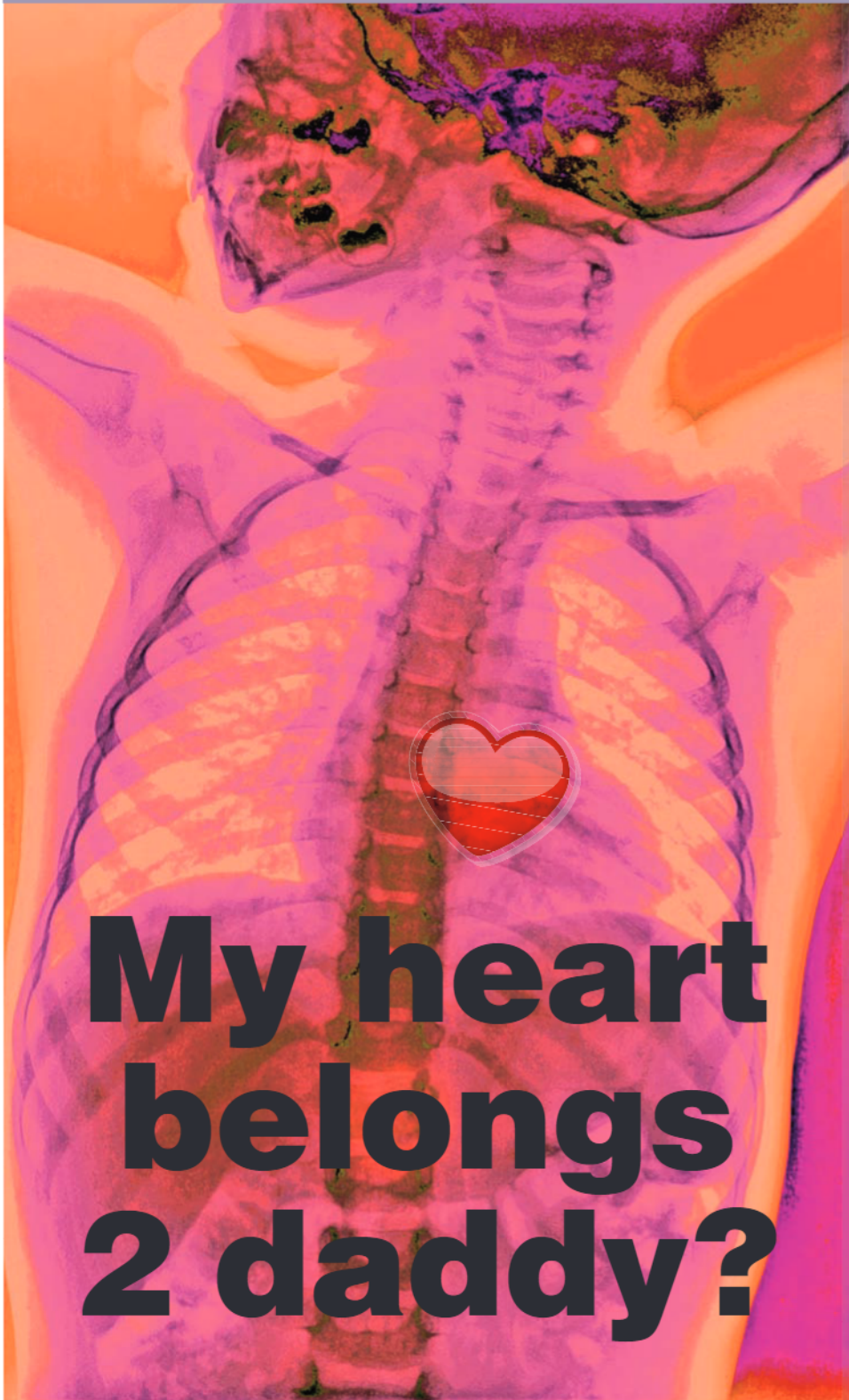


Land&Liberty

putting people at the heart of economics

since 1894



My heart belongs 2 daddy?

IN CONTROVERSIAL new proposals being put forward in the US and the UK, a person's right of property in their body and its parts would be transferred – away from the individual and the next of kin – and taken by the state. The idea is presented as a key ingredient of plans to increase the number of organs available for transplant.

Under the proposals a system of 'presumed consent' would see the dead routinely harvested for their organs without the permission of either the deceased or loved ones. UK Secretary of State for Health, Alan Johnson, has asked the Organ Donation Taskforce to look at the idea and report back in the summer. Nineteen EU countries already have such a system in place, and enjoy minimal transplant waiting lists.

The BMA – the UK doctors' professional organisation – is lobbying for the change. They say the present system is failing to provide the number of organs required, pointing out "at least one person dies every day while waiting for an organ transplant".

Under the BMA's preferred plan, if individuals did not register to 'opt out' of the scheme, 'donation' would proceed unless the next of kin could demonstrate an "unregistered objection by the individual or because it would cause major distress to the close relatives". New law would assume the state's moral entitlement to the individual's body after death.

Writing in the *American Journal of Bioethics* Dr. Robert Truog, Professor at Harvard Medical School, asks: "Are organs personal property or a societal resource?" Truog argues that, while alive, people's organs are their personal property, but after death their organs should indeed be considered "a societal resource".

But some believe a policy of presumed consent is ethically problematic. Bioethicist Dustin Ballard believes so "regardless of its potential benefit, for several reasons". The present 'opt-in' scheme is promoted as allowing the individual to "give the gift of life". Ballard argues the new proposals downgrade that 'gift' to coercion. While some bioethicists say the greater common good warrants the change, many are not so sure. Some contend that immorality is being defended in pursuit of fiscal meanness and technocratic and political expediency.

The new proposals would mean valuable assets otherwise out of reach could be put to use. But it's argued that the individual's right in property to their own body – the starting point of all codes of property – is being seized – and with it stolen the individual's ability to give 'the gift of life'.

This year will see a different kind of political drive to win hearts and minds.



**ECONOMICS OF
ABUNDANCE**
the silver bullet



ROWNTREE
the value
of place

1221
vol 1.15 SPRING 2008

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cover story

CARDINAL KEITH O'Brien has described organ donation as "noble and meritorious" but he has moral objections to 'presuming' the consent of the dead. There are problems too from a fundamental property rights perspective.



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Edward J Dodson is Director of the us-based School of Cooperative Individualism. He is author of *Discovery of First Principles*.

Lars Rindsig is Executive Editor of *L&L* and a board member of the Danish Justice Party.

David Triggs is Executive Chairman of the Henry George Foundation, publisher of *L&L*.

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Freedom is Britain's gift to the world and it was based on the rule of law and due recognition of privilege.



