publication of Henry George's *Progress and Poverty*.

Despite his great publishing success, George ultimately failed, in part because he misunderstood the political landscape of his time. From the industrial revolution onwards, despite great depressions and catastrophic wars, there were palpable signs of progress in many parts of the world. Many people experienced direct benefits; and for the rest, rapid social change held out the possibility of improvements in living conditions which had endured for generations. Patchy though it was, this progress not only made people more ambitious for themselves, it also gave them a new sense of moral aspiration for society. Those moral aspirations have continued to grow. But a flawed economic system has proved quite unable to fulfil them. This is why there is such disillusion at a time when technological advance should be solving many historical social problems, rather than creating new, planet-threatening, ones.

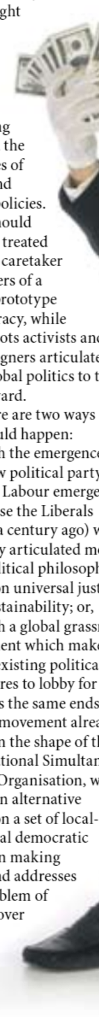
Although drawing on the same understanding of economic laws that inspired George, a new economics for the twenty-first century needs to present itself quite differently. It must not give the impression of being against the landowner, for too many people today have a stake in land through home ownership. Instead, it must make the moral case against all forms of unearned wealth. Certainly this includes wealth derived from land rent, but it also includes the unearned income from speculative investment, and the riches enjoyed by those who benefit from a system of debt-based money creation which strangles economic opportunity so that only a few may benefit. Each of these three mechanisms continually tip the balance of wealth and power in favour of a small minority – in the process denying a fair chance in life to millions. A just society is impossible as long as unearned income is permitted.

The second focus of a new economics must be sustainability. The planet's natural resources are sufficient to sustain human populations in security and comfort for generations to come, especially considering that improved economic justice and attendant reductions in poverty are universally observed to lead to more manageable population levels. But we must end our obsession with consuming energy-hungry non-essentials, and reverse the processes by which people in less-developed countries are being seduced by the dubious promises of consumer culture. Again, much of the theoretical work on reconfiguring the economic system to ensure the sustainable management of our planet's resources has been done.

Success in today's politics is impossible, we are told, unless ideas can be communicated in ten-second soundbites. But soundbites do not have to be devoid of meaningful content; they can be based on sound economics and a clear moral vision. Here are a few examples that might appeal to the millions of people worldwide who are increasingly dissatisfied with the quality of their lives, and frustrated at the direction of social change: 'Increasing consumption is not making us any happier'. 'Individual liberty counts for nothing if you can't afford to clothe, feed and house your family'. 'An economy which delivers vast unearned wealth to a small minority is condemning billions to poverty and many more to lifelong insecurity'. 'Give everyone access to genuine economic opportunities and we could all pay less tax'. 'In an economy driven by competition, there will inevitably be as many losers as winners'. 'Under current arrangements, economic success requires us to destroy our planet's capacity to sustain life'. 'Increasingly, all societies are facing the same problems; these problems can only be addressed on a global scale'. Seven simple messages, none of which takes more than a few seconds to communicate. Obviously they will have to be rigorously d… from those whose inte… served by the *status qu*… they already strike a c… with many people.

But what political platform is available to… these messages across? … main political parties i… UK are fatally constrai… a left/right world view which stops them thinking beyond the confines of tried and failed policies. They should now be treated only as caretaker managers of a failed prototype democracy, while grassroots activists an… campaigners articulate… new global politics to t… us forward.

There are two ways … this could happen: through the emergenc… of a new political part… (just as Labour emerge… to eclipse the Liberals nearly a century ago) w… a clearly articulated m… and political philosoph… based on universal jus… and sustainability; or, through a global grass… movement which mak… use of existing politica… structures to lobby for … towards the same ends… Such a movement alre… exists in the shape of t… International Simulta… Policy Organisation, w… offers an alternative based on a set of local-to-global democratic decision making fora, and addresses the problem of first-mover



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A Liberal tax shift

LibDem Councillor **Tony Vickers** explains how his new book – *Location Matters: Recycling Britain's Wealth* – shows how through the adoption of land value taxation Britain will prosper in the modern world.

LOCATION matters. When choosing where to carry on a business, or live, everyone knows that the location can make a huge difference. It's why we generally have to pay more to run a business in a city centre, or to live in a garden suburb.

In *Land Markets and the Modern Economy*, published by the Royal Institution of Chartered Surveyors, the authors point out: "Human populations are expanding, but the land is a finite resource, putting ever-increasing pressure on the living-space". Unlike in most markets, such a 'demand-push' for land cannot result in increased supply. It can only enable those who already hold land rights – such as homeowners – to demand a higher price for a share of those rights, which makes them richer. This is intrinsically unfair. It is 'something for nothing'. It is a transfer of wealth from the land have-nots to the land-haves.

In my new book I wanted to explain simply how that happens. I wanted to explain what the consequences of it are for society: and I wanted to explain what could be done to correct that failure in our application of market mechanisms.

The wealth that accrues to landowners "in their sleep" (as Winston Churchill recognised a hundred years ago) [*echoing Mill, Ed*] should belong to us all: it should be "a Treasury for the Nation", as he went on to say. Any public charge on those who hold land rights should not be called a tax, because it is payment of rent due to society.

My book picks up where Churchill's early Liberal thinking left off – planning for a People's Budget to reclaim the wealth of Britain's land for the public at large, and to enable other taxes to be reduced. As some Greens are now putting it: *"Keep what you make, pay for what you take"*.

Not only is the human population expanding, but *per capita* it is consuming more of our natural resources. Up to 20 planet Earths would be needed to maintain the current global population at the consumption levels currently enjoyed by the US. The resources are finite: not just the land surface, but also resources like the capacity of air to hold dispersed carbon products and the sea to sustain fish stocks.

This is exacerbating the divide between asset-rich 'developed' older nations and individuals and wealth-creating, income-poor younger people and nations. It is also compounding climate change. Climate change is the ultimate externality. It is imposed largely by those people and groups who hold wealth and use it to acquire more wealth through the efforts of others. They receive these benefits while we are taxing those others almost exclusively for the public goods that all require: health, clean water, police and courts, education, etc.

The fiscal mechanism I describe in my book does have the effect of recycling wealth through the development process. The reason I chose "recycling" for my sub-title is that the word is understood as having a connection to climate change – to being part of an urgently needed solution. The global environmental dimension to this fiscal mechanism was entirely unknown a hundred years ago, when Churchill was making his plans, although the seeds of climate change were sown even earlier. We were not running out of time then in the way we are now.

I want my book to help people understand how we can make it possible for those upon whom we will have to rely to get us out of this frightful mess – the workers and the entrepreneurs – to do so without paying tax on the fruits of their efforts: earned incomes and profits. Liberal Democrats in Britain have been crafting a package of tax reform proposals branded as the 'green tax shift' – and a key part of it is land value taxation (LVT).