Illustrations © iStockPhoto.com/Diego Vargas (heart), Paul Pantazescu (werewolf) and 123rf (cover image)

news in brief ...

the fine line New parking rules from 31st March will introduce a system of geographically graded fines in England and Wales. According to the BBC, "the Traffic Management Act will create five different penalty bands each incorporating a higher and lower level. Each local authority in England will be subject to one of the five bands". Metropolitan authorities in dense urban areas will be able to charge offending motorists more for illegal occupation of their valuable road space. Rural authorities will impose lower fines.

american homes The us National Association of Home Builders has just published a 360-page report on how to achieve affordable housing. It gives favourable consideration to land value taxation. NAHB is a mainstream organisation in the building industry, representing 800 state and local associations and with a quarter million members. Josh Vincent, Director of Philadelphia's Center for the Study of Economics, asks: "Well, if a hard-headed group like this can be educated about land value taxation, why not the rest of the world?"

land tax limbo Denmark's status as a pioneering land tax nation is rapidly fading. Liberal Tax Minister Kristian Jensen is contemplating abolishing the annual valuation of land and property. The Liberal/Conservative coalition government has introduced a cap on all taxes, and the need for future valuations is thought to be void. Last autumn's general election featured denunciations of land and property taxes from all parliamentary parties.

tying up charges The system of harbour charges is to be reviewed by the Scottish Parliament. The Crown Estate collects rents supposedly for the common good. But for historic reasons levies have become unrelated to values charged for. Some local harbours pay tens of thousands a year, while Aberdeen — Europe's principal port for North Sea oil — pays only a few hundred. Roseanna Cunningham MSP said: "You really have to ask whether such an approach has any place in a 21st-century economy, either on grounds of efficiency or equity."

Letter from the editor

Land&Liberty

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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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POLITICS is sometimes characterised as ‘the art of the possible’ – a remark of Bismarck’s. But government’s reaching out for what is ‘possible’ must be enlightened by a deep sense of what is ‘right’.

Yet it seems that in our present age it is expediency and not morality which guides the hand of government. And we see that hand increasingly having a mind of its own.

Nic Tideman shows us how modern government’s taxation has so easily avoided being what is *right*, and become simply a “convenient exaction, undertaken by those in power to serve their own purposes and lacking a suitable ethical rationale.”

Government of course must fight its corner, and spin the principal thread of public discourse. And political language is designed to persuade. But the citizen must confront government dissemblance.

‘Presumed consent’ is Orwellian Newspeak for *without* consent. A system of opt-out coercive organ removal is of course ‘possible’ – and might well be expedient – but it is one more immoral government *take* in the long tradition which includes conventional taxation.

Our ‘donation’ cover story is an instance of government that has gone wrong; although, in this instance, more likely through stupidity than wickedness; government’s proclivity for unethical taxation, on the other hand, at root more an instance of the latter.

We must guard against such inclinations in government. Leslie Blake reminds us of Plato’s dialogue in the Republic: “Say then, my friend, in what manner does tyranny arise? — that it has a democratic origin is evident”. Tyranny, observes Plato, “great and famous...the fourth and worst disorder of a State...by fraud and force takes away the property of others, not little by little but wholesale; comprehending in one, things sacred as well as profane, private and public”. ‘Presumed consent’ is the wholesale forced taking of our sacred private earthly remains: a thing which only can be *given* – by consent explicit – and not taken.

In the end the ‘presumed consent’ argument will be lost. But it may be that, before any ethical argument wins the day, the property rights question which inheres in the proposal will bring the defeat.

The organs needed for any transplant programme could be delivered by a properly funded ongoing campaign of public education and persuasion; indeed so they should be. But governments don’t want to spend that money, and are taking the easy course.

Yet the unseen but logical corollary of a dead person’s body being deemed a ‘societal resource’ – a public asset – is that, to the degree that the body is of no public use, either in its parts or in whole, it must properly be a *public* liability: so that fact too must be provided for within any reform. Government has not yet thought of it, and the medical professionals advocating ‘presumed consent’ have a too-tightly focused perspective to have considered it, but the policy companion of coercive organ removal is the universal state provision of funerals. Once government realises that point, and does its sums, the economic imperative for this iniquitous reform will evaporate, and with it any political calls for ‘presumed consent’ – which will free people, once again, to ‘give the gift of life’.

Peter Gibb
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Domain speculation and the internet sharks

“The internet got invented and all the land is being bought up. In 10 years’ time any word you can think of will be taken: all the real estate will be gone. If one day someone wants to build a skyscraper on it, you’ve made a fortune. The analogy [to what I do] is real estate”, says Neil Stanley, an internet domain name trader. “Whenever I register or buy a domain name, the first thing I do is park it”, Stanley told the *Observer*. “Anyone who then types in that name will see the web page and, if they click on an ad, it generates money. I registered noworryloans.co.uk last autumn and it probably earns £10 a week on its own. My whole portfolio is bringing in hundreds of pounds every week without me touching it, and some people are creaming in thousands. My conviction is that this is going to become mainstream because it’s so easy.”

But Stanley is not one of the big boys. Kevin Ham, dubbed by the *Observer* “the most powerful dotcom mogul you’ve never heard of”, reportedly creams off \$70m a year from some 300,000 stockpiled domains. “He even struck a deal with the government of Cameroon so that when users mistakenly type ‘.cm’ instead of ‘.com’, he gets a slice of the cake.”

Feeding off this speculation is a new breed of on-line domain auction houses. Stanley uses Sedo, which claims to be ‘the leading global marketplace for buying and selling domain names and websites’. It boasts half a million members trading domains in 21 languages. Sedo recently sold vodka.com for £3m. (See “Claiming the virtual domain”, *L&L* 1220)



Global Land Tool Network

The Global Land Tool Network is an international initiative facilitated by UN-Habitat. It aims to alleviate poverty and contribute to the Millennium Development Goals through land reform, improved land management and security of tenure.

GLTN is developing a set of “pro poor land tools”. These are being designed to help implement policies which create societies with “sustainable equal access to land and land use”. GLTN will soon publish its fifth of six new global land tools – for ‘land value capture’ – developed with project partner, the Earth Rights Institute.

Work from Home Day

15th May will be UK National Work from Home Day. Millions are expected to take part in the event, now in its third year. Organisers Work Wise UK are a not-for-profit initiative encouraging the adoption of ‘smarter’ working practices – such as flexible, remote and mobile working, and working from home. Major sponsors include telecommunications giant BT.

The initiative “hopes to give half the working population, some 14 million people, the opportunity to work smarter by 2011. The emphasis will be upon making the UK more competitive in the face of growing economies in Asia, enabling a second industrial revolution to make the UK one of the most progressive economies in the world.”

Such changes in our patterns of life and work will have significant social implications. The longer-term consequences for our social geography, and its expression in the land market, are likely to be profound.

Clyde Robert Cameron (1913-2008)

Clyde Robert Cameron AO, radical land and tax reformer and the most powerful figure in the South Australian labour movement in the 1940s, has died. Cameron was a member of the Australian House of Representatives for 31 years from 1949 to 1980, a Cabinet minister in the Whitlam government and a leading figure in the Australian labour movement for forty years. Cameron was the last surviving member of the 1949-51 parliament.

Whither Grosvenor’s medieval wisdom?

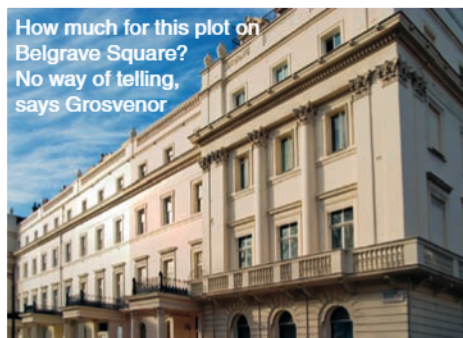
There is little that you can teach the stewards of the Grosvenor estates, but a puzzle emerged when one of its experts was asked about land value taxation.

The scene was the IEA’s 24th annual *The State of the Economy* conference in London. David Triggs, Executive Chairman of the Henry George Foundation, wanted to know what the effect would be on the Grosvenor estate if taxes were removed from its buildings and placed on the value of its land, which includes 300 acres of the most valuable real estate in Central London.

You would think that the professionals who administer the estate would at least be able to assess the value of that land. After all, their archives reach back to the 17th century. The current owner, the Duke of Westminster, is the wealthiest British-born resident of the UK. Grosvenor estates has offices in 15 cities around the world managing \$8.3b of assets in 40 countries.

Answering the question, Grosvenor’s Research Director, Dr Richard Barkham, said that property was already heavily taxed, but isolating land values for special treatment was a challenging proposition. “It’s not always clear what the land element is. There’s a practical problem of identifying land values by and large. The land market is much thinner than the commercial property market,” he claimed.

The problems with valuing land came thick and fast. Dr. Barkham declared that land values were more volatile than the property market in general, “so if you based taxation on land values you will end up with a much more



volatile base”. Besides, claimed Dr. Barkham, a land value-based tax would deter output.

Although he conceded that the property market was a leading indicator that gave six to nine months warning of what was happening in the economy, “the data is relatively poor, which makes academic econometricians sniffy about it”.

Perhaps it’s to be expected that those with greatest interest in the status quo might be least well prepared to unlock this puzzle.

Conference organiser Marketforce Communications specialises in business communication and, in particular, helping organisations become known as ‘thought leaders’.

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Banking on nature's bounty



Everybody gets a share of Alaska's natural resources

The International Monetary Fund is focusing its attention on Sovereign Wealth Funds, such as the Alaska Permanent Fund, as a model for future fiscal security. The Alaska Fund uses the state's present-day oil wealth "to produce income to benefit all generations of Alaskans". Botswana's Pula Fund is backed by the diamond deposits discovered in the Kalahari in the 1960s. The value of the natural resource is used to buy investment assets, the sustaining return from which is put to the common good.

IMF analysts define swfs as "special investment funds created or owned by governments to hold foreign assets for long-term purposes". At a meeting on the 21st of March the IMF's Executive Board approved a programme of research and analysis looking at the operation of swfs. The work will be

coordinated with the OECD.

Sovereign Wealth Funds are set up for a variety of macroeconomic purposes, and operated according to strikingly different rules. The IMF aims to prepare a set of best practices for these state investment institutions.

The principal objective of funds is usually to build up assets during years of ample fiscal revenues (to prepare for leaner years), often converting non-renewable assets to a diversified portfolio, so sharing wealth across the generations. Funds also attempt to reduce the carry-cost of reserves, pursue higher return investment policies, allocate resources for projects such as infrastructure, secure pension reserve funds, or enhance transparency in the management of revenues.

New Zealand business writer and historian

Selwyn Parker sees aspects of the funds as regressive. Writing in the *Sunday Herald* he says: "swfs are giant government investment schemes that will, at their present rate of growth, become the world's dominant investors, and because sovereign funds are managed by governments, they have the power to reverse 20 years of privatisation."

The Sovereign Wealth Fund Institute lists 45 funds around the globe. One of the largest is the somewhat rapacious China Investment Corporation, with \$200bn in assets. The newest, launched in February but already with assets of \$32bn, is Russia's Future Generation Fund. Sovereign Wealth Funds are growing quickly both in number and in size. The IMF believes swfs "are becoming increasingly important in the international monetary and financial systems". The Financial Stability Forum tentatively estimates foreign asset holdings at between \$1.9 trillion and \$2.9 trillion held in types of swf arrangements – almost twice those managed by hedge funds (\$1 trillion to \$1.5 trillion).

Morgan Stanley forecasts that the total value of all the world's swfs will be \$27.2 trillion (£14 trillion) within 15 years. As Parker points out, that's more than half the value of all the world's shares at current prices.

Sovereign Wealth Funds are a favoured tool of oil nations with a cautious eye for when the oil runs out. The notable exception for the moment is that country 'graced' by the world's second largest reserves – Iraq.

Social and fiscal models such as the Alaska Permanent Fund will become an increasingly important and visible feature of our public (and private) finance systems.

HGF News

L&L Readers will have noticed the many recent enhancements of **L&L**. The magazine's publisher, the Henry George Foundation, has decided to continue its ongoing development of the publication through 2008. Fifty percent more material will be published this year than last. However to maintain these new standards, and reconcile aspirations with the resources which can be allocated, it has been decided to publish only three issues in 2008. The publisher will review its plans in the event of a change of circumstance. The magazine will continue to be produced on a *pro bono* basis thanks to the voluntary contributions of **L&L**'s writers, editors and designers as well as those involved in its distribution, packing and despatch – and the financial donations from members, supporters and friends. The publishers would

welcome reader's and supporter's comments on the development of **L&L**.

Website Dr Peter Bowman has recently taken over day-to-day management of HGF's website, putting in a range of improvements. Visit www.HenryGeorgeFoundation.org for information about the Foundation, including the up-to-date programme of Library Group Meetings and information on important new books produced by supporters.

Protection or Free Trade HGF Executive Chairman David Triggs will present a new course based on Henry George's book *Protection or Free Trade*, in ten weekly sessions commencing Wednesday 30th April 2008 at 7PM at 11 Mandeville Place, London. For further information telephone the HGF office on +44 (0) 20 7917 1899.

Bequest from Mrs Peggy Hill In February we learnt of a legacy from the estate of

Mrs Peggy Hill in New Zealand. Peggy and her sister, Betty Noble, emigrated to New Zealand after World War II. Betty was encouraged to make the move from England in order to help Roland O'Regan, the eminent eye surgeon in Wellington, with his books and promotional activities, and her sister and their mother joined her. On Betty's death the Foundation received a legacy, and now we have been remembered again in the will of her sister Peggy.