In ten years of researching this subject, I have concluded that there are two main obstacles preventing LVT becoming the subject of legislation: 1. the politicians' perception that the policy is a vote loser; and 2. the lack of a technical infrastructure – land information, valuers, systems to calculate and collect the tax fairly and transparently, and so on. I believe that, in Britain at least, we are on the cusp of clearing these two obstacles. The second can be overcome easily if the first is cleared: politics, not technology, is the big problem.

We now have Britain's third party committed to LVT. It is highly likely that it will be in a position to influence the policies of the next Government, which will be elected no later than 2010. Although Liberal Democrats have baulked at including a domestic LVT in their manifesto, the policy is formally approved 'for the longer term' with no qualification.

I believe that voters could be persuaded to support LVT. As a local councillor in south-east England, where house prices have been rising three-times faster than general inflation, I have been polling my constituents. An overall majority of the 250 who have answered the question would prefer 'a fairer property tax' to any other option for local finance – including the current proposal of a local income tax.

Of course the opponents to any radical change in tax will always shout louder than the silent majority. That's where political leadership has to be exercised. Sensible politicians (they do exist!) as opposed to populist weak ones ought to be greatly encouraged by my polling.

One of the most urgent first steps in any campaign plan for introducing LVT would be to engage with ordinary people in a more scientific way. We need independent opinion surveys using carefully constructed questions.

But we've come far since the Liberal Democrats set out to review their tax policies in early 2005 and I was appointed to their tax commission: from a refusal to look at campaigning for LVT to a public acceptance by the party's acting Leader Vince Cable MP – a highly respected economist – that LVT must be our 'direction of travel'. Cable has told me that, were our party to have influence in a future British Government, he would support the early introduction of a tax on domestic land values, at a national level, and enable reductions in income tax.

I am convinced that the public mood is shifting. If we are to have a habitable planet for our grandchildren to inherit, changing the culture that treats home-ownership as a right to steal wealth from those who create it is an imperative: for that is what the system has been doing. I hope my book will make change easier to understand and accept. L&L

Tony Vickers is a surveyor and an independent land policy researcher and lecturer. He is a former chief executive of the Henry George Foundation, publishers of L&L.

Chris Huhne MP says ...

As we approach the centenary of Lloyd George's 1909 People's Budget, Tony Vickers' new book is a timely reminder of one of its key themes: location matters. Despite living in a largely 'virtual' world of internet and teleconferencing, the issue of 'where' matters as much as ever and is still vital to politics, community and society. The land question has not gone away just because we don't rely on British land for Britain's food supply and industrial raw materials. Instead land lies behind the crises in affordable housing and the lack of public transport infrastructure.

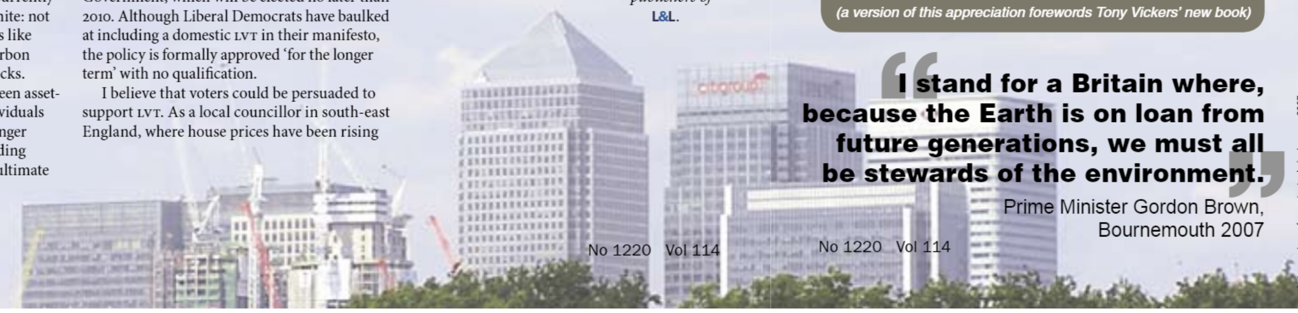
Vickers combines spatial and political awareness with many years of careful academic research to give us a very competent and readable oversight of the issues surrounding land values and land value taxation. Like growing numbers of people in progressive politics, I have long believed that the behaviour of imperfect land markets needs to be addressed by modern government. Neither the property market nor the tax system are fit for purpose in the modern age without a carefully constructed land value tax.

The reasons for this have been known to the initiated since Adam Smith. They are too often ignored, and indeed kept from the wider public by vested interests. This book is a primer for anyone who wants to help create a more equitable, efficient and sustainable Britain.

There are few people in Britain today who have done more than Tony Vickers to bring the land question back into public debate. In the past decade, numerous studies by and for governments in these islands have come and gone, some of which have acknowledged the beneficial attributes of land value tax but all of which gather dust. Some have had too narrow a remit; others have preached to the converted and used language that makes 'real world' politicians and commentators cringe. There is a danger in overstating the case, of which Vickers is aware.

I commend this book to any radical of whatever party who supports a free market system but believes markets are there to serve society and not be their master. As Mark Twain famously said of land: "They don't make it any more". That perception – give or take a polder or two – is what makes land both unique and capable of creating such roller-coasters of wealth and poverty both within generations and between them. It is up to governments to intervene where markets fail. Without land value taxation, the land market in Britain is bound to fail to deliver the homes and communities we need. If the Government does not soon intervene to recycle Britain's land values, we may not run out of land but we will run out of time to secure a fair, free and sustainable society.

(a version of this appreciation forewords Tony Vickers' new book)



"I stand for a Britain where, because the Earth is on loan from future generations, we must all be stewards of the environment."

Prime Minister Gordon Brown, Bournemouth 2007

Tearing apart the social fabric

Edward J Dodson on the stress fractures that are deepening in the US – and the role of banking

WE CAN thank Fred Harrison for a penetrating study of history, identifying an 18-year land market cycle going back hundreds of years. As we know, appreciation for the importance of this historical analysis is yet to become widespread. Only a small cadre of economists have ventured beyond the theoretical limits of neo-classical writings to explore the consequences of entrenched landed privilege which their predecessors analysed and debated during the era of the political economist. And, in recent years, a growing number of economic forecasters have abandoned *a priori* theoretical approaches in favor of *a posteriori* analysis of data and predictors of what is likely to happen in the future.

What we know and argue is that analysis that recognises the very real differences between *nature* and what we produce by applying our labour to nature has a distinct advantage when it comes to forecasting the future. To date, unfortunately, our collective efforts to establish such a forecasting capability have suffered from an absence of dedicated resources. Hopefully, a younger and more skeptical generation of economics professionals will find their way to a redirected theoretical vigour.

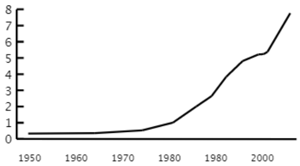
In the meantime, as we look at the global economy and the growing evidence that the system is highly stressed, our criticisms of conventional fiscal and monetary tools are affirmed. Nothing economists as public policy advisers have proposed has ever stabilised land prices. If anything, land speculation is as widespread today as ever. Population migrations, advances in technology transfer and global communications have stimulated urban land values all around the globe. The opportunities for rent-seeking gains, often making use of bank-provided credit, have simultaneously resulted in troubling patterns of increased wealth and income concentration in many of the social democracies: nowhere more so than in the United States.

Here in the US, serious cracks in the social fabric have developed. None of the candidates hoping to win the US Presidency – with the possible exception of Dennis Kucinich – are even aware there is a problem with landed privilege. Democratic Party candidates talk about raising the tax rates on those with the highest incomes but make no distinctions between income that is earned or unearned (i.e., derived from producing goods rather than from rent-seeking privilege and subsidies). Nor do any of the candidates seem to be very worried by a US government debt that has passed $9 trillion and is increasing by $1.45 billion each day. George Bush's successor will be faced with the challenge of having to raise over $500 billion each year just to service this debt. How seriously this debt level will stress credit markets and the global economy is uncertain. One thing is for sure, the pain will be felt by those least in a position to deal with greater hardship.

The signs of economic and societal stress in the US are apparent for all to observe. Some 44% of all US households have no financial reserves at all. A majority of households have no retirement plan except for that provided under the Social Security program. Nearly 33 million people live in households classified by the government as below the poverty level. One in four households who live in rented housing are required to devote over half of their monthly income just for rent; the cost of utilities – on a steady upward climb – is an added living expense.

And, then there is our health care nightmare. The latest statistics indicate that just since 2002 the percentage of the population covered by employment-based health insurance fell from 64.2% to 59.7%, while the number of uninsured in the US has climbed to 47 million. Obesity is a national epidemic, with nearly 25% of the population described as obese, including a steadily-increasing percentage of the nation's children and adolescents. The long-term implications of a population in such ill-health are frightening.

US national debt in $ trillions



The US is also in the midst of what could easily devolve into another financial sector meltdown. Through the first half of 2007, nearly 461,000 bankruptcy petitions were filed in US federal court (5% of which involved businesses), resuming an upward trend in record filings which temporarily subsided in 2006, when total filings totaled *only* 590,000 – down from 2 million in 2005. (The most important reason for the significant drop in filings was passage in 2005 of the Bankruptcy Abuse Prevention Act, which made filing for bankruptcy a more involved and expensive process.)

Defaulting mortgage loans and the resulting home foreclosures are a major factor in the escalating number of individual bankruptcies. Foreclosure actions during the first half of 2007 have been pursued on over 573,000 properties (55% higher than in the first six months of 2006). This amounts to one foreclosure filing for every 134 households in the United States. In some parts of the US the number of foreclosures has been large enough to trigger even more defaults, as homeowners find themselves unable to carry the costs of rising interest rates on adjustable rate mortgages, yet unable to refinance into a fixed rate mortgage because of falling land values.

The stresses on the social fabric in the US are both serious and diverse. The tools employed by government are either ineffective or destructive. A real question is whether our circumstances will deteriorate at an accelerated pace, bringing on a full-blown depression; or, by some remarkable convergence of externalities the downturn will be moderate and relatively short-lived. L&L

JIM COCHRAN points us to a corner of the global economy not well-understood by most of its participants and a good many of its analysts. I am reminded of the book *Lost Prophets* by the former economics editor of the *Wall Street Journal*, Alfred Malabre, Jr. His assessment of the economists whose writings he scrutinised is worth repeating:

"Credentials seemed to matter little. Most economists, then as now, were degree-laden, typically sporting a doctorate as well as a master's degree in economics. But there was little relationship between the accuracy of individual forecasts and the academic backgrounds of particular forecasters. Few economists could match the credentials of Milton Friedman. Yet, his performance as a forecaster was abysmal".

There is one main reason why so few economists are able to accurately forecast changes in any economy. Neo-classical economic theory has evolved to describe almost everything as a form of capital. The environment is described as natural capital, just one more category of assets brought to the market by the price mechanism. Treating nature as capital may help to structure solvable equations but causes a serious misunderstanding of real world markets and forces.

Nature is more accurately described as the first factor of production, the factor with a zero cost in terms of labour and capital goods. Nature has been provided to us for our use and exploitation without charge by whatever forces created the universe. The supply curve for nature is vertical because locations on the earth are finite. Economists ignore the fact that as price increases there is a very strong tendency on the part of those who control locations on the earth to hoard them (and whatever resources are contained therein or thereon) in anticipation that curtailment of supply will drive up price (and profits) even higher. Monopolists have practiced this art of cornering control over the supply of essential natural resources for centuries, with governments often as their willing partners. Their strategy is to get in when the markets are just at the bottom, ride the markets to the point where they see widespread (and very irrational) exuberance, then get out before the inevitable crash. And, if they miscalculate,

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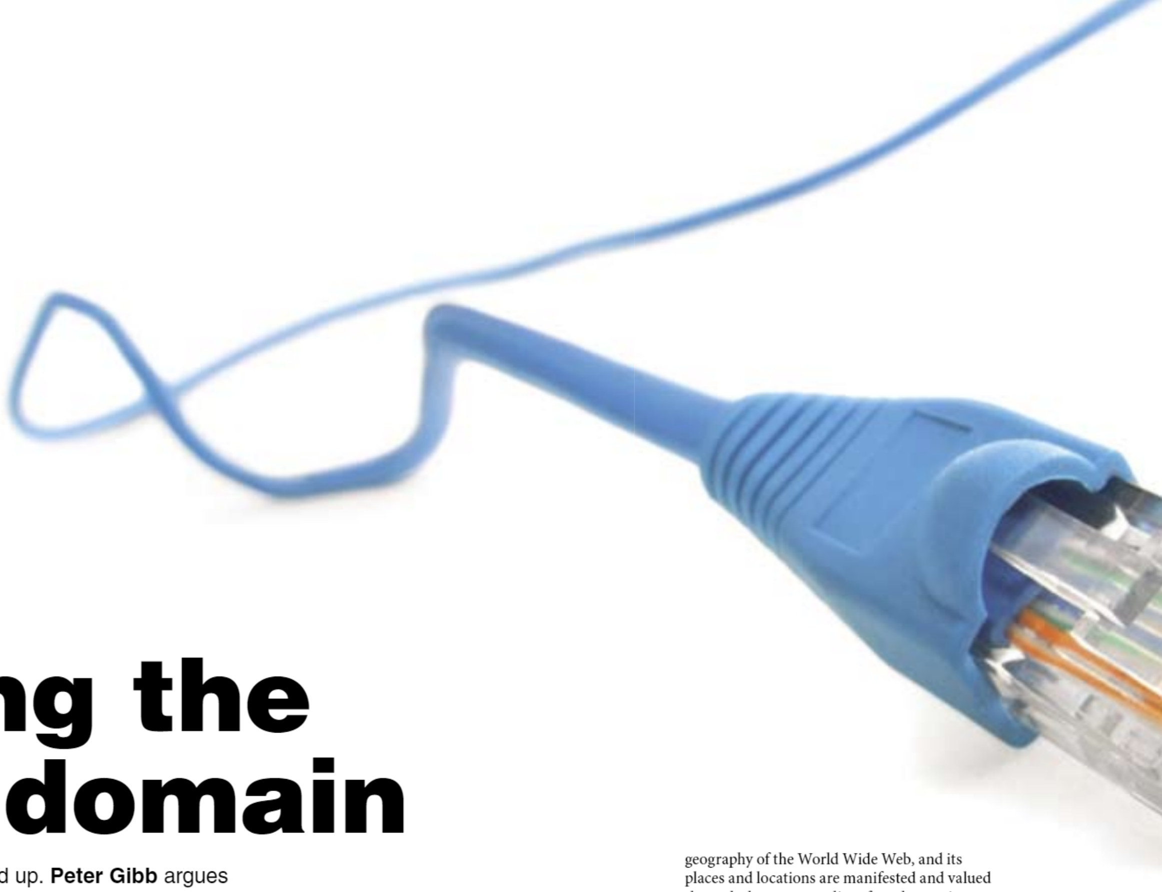