The receipt of these legacies serves as a reminder to all our valued members and supporters of the benefits to the Foundation of these gifts, which enable us to continue the work to which, in their lifetime, they were so personally committed.

Change of phone number The office telephone number for both **L&L** and the Henry George Foundation has changed to +44 (0) 20 7917 1899, with immediate effect.

The social policy charity the Joseph Rowntree Foundation has just published a major report titled 'Poverty, wealth and place in Britain, 1968 to 2005'. The report – a spatially analysed survey of affluence – is a contribution to the 'overarching aim' of the charity "to examine the root causes of poverty and disadvantage and identify solutions".

In setting out the background to their work, the authors point out "there is a long history of studying the geography of poverty in Britain, although every so often the importance of that geography is rediscovered....In contrast the geography of wealth is rarely seen in work on Britain".

The authors set out "to produce a consistent data series of the levels of poverty by area in Britain [and] comparable area estimates for the wealthy". To the degree that they achieve this, it is done without reference either to "land" or to "location", or to the varying economic values which attach to those.

The report does point out that "national understanding of poverty and wealth tends to be largely aspatial. National debate tends to be concerned with the proportions of households that fall into each category at each point in time: how many households are poor or wealthy, just how poor are the poor, and what share of wealth do the wealthiest have?" – but – "there is another set of questions that are also important. Where do the wealthy and the poor live? Are they becoming more geographically mixed or more estranged from each other spatially as well as socially? Furthermore, where is poverty and wealth most strongly concentrated and most evenly spread? Where are the fewest and greatest proportions of households neither poor nor rich? We know that the geography of poverty does not change particularly quickly...but it is important to understand how it has and does change over time, and equally importantly how the geography of wealth develops." The authors and JRF leave it for others to answer that critical last point – how do places become poor or wealthy? – or, just how does 'place' develop value?

The value of place

The Joseph Rowntree Foundation has just published a major report looking at poverty, wealth and place in Britain.

Identifying no causes and proposing no solutions, the report surveys the scene and concludes "who is going to change this?" Here we

present JRF with a briefing for a follow-up research project with change as its objective.

'PLACE' HAS value. It adds considerably to the cost of housing. Its relative cost undermines housing affordability. Estimates suggest 'place' adds typically from 30% (low-cost housing in highland Scotland) to over 200% (mid-to-high-end housing in central London) onto house price. Historical surveys suggest that accessing the value of 'place' has become increasingly more difficult over time: today the acquisition of 'place' is considered to be unaffordable for most. 'Place' endows benefits to those individuals and businesses who enjoy secure tenure of them. The value of those benefits is expressed through the housing and property market. The relative locational value of a 'place' reveals itself in the cost of accessing secure tenure of a site. The value which occupiers of housing put on their 'place' manifests itself in the element price of the land on which their housing sits. But that value is not intrinsic to the property: it is an added value, given to property by the presence of the surrounding community.

Good places cost more: less desirable places cost less. People pay more to live

near good schools and transport; in lush neighbourhoods, with greener parks; on cleaner streets, on which they feel safer; with easier parking; with better services.

However, although at present the capital cost of accessing housing – paid to the seller – includes an element for these relative benefits of 'place', the benefits themselves, in fact, are provided by the community at large (whether through the public or the private sector), and not by the selling houseowner. The benefits of 'place' are provided and paid for by the wider community – largely by the taxpayer. But current tenurial, taxation and market arrangements mean that accessing the benefits of any 'place' requires the paying of a capital premium to a seller.

The economic value of place is created not within any property but beyond it – created by the natural environment and the presence and economic activity of the wider community as a whole – not by property owners. Whilst housing's bricks-and-mortar has a cost of production, for which the seller must be paid, the same is not true of the benefits of 'place' – the cost of provision of which is borne by others. Yet the relative

Joseph Rowntree – Quaker, businessman and philanthropist – was a keen supporter of the taxation of land values. He gave his money to establish the Joseph Rowntree Foundation stating in his trust letter “it would be quite suitable for large sums to be appropriated in this direction”.

value of ‘place’ is capitalised into the selling price of a property – paid by the purchaser and received by the seller. This is “how the geography of wealth develops”. The value of place which is paid as a proportion of total housing cost can exceed two thirds and is rarely less than a quarter. It is a major element of the cost of accessing housing. If the element of housing cost attributable to ‘place’ could be disengaged from the capital cost of acquiring housing, then access to all housing – across the board – would become considerably more affordable. In addition, the social need to provide stigmatising ‘affordable housing’ – as a separate (and ‘extra-market’) category of housing provision – could be significantly reduced.

Recent policy proposals that seek to ‘disempower’ some part of the land element of housing cost suffer from several major shortcomings. One fatal flaw in all of them, arguably, is the elimination of the market’s function to distribute – equitably and efficiently – the relative benefits of ‘place’. Schemes envisage or employ one or other form of bureaucratic system of distribution on the basis of ‘need’. Yet everyone, without distinction, equally ‘needs’ housing. Non-market solutions to housing problems, including and perhaps especially the problem of affordability, inevitably fail to address such issues and problems at root.

How might the value of ‘place’ be prevented from being capitalised into unaffordable

prices, without removing the market mechanism that equitably and efficiently distributes the relative benefits of ‘place’?

We propose a project which would investigate how the value of ‘place’ is connected to – and might provide a sustainable solution to – poverty and housing ‘affordability’.

It would investigate and describe possible systemic failure of, rather than local problems within, the housing market as it is presently configured; consider whether such failure relates to the market’s distribution of the economic benefits of ‘place’ between the individual houseowner and the community at large; explore the connections between these matters and the issue of housing ‘unaffordability’; and examine to what degree market failure to distribute the economic benefits of ‘place’ contributes to housing ‘unaffordability’.

‘Affordable Housing’ is generally considered to be a sub-sector of the housing sector as a whole. This proposed project would investigate the extent to which this is a misconceived reaction to the perception of the nature of the problem, based on a superficial analysis of the dynamics of the market. The project would seek to redefine the ‘affordability’ agenda.

Barker and now Dorling *et al.* opened several doors in this field, but have failed to clearly map the terrain which lies outside. The project would outline the economic terrain of ‘place’ and chart effects on ‘unaffordability’. The project would seek to draw out new paths forward – beyond poverty and wealth in place in Britain. [L&L](#)

Illustrations © iStockPhoto.com/Louise Medina (background) and Kulay Tanir (photo)



Putting a roof over our heads requires the government to acknowledge “how the geography of wealth develops”

A new model of the economy

In a pioneering initiative that seeks centre stage in every classroom in the land, **Brian Hodgkinson** rewrites the textbook on economics.