Claiming the virtual domain

A new frontier for speculators has opened up. **Peter Gibb** argues our failure to get to grips with the virtual world is impeding much needed reform.

Business is booming on the internet. Economic activity takes place there, and profits are made and taken to the real world. After the bursting of the dot.com bubble stocks are again rising and profits are being made. But wealth is not only created by online retailers like Amazon.com, or by the developers behind such sites.

It is clear that the development of the virtual world has required investment and the application of capital, and investors have been receiving their rewards. It is also clear that initiative and enterprise has been required, in the form of labour. From the key personalities who have driven the virtual world project from the top, to the many engineers and others who have designed and built the systems hard and soft – they have received wages for their work. But what of the third leg of the classical economic stool? What of 'cyber-rents' – and what of a public aspect of the virtual world?

The foremost life of the virtual world subsists in the World Wide Web (*see right-most box*). The building of the Web is a never ending project. It is surely the unmatched wonder of the modern world – a feat of individual and joint effort which is producing mankind's greatest ever knowledge institution. The internet is the physical structure within which the Web and other aspects of the virtual world is built (*see box below*).

The socio-political fabric of the virtual world is not directly comparable to what we know of the real world. But let me draw out some analogies. The World Wide Web can be seen as the private life of the virtual world. A website can be seen as a particular and private development and activity at a defined place – of a virtual geographic location. The World Wide Web is the aggregate of all the activity and enterprise of people and organisations in the virtual world. It is the output of their labour. The Web equates to the private realm or private sector in the real world.

Let us examine what is the 'landscape' of the virtual world. The human geography of the real world is its form and function insofar as it relates to human life. Web 'domain' is the geography of the virtual world: it is the human geography of the World Wide Web, and its places and locations are manifested and valued through the commonality of our humanity.

In order to facilitate a meaningful understanding of the virtual world by its users, a system using natural language is used to identify and locate its landscape (the underlying geology of which is made up of 'IP addresses', a fixed number coding of computers). That system is called the Domain Name System (DNS). A domain name is a humanly meaningful name for a location in the virtual world. They are the key components of what are colloquially known as 'web addresses' – such as WWW.LANDANDLIBERTY.NET.

The domain name system itself, put simply, is like the phone book. The system associates domain names with various sorts of computer information – and translates back and fore between human-readable names and the underlying IP addresses that the network needs to deliver information.

In principle web domain is boundless. Each address can be made up of up to 127 'labels' – the primary elements of a domain name – and each of those 'labels' made up of up to individual 63 characters: although complete domain names are limited to 255 characters. But even li
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the Internet Wikipedia defines the Internet as "a worldwide, publicly accessible series of interconnected computer networks that transmit data by packet switching using the standard Internet Protocol (IP). It is a 'network of networks' that consists of millions of smaller domestic, academic, business, and government networks, which together carry various information and services, such as electronic mail, online chat, file transfer, and the interlinked web pages and other resources of the World Wide Web."

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No 1220 Vol 114

From the other angle, other parties who might want to offer similar content, but whom of course would be excluded from locating at SEX.COM, would be disadvantaged in relative terms.

One of the reasons for the value of domain names, according to Wikipedia, is that "even without advertising or marketing, they attract clients seeking services and products who simply type in the generic name." Such 'Direct Navigation' or 'Type-in Traffic' is especially important for such generic domain names as MOVIES.COM (currently owned by Disney) or BOOKS.COM (currently owned by Barnes & Noble). These domains are "extremely easy for potential customers to remember, increasing the probability that they become repeat customers or regular clients."

So a pattern of value contours can be read out of the naming of virtual domain. But domain does not have value as a result of the physical location of the website within the infrastructure of the Internet in the real world – demarked by the grid reference of the host computer server. Nor does domain have value because of the location of the website in absolute or relative terms within the World Wide Web – demarked by the absolute locator of IP address. The primary value of any undeveloped virtual domain arises solely as a result of the commonality of meaning within shared natural language. From the commonality of natural language, and in particular – and to the increasing exclusion of all other natural languages – English, we can derive a commonality of domain.

Language is our common property. Virtual domain is in effect the local monopoly of language, and those excluded from some part of its use – that is the rest of the community – should be compensated for what they have given up.

Language, and so domain, is not a private resource: value accruing from its monopolisation is public property. As Mill would doubtless have gone on to say: "the increase in the value of domain, arising as it does from the efforts of the entire community should belong to the community and not to the individual who might hold title".

However that virtual value cannot be collected by any scheme of rent collection for public revenue based on real world location, because rent created in the virtual world is independent of that location. (*See box, right*) So to develop a solution we must now consider two key questions: how are domains allocated to title holders? and how are domains priced and paid for?

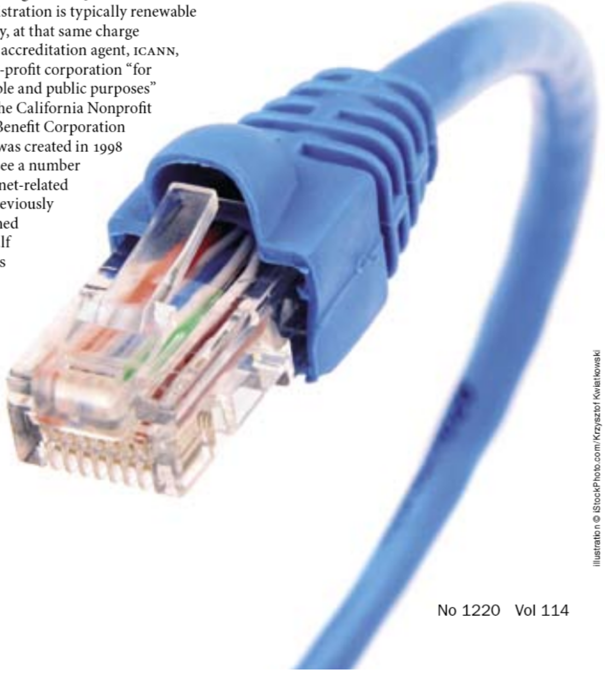
Domain names are assigned on a simple application basis by domain name registrars. These are companies accredited by the Internet Corporation for Assigned Names and Numbers (ICANN) or by a national top level domain authority to register Internet domain names. These companies offer domain names in a "retail" capacity (as opposed to the "wholesale" domain name registry operator). Individuals and organisations wishing to register a domain do so through a registrar, and in general names are allocated on a first-come-first-served basis.

The retail cost of domain registration is set on a competitive commercial basis by individual registrars. Typically a .CO.UK domain might cost £3, and a .COM domain £9. Registration is typically renewable annually, at that same charge

That accreditation agent, ICANN, is a non-profit corporation "for charitable and public purposes" under the California Nonprofit Public Benefit Corporation Law. It was created in 1998 to oversee a number of Internet-related tasks previously performed on behalf of the US Government. ICANN oversees the assignment of domain names and IP addresses.

It should be noted that ICANN's existence is not uncontentious. In fact there have been calls for its fundamental reform, including: the organisation's full disengagement from the US government, with the annulment of their historic contractual links; privatisation; the organisation's proper internationalisation, perhaps as a new UN agency; the organisation's dismantling and the allowing of Regional Internet Registries directly to manage addresses; complete deregulation and the abandonment of all central control, making the DNS namespace a free-for-all, *and*; the establishment of a completely new not-for-profit organisation, without the existing ties and interests of ICANN, which are seen as compromising.

Individual registrars pay transaction fees to ICANN for the domains they retail. The



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current fee is 25¢. (In passing, it should be said that registrars do also pay other fees to ICANN, including a prohibitive $50,000 initial application fee.)

Within any given top level domain, the acquisition price of any domain name is a flat rate. Valuable domains, or those that will become so, cost the same to acquire and retain as any other domain. SEX.COM's annual renewal fee will be around £9. If through some oversight on the part of the IT manager at SEX.COM the registration is not renewed on the date for doing so (and on average 25,000 domain names lapse and are deleted every day), and the holder's title lapsed and the domain became available for purchase, the fee which ICANN would charge the new owner would be the usual – 25¢. Although it is likely that an eagle-eyed manager at a domain registrar would snap it up for resale at a price somewhat higher than their standard rate.

According to Wikipedia "an economic effect of the widespread usage of domain names has been the resale market (after-market) for generic domain names that has sprung up in the last decade. Certain domains, especially those related to business, gambling, pornography, and other commercially lucrative fields of digital world trade have become very much in demand to [sic] corporations and entrepreneurs due to their importance in attracting clients." An increasing amount of money changes hands each year with the resale of domains. DNJournal reports the highest price at public sale of a web domain name is PORN.COM – sold in 2007 for $9.5 million (in cash apparently, which no doubt had the anti-laundering guys scurrying). Web commentator Marv Quin forecasts that 'domaining' – the business of buying and selling domains just like real estate, will be "a $4 Billion Industry by 2010". My own guess is that this is a conservative estimate.

Cyber-rents, in the event they are not collected for public purposes, do not evaporate – they are creamed off by private interests as unearned windfall profit. That is not right. It is unfair on the excluded majority. How can the way the virtual world works be changed to prevent unjust profiteering? And can we at the same time create a valuable new stream of public revenue which could diminish the need to *tax* enterprise
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Illustration © iStockPhoto.com/Mark Hicks II

Clearing a deeper mystery

Monetary policy is misdirecting the efforts of humanity and threatening the US economy, decl ares **Stephen Zarlenga**

THE LATE economist John Kenneth Galbraith once wrote: "The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent." A 'deeper mystery', when it comes to money, is in fact the well guarded state of things. And it is anything but "decent". It creates problems in society. In the US the symptoms of those problems are many, and they are increasing.

We see symptoms all around. The price of oil is rising and approaching $100 a barrel; no new oil refineries have been built in the US in decades; a major interstate bridge inexplicably collapses in Minneapolis; US engineers estimate that 10,000 of the country's 80,000 dams are in danger of giving way – all this in the world's 'richest' country; where our public and private financial arrangements leave 50 million citizens without health insurance; where we have an education system that is clearly failing; where there are implications in the avoiding of crucial infrastructure repairs before Katrina hit, and in the rebuilding operations after; even where Russia announces that nuclear weapons are once again airborne in aircraft 24 hours a day, in response to Bush's proposed missile systems in the Czech Republic and Poland. What connects these symptoms?

I contend that the ultimate cause of the problems we face – where the 'deeper mystery' lies – is the private control over the nation's monetary system. What passes for 'money' in our system is actually the granting of credit by banks when they lend at interest. To a very large extent, whoever controls this 'money power' controls society. Today's 'money power' in the US rests very much in private hands. Those hands tend to work in their own private interests – notably in real estate speculation and Wall Street 'gambling'.

An army of mis-trained economists – the system's mercenaries – protects this privileged control over society. The negative effects of the system – such as the current banking crisis – are hardly addressed. The economists warn that public control of the money system under proper governmental supervision would be irresponsible and inflationary. These pseudo experts invent pseudo histories favorable to their patrons but at odds with the facts.

The ability of some economists to ignore the evidence depends on faulty methodology. Ludwig von Mises – a 'guiding light' of the Austrian school of economics, tells us more than once that mere facts can't disprove his theories. The Austrians carry forward the Adam Smith tradition – broadly speaking – if not his views on money. They shape the outlook of the libertarians. The confusion within the theory and practice of economics is everywhere evident: there is monetary illiteracy; there are theoretical fairy-lands; although there are very real paychecks for the mercenaries. Carl Menger's *Theory of the Origin of Money* – a key Austrian tract – has been refuted by me elsewhere.

Society must create its own money and not borrow privately-created money. We must reform elements of the national monetary system which are pushing us in the wrong directions. This means recognising the nature of money as an abstract legal power that belongs under societal direction to promote the general welfare. We must reject the present privatised control that promotes private interest agendas, including warfare for profit. Money and credit must be clearly distinguished. We must promote a system where national money is created *only* by government, and spent into circulation interest free, on non-polluting sustainable 21st century infrastructure, including the human infrastructure of health care and education. This last point should be of deep concern to Americans. The current provision of education and healthcare in the US is terrifying, when looked at side by side with, for instance, the provision in the UK.

James Robertson has proposed such a reformed monetary system for the UK. The American Monetary Institute has proposed one for the US. By such reform, finance can be structured to serve the real needs of society, rather than remain what it is at present – the misguided master of humanity. L&L

We have known for long enough how to solve the "deeper mystery" of money. It's past time to do it.