ECONOMICS AS a subject in schools, universities and most of the media is a 'flat-earth' science. Why? – because it ignores the profile of rent of land that thinkers like David Ricardo and Henry George so clearly explained. Indeed the subject may be compared to pre-Copernican astronomy, which employed a geocentric model to which were added successively more epicycles to account for new observations of heavenly bodies. Current economic models introduce more and more variables to explain the apparent complexity of developed economies. Yet their efforts are of little avail. Witness the failures of economic policy in relation to housing, banking, inequalities of wealth and income, and regional disparities.

What is needed is a model that reduces the complexity by introducing the one key feature at present omitted, namely rent. Two economists who have realised this – Richard G Lipsey and B Curtis Eaton – have written "phenomena that appear inexplicable when inserted into a spaceless model are explicable in a spatial model". My new book, *A New Model of the Economy*, does this by adapting both micro- and macro-economy theory to take account of rent in such areas as the theory of the firm – perfect and imperfect competition, oligopoly and monopoly – and the theory of income determination. The book includes a thoroughgoing analysis of the concept of rent, showing that it comprises both economic (differential) rent, derived from variations of location, natural resources, public services and population, and scarcity rent arising from the total enclosure of land. Topics such as wage rates, unemployment, housing and externalities are seen afresh in the light of this analysis.

In addition, fundamental questions are raised about the present system of money, banking and credit. The implications of the fact that banks create money by means of advancing bankers' promises, rather than merely collecting and lending existing deposits, are explored. Interest rates, for example, are found to be the result of restrictions on the money supply, since a free banking system would supply money to producers at its supply price ie bank costs of providing it. Bank advances for the purchase of land are seen as a major cause of inflation. The theory of income determination is adapted to show what would happen if banks were

to acknowledge their proper function of financing productive enterprises.

The impact on the economy of the current system of taxation is the third main issue raised in the book. How this depresses both the intensive and extensive margins of production (to use Ricardo's distinction) is explained, with the conclusion that tax assessed on the rent of land would restore their productivity and allow wages to rise to their natural level. Problems that critics foresee in the collection of rent as public revenue in place of taxes on labour and capital, such as the old question of improvements to land and the new one of negative equity, are also dealt with.

A New Model of the Economy looks at these three aspects of an economy – the role of land, the function of banks, and taxation – as interrelated and all desperately in need of radical reform. Thus it concludes with clear recommendations on each score. However, the underlying theme of the book is economic freedom, in the sense of a system that allows for the fulfilment of human aspirations in the sphere of work and enterprise. Existing models of the economy take for granted monopolies of land and credit. They assume that the present inequitable distributions of wealth, income and opportunity are set in stone, and that politicians have to redress the balance by remedies like progressive income tax and state hand-outs.

This new model puts the onus squarely on economists. They need to scrap their 'flat-earth' models, and accept a radical revision that removes the implicit limitations of private property in rent, excessive charges for credit, and taxation levied on labour, capital and entrepreneurs. They may need to continue to use well-tried concepts like supply and demand, elasticity, consumption functions and so on, but the natural laws of economics, especially that of the rent of land, demand the central place in any model that

truly represents how a modern economy operates.

In the hope that this book will be read both by professional economists and students and by interested laymen, it largely avoids the use of mathematical formulae. Instead it relies on relatively non-technical language and diagrams that are closely integrated with the text. Its aim is to awake all those who take economics seriously to the practical implications of the subject. **L&L**

Brian Hodgkinson was Head of Economics at Dulwich College and then St James Schools in London. He was a founding editor of the British Economy Survey. His new book A New Model of the Economy is published by Shephard-Walwyn.



Tax bads, not goods

Alanna Hartzok's six-point green action list for tax reform.

- Tax pollution: directly levy pollution charges and collect the revenue – not issue tradeable carbon permits enabling polluters to profit from their pollution.
- Levy taxes on non-renewable energy. Energy taxes can be regressive, so combine them with tax decrease on wage incomes, and launch 'buy and invest in clean and green' campaigns.
- Levy land value taxes/capture while reducing taxes on buildings, particularly in the urban areas, to encourage infill, more efficient use of public transport and infrastructure, and the direction of funds into new 'green energy' technologies, and discourage energy-wasteful sprawl and non-productive investments.
- Capture the 'unearned income' from land and natural resources for much-needed government revenue that could be directed to public investment in 'green' public infrastructure, and lower taxes on sustainable and environmentally sensitive design and production. This tax shift combination will get the signals and incentives right for the energy shift necessary to address climate change.
- Encourage more labour-intensive, organic agriculture, rather than oil-intensive giant agribusiness. Land value capture will help keep land affordable for small farm agriculture, and better reward farmers for their labour as their tax burden is decreased or eliminated. This form of agriculture also encourages healthy communities and decentralised, local-based economies – decreasing the necessity for people to drive long distances to work.
- Consider Peter Barnes' Sky Trust, which 'land values' the sky and captures rent (see [L&L 1203](#)). A Sky Trust is a scarcity rent recycling machine. The formula driving the machine is this: from all according to their use of the sky, to all according to their equal ownership of the sky. Those who burn more carbon pay more than those who burn less. If you drive a bigger car, you pay for a bigger carbon parking space. Yet, as equal beneficial owners, all receive an equal share of the scarcity rent. Thus, you'll come out ahead if you burn less carbon, but lose money if you don't. Money will flow from overusers of the sky to underusers. This isn't only fair; it's precisely the incentive we need in order to crank down pollution.

Alanna Hartzok is co-director of the Earth Rights Institute and leads the IU's UN representatives.



david triggs' long view

'Freedom' is a word much used in discussions connected with law, politics, economics and social affairs. It is also used by engineers where 'degrees of freedom' are considered. Machines usually incorporate a certain measure of freedom to enable them to respond to changing circumstances, but they are never completely free. Neither is the designer entirely free to impose his will in deciding how the machine might meet its purpose; his freedom is constrained by laws beyond his control – the laws of nature. The more a designer understands those laws, the greater the scope for invention and more refined products.

Likewise, when people design human institutions they seek to devise 'good' rules that limit the freedom of members but enable the desired purpose to be achieved. 'Good' rules are fit for purpose and do not offend any superior rule. Here we note an essential difference between human laws and natural laws. Human laws have limited jurisdiction – people can, and do break them – whereas the laws of nature cannot be broken.

Our understanding of natural law is incomplete and our formulations or descriptions refer only to the law's operation under a limited range of circumstances. Thus whilst Newton's description of the law of gravity may be very useful for the design of a bridge, it may be insufficient for an understanding of the design of sub-atomic structures. Limited by our incomplete understanding, or wishing to deny responsibility or credit to another, it seems we have a tendency to suppose that an unexplained phenomenon is chance rather than the working-out of law. I think it was Gary Player, who, accused of making a lucky shot, retorted – "Strange, the more I practice the luckier I get!" Or Beatrix Potter in *The Tale of Peter Rabbit* – "You may go into the field or down the lane, but don't go into Mr McGregor's garden: your Father had an accident there; he was put in a pie by Mrs McGregor." The reality in both these cases involved will, skill and a knowledge of nature, rather than luck or accident. The lesson, it seems, is that if you want to be lucky or avoid unintended consequences whilst practising the art of living – know the law!