Henry George understood the money problem. Writing in *Social Problems* (1884), on a theme he returned to several times, he said:

"It is not the business of government to direct the employment of labor and capital.… On the other hand it is the business of government to issue money.… To leave it to every one who chose to do so to issue money would be to entail general inconvenience and loss, to offer many temptations to roguery, and to put the poorer classes of society at a great disadvantage. These obvious considerations have everywhere…led to the recognition of the coinage of money as an exclusive function of government.… Yet instead of doing what every public consideration impels us to, and assuming…as the exclusive function of the General Government the power to issue money, the private interests of bankers have, up to [now], compelled us to the use of a hybrid currency."

The author developed this article from a presentation he made to the US Green Party's National Convention 2007.

Stephen Zarlenga is Director of the American Monetary Institute, a publicly supported charity founded in 1996 and dedicated to the independent study of monetary history, theory, and reform.

No 1220 Vol 114

The state's complicity in the real estate crash

The government causes real estate boom-bust, argues **Fred Foldvary**. He sees three strands to the problem.

THE GLOBAL real estate boom that has taken place during the past decade has in 2007 been decelerating and will most likely have turned into a global real and financial crash in 2008. The news media and financial press have focused on the sub-prime mortgage losses and have pointed the finger of blame at mortgage lenders and brokers. But the sub-prime mortgage problem is only the tip of the iceberg. Submerged beneath the financial surface is the bulk of the iceberg – inflated prices of real estate. Our economic vessels are on course to collide with these real estate icebergs and then sink. As with the *Titanic*, there are not enough economic lifeboats to save us all.

The cause of the real-estate boom-bust cycle is government intervention, with three strands. First is monetary intervention, the manipulation of money and interest rates by the monetary authority. Second is the government-sponsored secondary mortgage market. The third intervention is the fiscal folly of taxing labour to subsidise landownership.

In order to understand the problem of monetary intervention, we need to analyse the effect of money on interest rates. The rate of interest originates in what economists call 'time preference,' the tendency of most folks to prefer to have goods sooner rather than later. Since we don't live forever and the future is uncertain, most people prefer to have things such as a car and a house earlier in life rather than waiting until one has enough savings to make the full purchase.

This time preference endows present-day goods with more value to us than future goods. We are willing to pay more to have things now rather than later. So future goods have a discount relative to present-day goods. The rate at which future goods get discounted becomes the natural rate of interest. Interest is the premium we pay to shift purchases from the future to the present.

This natural rate of interest, if not interfered with, plays a vital role in the economy. The natural interest rate makes borrowing equal to savings. If more people want to save, the interest rate falls so that the extra savings is loaned out. Borrowing is either for consumption (such as a vacation) or for economic investment, such as a house or machine. After netting out savings used for consumer loans, the rest of savings is borrowed for economic investments. Therefore, net savings equal investment. But this is so, only because the interest adjusts to make it so, to equalise both savings and borrowings and net savings and investment.

With this equilibration or equalising, the interest rate also allocates output between consumption and investment. This is the vital job of the interest rate: to ensure that income gets spent on consumption and investment. If folks save more, they consume less, so the interest falls, and the reduced consumption is offset by increased spending for economic investment. All is balanced and in harmony when the natural rate of interest is free to do its job.

> **"All is balanced and in harmony when the natural rate of interest is free to do its job."**

But in today's economies, the interest rate is not able to do its job. The natural rate of interest has been shackled. The money supply is not set by the market, but by a monetary authority, the central bank. While we have regulated markets for most goods, when it comes to money, we practice central planning. The central bankers decide by how much the money supply shall increase, and in so doing, they manipulate the interest rates.

In the United States, for example, the Federal Reserve expands the money supply by buying treasury bonds. They finance the bonds by increasing the reserves of the banks, the money the banks hold in their accounts with the Federal Reserve. To loan out this newly created money, the banks lower their interest rates on loans. Indeed, the Federal Reserve sets a target for the interest rate. If the market rate should rise above their target, they increase the money supply some more so that the banks will lower the rate to meet the target.

The Fed-targeted market rate of interest is now not equal to the natural rate, what the interest would have been without this manipulation. Indeed, there is no way to know what the natural rate would be, since pure supply and demand are not operating. The supply of money is set by the monetary authority at the level that meets the targeted interest rate.

Typically, when the economy is depressed, as it was in the early 1990s and in 2001 in the US, the Fed targets a low interest rate, below the long-run average. In 2003 it went as low as one percent. At such low rates, funds are borrowed for investments that would not be made at higher rates. Funds are borrowed especially for interest-rate sensitive projects of long duration, such as real estate construction. Funds are also borrowed to purchase long-lived assets such as real estate and the associated durable goods such as furniture.

Since these investments would not have been made at higher interest rates, this induced investment is an economic distortion. Like an athlete on drugs, the economy appears to be stimulated, but when the drug wears out, the economic body will suffer disease. Since planned consumption has not fallen, consumption clashes with new investment, and prices rise. But prices don't all rise at the same rate. Prices rise fastest and earliest where the money is being loaned out, a large part of which is for real estate purchases.

Thus is born the real estate boom. It is an artificial boom, juiced by cheap loans. If the natural rate of interest had been allowed to do its job, the boom would not have been sparked.

As the boom progresses, the monetary authority has to reverse course. The rapid expansion of money will cause inflation to rise, so the central bank then decelerates the expansion of money. It raises the interest rate target. This reduces investment, and many investments made at lower interest rates cease to be profitable. The distortions caused by the previous low interest rate become manifest.

The distortions would not be so devastating if they were confined to industries such as real estate construction and sales. But the second intervention has now spread the distortion throughout the financial system. That intervention is the government-sponsored secondary mortgage market.

In the United States, the federal government has sponsored several enterprises, such as Fannie Mae and Freddie Mac, that have facilitated the secondary market in mortgages. Without this market, banks that originate real estate loans would hold them until the loan is paid off. If the borrower defaulted, only that bank would be affected.

But with the secondary market, banks can sell their mortgages to Fannie Mae and Freddie Mac, and then make a new loan. This greatly expands the ability of the financial system to make real estate loans. Fannie and Freddie themselves sell bonds to finance their loan purchases. With implicit guarantees from the federal government, Fannie and Freddie can issue bonds at lower rates. Fannie and Freddie also assemble mortgag
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Despite overseeing the abolition of slavery in the US, to some 'King Linco of the expansion, and the secondary mortgage market makes bankers and mortgage brokers loosen lending standards to keep rolling over loans that get sold.

Eventually, land prices rise so high that entrepreneurs who seek sites for investment decide that the real estate and interest-rate costs are too high. As expected profits fall, investment slows down and then stops growing. Investment drives the business cycle, and when investment falls, workers in those fields lose their jobs, and their demands for goods fall, and the whole economy then tumbles into recession. Foreclosures rise even more, and the financial system crashes as banks and other financial institutions become insolvent.

The engine of this perverse cycle is real estate speculation, and the only way to stop it from happening is to take the steam out of it by tapping the rent and land value for public revenue. If most of the rent is tapped for public revenue, there is no profit in speculating on land. Real estate would only be held for actual use or to rent to others for use, not for land-value gains. The land value will be small and not rise if most of the rent is collected for public revenue.

The secondary mortgage market would not be so perverse if most of real estate mortgages were made to purchase buildings rather than land. However, to eliminate distortions in the mortgage market, government guarantees should be phased out. Folks will find real estate much more affordable if they only need to borrow to buy the building and not also for a high land price.

The monetary intervention can be remedied by shifting from central banking to free-market banking, where the money supply is determined by the public demand to hold money rather than by a monetary authority. The supply of governmental currency would be frozen and would serve as a money base like gold did in the old days. Private bank notes would be convertible into government currency, preventing inflation.

The interest rate would then be able to do its job, to equilibrate savings and investment. There would be no more manipulation of interest rates to either stimulate or put a brake on the economy. Without the real estate cycle, there would be no business cycle, and the economy would not recede, and thus not need any monetary stimulus. With no more inflation, the economy would be free to grow as fast as folks want. And with no tax on wages or investment, growth could well be dazzling, limited only by the supply of labour as wages rise and poverty becomes extirpated - pulled out by the roots.

Since such policy changes are not forthcoming, we are unfortunately riding the economic river to a financial waterfall, a recession and depression. The timing of the real estate cycle has been quite accurately predicted by those familiar with the past pattern. Real estate construction and prices have peaked consistently shortly before the major depressions, with an average period of 18 years. The last real estate recession was in 1990 in the US, so adding 18 years puts the next recession at 2008. Of course sometimes the interval is a bit more or less than 18 years. But it is striking that in 2007 real estate prices in the US were already falling, and the mortgage problem got ugly.

This time around, the real estate boom has been global. The global economy has linked together the economies of the world like never before. While real estate markets still have local variances, the financial markets have tied economies together, and real estate has boomed world-wide with few exceptions. Moreover, fiscal policy is fundamentally similar world-wide, as real estate is explicitly or implicitly subsidised. Such policies stem from quite similar political structures, including rent seeking by special interests.

As the US enters a recession, having been the world's biggest importer, other economies will recede also as sales fall and as their real estate markets also peak out – if they have not already done so. The bigger the boom, the greater the fall, and as this has been the biggest global real estate boom in history, the consequent economic fall will be proportionate.

Crises have one consolation. They provide an opportunity for reflection and a climate for major shifts in policy. Perhaps this time policy makers will see the fundamental causes of the boom-bust cycle – and popular opinion will open to a big shift in monetary and tax policies. Reformers need to be ready to step in and offer the twin remedies – free banking and land-value taxation. L&L

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good idea bad idea

THIS ISSUE: TAX IN THE UK

GOOD IDEA ?

Acording to the UK Pre-Budget Report published in October, "from 1 November 2009, the Government proposes to replace Air Passenger Duty with a duty payable per plane rather than per passenger". Responding to 'Charging for Landing' in our last issue, L&L reader Conal Boyle, from Port Talbot in Wales is enthusiastic about the proposal. He writes – "If it's done the right way, this could be a form of land value taxation. Should reformers get involved in these discussions? I hope we can take this forward."

BAD IDEA ?

The new Scottish Nationalist government has set off down the road of institutionalising modern-day landed privilege. Its 'new' fiscal ethos was set out by Finance Minister John Swinney in his first budget, presented to the Parliament in November. The Nationalists will introduce a new additional tax on earned income, penalising effort, and will abolish Council Tax – the tax on unearned income – the only periodic public charge on publicly created location values. Oh dear Mr Swinney – don't you know the way of the 21st century is to "pay for what you take, not what you make"?

What do you think? What good ideas are you hearing aired in public debate – and what bad ones?
Let us know.
e ideas@LandandLiberty.net

Mr Greenspan's

Alan Greenspan was chairman of the US Federal
1987 until last year. **Michael Hudson** considers the

IN 1966 I was designated to fire Alan Greenspan. I was Chase Manhattan Bank's balance-of-payments economist at the time, and was writing a study of the balance of payments of the US petroleum industry. Chase and the Socony Oil Company each had paid $10,000 to finance the study, and Socony had insisted on bringing in Mr Greenspan. My boss in the Economic Research Department, John Deaver, worried that Greenspan was so eager to get business by giving the client what it wanted, that few people had much confidence in his statistics.

Greenspan was supposed to be producing statistics on US oil company capital investment. What he was actually doing was coming up with rough approximations of US figures – basing them on total worldwide investment. He told his statistical assistants to assume proportionality. One of them – Lucille Wu – told me "it's all implicit". By 'implicit' she meant they were to assume that European and Near Eastern depreciation rates and other tax laws were identical to US laws. But this was obviously not the case.

One day Mr Deaver and I were invited up to David Rockefeller's dining room. Mr Rockefeller – Chase's President – told me to inform Mr Greenspan that unless he could provide specifically US figures, and/or be forthright about his assumptions, we would have to leave his contribution out of the study. (I remember Socony's representative was a friend of his, and I think they made sure he got paid as their favorite business lobbyist *du jour*.)

Mr Greenspan was an economic lobbyist for the rich – for large corporations and for Wall Street. That is the job of a Federal Reserve chairman these days. Like a good criminal defense lawyer or the 'expert witnesses' they hire, a good lobbyist makes a cover story believable. Mr Greenspan crafted a myth that many people wanted to believe. The myth was that people (just about everyone) could get rich by going into debt, to buy property whose

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Changing things

Location Matters
by Tony Vickers
Shepheard-Walwyn, 2007, 100pp
ISBN: 978-08568-3251-2 £8.95

We all understand the importance of location. Hampstead is different from Hackney and property prices reflect this fact. Even the location's name has value. When Henrietta Barnett built her famous garden suburb in north London she didn't call it Hendon Garden Suburb which is where it was but Hampstead Garden Suburb where most certainly it is not. Hampstead, even as a name, has a price.

Tony Vickers' carefully researched book examines location in relation to land values and possible solutions to our perennial financial problems. He analyses the dead-end land tax options and shows where they went wrong. Usefully, he records land value tax round the world and points out where it has failed and occasions where the instigators got it right: Hong Kong, Japan and Taiwan being success stories, but now under threat from ignorance and vested interests.

Tony Vickers gives a thorough examination of the implications of lvt in the UK and a timetable for its introduction through Parliament. If only there was a party prepared to sponsor it!