Science is the branch of human knowledge that concerns itself with the discovery of laws of nature. The science of political economy seeks to understand those laws as they influence the production and distribution of wealth for all in society. If we are to make human laws aimed at facilitating production and distribution, it is vital that we take adequate account of the superior laws of nature. One of Henry George's major insights here was to see the intimate connection between the process by which wealth is produced in society and the manner of its distribution. In this, I think, he saw a particular expression of a more universal natural law; this indicates that the genesis, form and end of all things are not essentially separate and independent entities but are one.

The purpose of a thing, its genesis, pervades and gives rise to its form. George showed how, since the end of production is the satisfaction of people's need, it was vital that wealth distribution reflected and reinforced this genesis. If, through human devised arrangements, people are denied the full satisfactions that would arise naturally from exerting themselves to produce, we should change those arrangements and avoid the inhibition of production and the poverty that accompanies it, in all its various forms.

The taxman's justification

Nic Tideman considers the four paths to ethical taxation and concludes that governments that stray from those paths are abusing their power.

TAXATION is ethically problematical because it is coercive. Through fines, confiscation of property and prison sentences, governments enforce their insistence that taxes be paid. When, if ever, is such coercion ethical?

There are four paths through which taxation can be ethical. First, taxation at a local level can be justified as the preference of those who form a local community. Second, taxation can be a mechanism through which injustice in possession of assets is rectified. Third, taxation can be a mechanism through which people pay the costs of their choices. Fourth, taxation can be a mechanism through which societies allocate the costs of public services in approximate proportion to the benefits of those services. When taxation does not fall into one of these categories, it is simply a mechanism through which those with power impose their will on those without power, and it is not ethically justified.

A particular method of taxation can be the preference of a local community. When those who do not wish to pay a tax can easily escape it, a political majority who favour a tax can properly assert a right to provide for themselves a society that has the kind of tax system they want. The ethical acceptability of this rationale is conditional on:

- a. the cost of leaving being minimal for

those who wish to leave, and

- b. the share of natural resources controlled by the local community being no greater than their share of population.

If either of these conditions is not met, the fact that a particular tax system represents the preference of a preponderance of those in the community does not suffice to justify it ethically.

Secondly, taxation can be the rectification of unjust distributions. There are two very different ethical traditions in which taxation is justified as the rectification of an unjust distribution. The first is the taxation of land according to the rental value that it would have if it were unimproved. The ethical rationale of this tax is that the rental value that land would have if it were unimproved is the product of nature and of the growth of the community. The person with title to the land has no ethically respectable claim to the explicit or implicit income that exclusive access to land provides. Taxation of land according to its unimproved rental value permits the value of exclusive access to land to be shared in an ethically defensible way. This ethically defensible way of sharing this value is that the component of land value that is due purely to nature should be shared globally among all persons, and the component due to the growth

of the community should be used for purposes of the local community.

The second example of taxation as the rectification of unjust distributions arises in a framework that asserts that people do not have a right to the benefit of being highly innately talented. Advocates of this theory favour an income tax as a way of rectifying what they see as the injustice of an unequal distribution of innate talent. Against such a theory, it can be pointed out that since innate talent is not transferable from one person to another, a highly innately talented person, by being innately talented, does not deprive a less innately talented person of any innate talent that he or she could have. Furthermore, any effort to require those who are highly innately talented to pay for expressing their talent compromises the liberty that is valued in Western societies, for people to be able to freely cooperate with whom they choose on whatever projects they wish to cooperate, as long as they do not harm others.

Thirdly, taxation can be payment for the costs of choices. There are two types of examples of taxation as payment for the costs of choices: payments for harm of voluntary choices and payments for goods or services.

Taxation is payment for the harm of a voluntary choice when the tax represents an estimate of the cost to persons other than the

	Income Tax	cigarette, beer and wine taxes	business taxes	National Insurance (payroll tax)	Fuel Duty
very fair	9%	28%	11%	9%	7%
fair	14%	20%	17%	18%	10%
neutral	32%	19%	33%	34%	18%
unfair	24%	12%	12%	21%	22%
very unfair	17%	17%	6%	13%	38%
don't know	4%	4%	21%	5%	5%

“the fact that a particular tax system represents the preference of a community does not suffice to justify it ethically”

taxpayer of a legally permitted action that the taxpayer chooses. Examples of this are the London Congestion Charge and taxes on pollution. Taxation is a payment for a good or service when a government supplies a good or services in exchange for a tax payment.

Taxes that are payments for choices are ethically acceptable if the tax represents a good estimate of the cost of the harm or good or service.

Finally, taxation can be levied as payment for a jointly consumed service. A tax is a payment for a jointly consumed service when the revenue from a tax is used to provide a public service, such as parks or police protection, that is inseparably consumed by the whole population. For such a tax to be ethically acceptable, the amount of tax paid by each person must be a good estimate of the value of the public service to that person. A tax that is a payment for a jointly consumed service is more ethically problematical than a voluntary exchange for two reasons. First, we generally cannot observe the value of a public service to a person, and therefore we do not know when we are levying on a person a tax that is greater than the benefit that he or she receives. Second, even if we are completely confident that the tax on each person is less than the benefit that he or she receives, a compulsory payment

for a jointly consumed service is ethically problematic because it infringes on the liberty of those who are taxed. People who can choose how to spend their money have more liberty than those who are forced to pay for the things that they would have chosen.

Despite the problematic nature of such compulsory payments, we sometimes accept them. The compensation for destroyed property that a person receives after an accident is in a similar ethical category. We tolerate some accidents that could be prevented rather than requiring people to do everything that could be done to prevent accidents. Similarly, we tolerate forced exchange of public services for taxes. One of the costs of living in civilisation is the risk of the ‘accident’ that you will be required to exchange some of your wealth for public services that are actually not worth as much to you as the taxes you pay, though officials may believe that the public services are at least as valuable to you as the wealth that you are required to give up in taxes. The ethical acceptability of these forced exchanges is conditional on reasonable efforts being made to ensure that no person’s tax exceeds his or her benefits, and on there being no restrictions on the departure of those who wish to leave.

It is possible for a public program of support for persons with economic problems

– financed by taxes that are intended to be no greater than the benefits received by those who pay the taxes that support the programme – to fall into this category of ethically acceptable jointly consumed services. For this to happen, the tax that each citizen pays must be no greater than a reasonable estimate of the satisfaction that he or she receives from the existence of the program of support.

If a tax is not justified as the preference of a local community that does not appropriate for itself more than its share of natural resources and that dissenters can easily leave; and if it is not justified as a rectification of an unjust pattern of ownership of assets; and if it is not justified as an appropriate payment for a choice of the taxpayer or an appropriate share of the cost of a jointly consumed public service; then it is a convenient exaction, undertaken by those in power to serve their own purposes and lacking a suitable ethical rationale. We would do well to establish a consensus, if it does not yet exist, that convenient exactions are abuses of power by governments. [L&L](#)

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Council Tax (local property tax)	Inheritance Tax	Stamp Duty (transaction tax)	Air Passenger Duty
4%	5%	3%	11%
8%	5%	6%	12%
17%	15%	20%	23%
27%	17%	25%	19%
40%	48%	34%	26%
4%	10%	12%	9%

A recent survey by pollsters YouGov quizzed people’s opinion on the ethics of taxation. 2,162 UK respondents were asked to “please indicate what you think of these taxes in terms of fairness”. Surprisingly, the pollsters didn’t seem interested in people’s opinion about VAT (sales tax) which accounts for almost one fifth of UK taxes. Data © 2007 YouGov plc. All Rights Reserved. www.yougov.com

fresh thinking

The Silver Bullet



In this excerpt from *The Silver Bullet* – the first monograph in theU’s economics of abundance series – author Fred Harrison considers the institutional basis of poverty and argues that on this, its 60th anniversary, the time has come to look again at the almost-sacred UN *Universal Declaration of Human Rights*.

The world is no closer to consigning poverty to history. Why is there still poverty – from whole countries of the poor South, to the back streets, slums and trailer parks of the rich West? The good intentions, the money, the rhetoric, the pity and the media histrionics are but pinpricks to a world-rampaging monster. They say there is no silver bullet. Neither Geldof or Bono, nor the United Nations, nor the vast assembled hosts of international aid and development agencies have the answer. Doesn’t every citizen of the world have an equal right to the good life? With so much wealth in the world, why are so many of us so poor, when we could rid ourselves of this monster? And the fact is, there’s only one way to kill poverty...

UNDER THE policies that determine the distribution of income in the capitalist economy, poverty is an institutionalised by-product of economic growth. Growth-oriented investment retards people's development if it is not combined with changes to the tax laws that determine the primary distribution of income. Understanding the nature and role of 'rent' in the market economy – the value of a country's natural and common resources – is a precondition for rebasing society on the principles of economic efficiency and of justice for everyone. The societal treatment of rent is the lynchpin of any poverty elimination agenda.

Once it is privatised, the rent of land and of nature's resources is converted from public value to private debt. Its essence remains: rent is the product of cooperative effort, institutionally separated from private incomes through the social rules of the marketplace. But it is transformed from benign social surplus, available to fund the

secular arts and spiritual life (among other things), into a legal force that tears culture apart. Rent becomes a debt – a transfer payment, as economists put it – that is owed by the majority to the privileged minority. The owners of land interpose themselves between people and nature, causing the implosion of society in a thousand and one ways.

To understand the making of poverty, both in the poor countries and in the rich West, we need a theory of corruption. Evidence for the mechanism that institutionalises corruption as a social process is to be found beneath our feet. All the information we need is strewn on the pavements of our cities. The anatomy of corruption in the making may be perceived as we go about our daily business. We shall recount one example.

Our story begins in Nyevesky Prospekt, the Fifth Avenue of St. Petersburg. Here, out of the ashes of Soviet communism, emerged the entrepreneurs ready to use what space they could find. The people could not wait for Russia to develop a commercial property market to accommodate retailers. Kiosks sprang up on the pavements. Traders came from Azerbaijan and Tajikistan to sell to a public that was hungry for their wares. From exotic regions of the east the spirit of the free market flowed in and ended up as deals outside the Metros of Moscow

and the gates of the walled city of Novgorod.

Municipal governments, including St. Petersburg, issued licenses for the kiosks, and charged a few roubles as rent. Then came the mafia. They wanted 'protection money' from the traders. It might be wondered how the entrepreneurs could afford to pay. The answer was to be found in the locations occupied by the kiosks. Traders situated closest to Metro station entrances had the highest turnover. They paid the flat fee to the municipal government, but paid much higher sums to the mafia. Kiosks further along the highway, where the pedestrian footfall was lower, paid smaller sums for 'protection'.

Nobody taught the mafia and the kiosk traders about David Ricardo's theory of rent. But this was the marketplace: the better the location, the higher the rent that the tradesmen were willing to pay. They could pay, and they did pay. The problem was that the money went to the bullies waiting to grab it.

The lesson is this: if government does not charge the full market rent for the benefits derived from a public space, the difference is not vaporised: it is privatised. In this case, hoodlums realised that there was spare cash on the pavements of Nyevesky Prospekt waiting to be picked up and pocketed. As for the traders, they settled for the easy life: it was all the same to them who collected the rents as long as they were free to transact their business and retain their wages and the profits from the sale of their stock.

The same reality exists on the pavements of India's cities. Migrants from the countryside stake out a few square metres and erect flimsy shacks which they call home. They choose locations close to where they can find work. Pedestrians are displaced on to the highways. The slum dwellers can and do pay the rents of

these locations. But because the rents are not collected by the local government, the *dadas* – the local goons – pocket the money in return for ‘protection’.

Here, then, is the choice offered by the market economy. Competition equalises the returns to labour and capital. Because wages and profits are privately earned, their owners make sure they claim what is due to them. But rent is public value. If the stewards of the community’s interests fail to collect that revenue, others have no scruples about appropriating what is not theirs. Corruption as an institutionalised process originates with the failure of governance.

In Africa, the losses are enormous. Nigeria bears witness. Over 90% of Nigeria’s population live on less than \$2-a-day, while civil conflicts are fuelled by the oil rents which government fails to collect for the public’s benefit. Corruption pervades individual deeds, corporate strategies and government policies. From terrorist attacks by malcontents, to bribes paid into Swiss bank accounts and vote rigging at elections, all can be traced back to the failure of public policy in relation to oil rents. Will Africa be able to separate rent privatisation from the interests of the political elites who now exploit the continent’s natural resources?

The community of nations is in need of a period of social renewal, so that people can see the need for changes to property rights and public finance policies. What will encourage such reforms? Pessimistically, the Asian Development Bank notes that “the most successful redistributions” of land take place after wars, citing South Korea and Taiwan. “Is the redistribution of land possible in less extreme circumstances?”, it asks. “The answer to this question may well be ‘No’”.

Wars, driven by the desire for territorial aggrandisement, were intrinsic to past Ages of Unenlightenment. Must we resign ourselves to the prospect that future reforms can only follow destructive conflicts? Or should we hope that, by democratic debate, and by showing that everyone gains from tax-and-tenure reform, enlightened people will reclaim their birthright without others first having to die?