Geoffrey Lee

Thump this

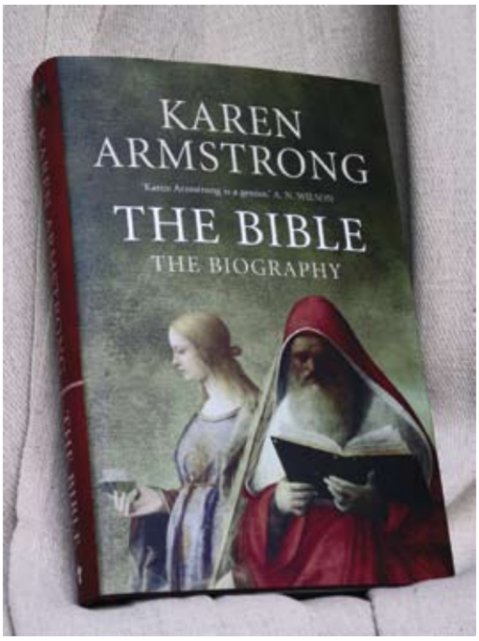
The Bible: The Biography
by Karen Armstrong
Atlantic Books, 2007, 302pp
ISBN: 978-18435-4396-1, £16.99

A major theme of the Bible is the relationship – secular and divine – between mankind and the land. In fact the word 'land' appears 1,308 times in the New International Version: and the Bible is full of stories which can help us understand our earthly place.

In *The Bible: The Biography,* Karen Armstrong argues that the Bible is (and through history has most-often been used as) a guide which has to be interpreted. She explains the Bible's gestation and its transformation from the earliest Judaean books into today's modern sacred texts. She explains the historical process as one of *exegesis* – a Greek word meaning "to 'lead or guide out'; the art of interpreting and explaining the biblical text". *Exegesis* has purpose, and Armstrong says that the Bible must be used with generosity. "Modern philosophers of language have argued that 'the principle of charity' is essential for any form of communication. If we truly want to understand the other, we have to assume that he or she is speaking the truth".

Exegesis "is a quest for something new" the author tells us. Paraphrasing Wilfred Cantwell Smith, Armstrong says "Scripture was not really a text but an activity". Acknowledging that "the Bible may have been used to back up doctrines and beliefs" she asserts that this was "not its chief function". The author warns us away from claiming authority by scripture: "The modern habit of quoting proof-texts to legitimise policies and rulings is out of key with interpretive tradition".

For the West in the opening years of the twenty-first century, a modern day *exegesis* from Ezekiel XXII would seem to be straightforward. "Son of man, say to the land, 'You are a land that has had no rain or showers in the day of wrath.' There is a conspiracy of her princes within her like a roaring lion tearing its prey; they devour people, take treasures and precious things and make many widows within her" (24-25.). "Her officials within her are like wolves tearing their prey; they shed blood and kill people to make unjust gain. Her prophets whitewash these deeds for them by false visions and lying divinations…" (27-28.) "The people of the land practice extortion and commit robbery; they oppress the poor and needy and mistreat the alien, denying them justice". (29.)



Maggie Hold

The domain of sex

SEX.COM
by Kieren McCarthy
Quercus, 2007, 280pp
ISBN: 19052-0466-3, £12.99

In 1995 Stephen Cohen, a lifelong con man – abusing the somewhat relaxed systems then governing the internet – walked off with exclusive title to a rather special prize – "the most valuable piece of virtual real estate on the planet" – SEX.COM. But one man certainly wasn't happy about Cohen's good fortune: Gary Kremen. Because the domain was his property – Cohen had stolen it – and Kremen set about getting it back.

In this book Kieren McCarthy tells the story of "one domain, two men, twelve years and the brutal battle for the jewel in the internet's crown.". Kremen had actually paid nothing for the property himself when he'd first acquired it – but he thought the battle was worth it: the subsequent development of the internet meant the domain had become worth $100 million a year.

In fact the legal fight between these two quite singular men came to rewrite the law. It "shaped the history and development of the the internet as we know it" McCarthy notes.

The drama unfolded at a time when the legal basis of the virtual world was at a very early stage of its development. By the time the legal arguments were all over the case had helped define just what virtual domain was, and what the rights of owners were.

From the start, one of Kremen's lawyers had "pointed out that the area of law that was being dealt with was new and evolving. Internet domain names had appeared in the real world in vast numbers, but they had not been created by statute or by legislation, so in a legal sense they [the plaintiff and his team] were in a no-man's-land".

Co-defendants in court were Network Solutions Inc. (NSI). The company was the first public registrar of domain names. In court NSI argued successfully in the beginning that an internet domain was just a service – and that a service could be withdrawn or provided to another party. "Official spokesman Brian O'Shaughnessy was succinct: 'We provide a service. This is not property *per se*'." Lead witness Phillip Abarbaro echoed that argument – "To say people buy and sell domain names is the vernacular, but it's not accurate".

NSI's "entire philosophical position on the nature of domain names was not only flawed but flew in the face of what everyone else on the internet knew to be true. NSI held that domain names were equivalent to telephone numbers – despite the fact that all the evidence pointed to the fact that domains had become intrinsically valuable in themselves…. The simple fact was that Network Solutions, like any monopolistic organization, had grown so attached to the status quo – itself – that it saw only risk, damage and conspiracy in any attempt to change it".

But by the end of the SEX.COM case – partly as a result of the arguments aired during it – it was established that internet domain, legally, was in fact good old fashioned property. The judge found that Kremen's property had been stolen by Cohen, stating that he had "substantially interfered with" Kremen's use of the domain and deprived Kremen of its use and of "earning substantial rents, income and profits". Kremen's lawyers told Wired magazine that the case proved "the internet is not a lawless wasteland – and told the BBC that "the domain name is a valuable property right…that can and should be protected".

The internet was emerging from its wild west phase.

Milton Appel

'ate 'em, I does

Why We Hate Politics
by Colin Hay
Polity Press, 2007, 200pp
ISBN: 978-07456-3098-4, £14.99 pb / £50 hb

In this book Colin Hay attempts to analyse our disenchantment with politics as manifest in the often low turnout at elections. Part of the reason is that people feel that power has moved elsewhere – in Britain to the European Union. Globalisation straddles the borders of the world so that if a multi-national company finds regulations in one country difficult they move their business to another country.

Colin Hay raises the question of whether global companies will relocate their production to economies with the lowest rate of corporation taxation. He seems to think that this is not the case. He says that the most generous Welfare States have consistently proved the most attractive locations for foreign direct investment. Once attracted to a particular locality, and having paid for buildings, plant and machinery, their exit options are limited. While foreign investors may loudly proclaim that they will if necessary move, the *threat* of doing so is their most effective weapon. Their prime considerations are access to markets and the availability of a skilled labour force. Labour regulations, pension and national insurance costs do not seem to be a major factor in their decisions.

Land value taxation is not discussed but if it could replace corporation taxation then, in spite of what Colin Hay says, it could be a factor in multi-national's locational decisions.

Geoffrey Lee


Land&Liberty has chronicled world events for over 100 years. It has offered a unique perspective with its reports, analysis and comment on the core issues of political economy. And that uniqueness remains. Land&Liberty aims to explore how our common wealth should be used – and to demonstrate that this is the key to building the bridge of sustainability between private life, the public sector and our resources – between the individual, the community and the environment. Land&Liberty – putting people at the heart of economics.
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