Neo-colonised countries that wish to redevelop, need to take control of the agenda if they wish to determine their fate. Westerners can

help, and a good starting point is the recognition that a new approach is needed to debt cancellation. Relief from the debts that cripple whole societies must be sought by new means.

We need to start with a deeper understanding of the nature of this debt, as defined by the United Nations. The UN recommends that, in national accounts, balance sheets should have entries for buildings, machinery and vehicles, but should exclude land. Why? The UN correctly defines land as a non-produced asset. This means that the money paid for its use is a simple transfer of income from one person or group to another. Rent, when privatised, does not represent an exchange of value-for-value.

For so long as that form of debt hangs around the budgets of nations, it must impede evolution towards communities that are balanced in personal health, wealth and social welfare. The debt cancellation agenda, therefore, should switch its emphasis from debts owed to banks to the far larger debt – one that otherwise exists in perpetuity – which is paid to those who literally own the country and claim the legal right to extract a nation’s rents.

We need a new and different campaign to consign poverty to history. To support the goodwill of individual reformers, that campaign should be endorsed by governments that genuinely wish to see the redevelopment of their postcolonial societies. The starting point should be a move for change to the constitutions and declarations of human rights that inspire people; which mobilise moral authority behind popular consensus for change. In particular, attention now needs to focus on the endorsement of amendments to the UN *Universal Declaration of Human Rights*.

An amended *Declaration* would inspire governments to reform their tax codes – making it possible to unburden those who work for their living, by collecting revenue from the community’s natural financial fund – as the prelude to consigning poverty to history.

The need for inter-governmental initiatives has been recognised by people like Gordon Brown, Britain’s Prime Minister. He now realises that the Millennium Development Goals are not being achieved – “it is already clear that our pace is too slow, our direction too uncertain, our vision at risk”. He has

assembled a coalition of government leaders and multinational corporations to convene at a UN-sponsored conference in 2008 to address the deepening poverty in Africa. But without a comprehensive understanding of the causes of poverty, such initiatives will go the way of previous gatherings, where hand-wringing was not followed by action proportionate to the problem or its root causes.

The peoples of Africa and the other neo-colonised regions do not need the kind of aid that reduces them to dependent clients. They can enjoy cultural and economic renewal by funding out of their own resources their capital-intensive needs. This transformation would unite the world’s citizenry through a declared common stake in its natural home. A fairer, richer, international community united to address the global crises that now beset us all on Earth.

In future, we need to burrow down much more deeply into the phenomenon of poverty. Its nature has changed: because the material achievements of the past 30 years in some redeveloping countries have been offset by a steep rise in what we call pauperisation. This condition touches everyone on both sides of the income divide.

- In the UK the geographical maldistribution of wealth and poverty since 1970 has been confirmed by exhaustive examination of official statistics. The historic trend is away from equality. Wealthy areas (and classes and individuals) have tended to become disproportionately wealthier. An increasing polarisation is driving spatially deeper wedges between rich and poor, fragmenting communities to the point where, in some city locations, over half of all households are deemed to be ‘breadline poor’.

- In the USA, tens of millions of families survive only because mothers seek employment to cover the cost of the mortgage. Real wages have been falling since about 1975. This decline in material standards is reflected in the erosion in the American citizen’s constitutional ‘right’ to happiness.

According to one estimate, between 1979 and 2004 the pre-tax incomes of the top 1% of Americans had increased by \$664bn (\$600,000 per family), an increase of 43%. The lower 80% of families were worse off by \$7,000 in income per

family (a 14% loss) – with the trend continuing to widen the gap.

We can see that the capitalist model does not provide for sustainable growth; nor does it deliver equity between individuals or classes. But the problem that we wish to highlight is this: the material deprivation index fails to capture the full horror that follows the separation of people from their natural environment.

Pauperisation can be observed in the way that some indigenous peoples find themselves marooned on modern versions of reservations. Their culture began to implode the moment they were separated from ancient land rights. Their lives ruptured from traditional cultural forms of activity, they seek solace in drugs, alcohol and other self-destructive behaviour. The material welfare made available by government is no protection against the trauma that results from personal and group detachment from their ecological niche. Poverty slides into the pauperisation of personality and community.

According to the UN, we would all benefit from a general mobilisation in favour of 'human security', by responding to the threat of global poverty travelling across international borders in the form of drugs, HIV/aids, climate change, illegal migration and terrorism.

But the UN's notion of human security fails to address the process of pauperisation. Furthermore, even the need for security cannot be achieved if we do not restore the role of land in our lives.

Pauperisation encompasses material, psychic and spiritual forms of deprivation. A country's *per capita* income can rise – suggesting it is reducing poverty – while at the same time the population's welfare may deteriorate. Growth in national income can be associated with a desperate deterioration in quality of life.

The concept of potential is crucial to a consideration of what we mean by pauperisation. It is the measure of achievements unrealised. It reminds us of how we could all enjoy peace and the economics of abundance. But abundance does not allude to material satiation. It refers to that contentment which comes with the state of liberty – of not being subjected to arbitrary restraints imposed by others, and of being equipped to challenge oneself to achieve personal goals.

The UN's notion of human security is

underpinned by a doctrine of 'human rights' that pauperises people in the rich as well as in the poor regions of the world. In England and Wales, for example, one in three children still live in poverty. This is relative poverty: it is impossible to compare the poor children of England to the poor children of Malawi. But this poverty contributes to the collective sense of a pervasive social malaise which is now spawning acts of desperation. These include the self-destructive acts of suicide bombers who are reared in families that do not lack material resources, but who experience a profound sense of deprivation and alienation.

We do not claim that fiscal reform will be the instant answer to religious fanatics or corporate bullies. We do claim that our agenda provides the framework for a new sense of justice in our relationships both with each other and with Earth. This fiscal agenda assumes critical importance when we realise that narrowly defined poverty, by itself, cannot explain the global crises that are converging in the 21st century. The billion who suffer \$1-a-day material deprivation constitute but one of four interrelated global challenges. The other three are:

- Terrorism. No corner on earth is free of this brand of violence, which is used as a tool of politics by other means. Is force really the optimum way to address the causes that inspire what President George W Bush called "the axis of evil"?

- The eco-crisis. All nations agree that nature is, now, about to wreak revenge on humanity. We will all be affected by climatic shifts. Should we allow the polluters to set the terms for reducing that damage?

- International trade. When two billion people from the ex-socialist East arrived in the market economy, the demand for protectionism was resurrected in the West. That demand will be heightened as the global economy dives into a recession. Should trade be framed to suit the corporate rent-seekers?

The correct reforms will not be

L&L's publishers the Henry George Foundation endorses theIU's petition to the UN to amend the *Universal Declaration of Human Rights* "to restore our right to a share in earth and our duty to compensate the community for what we receive". From the site you can invite others to sign up, and a free digital copy of *The Silver Bullet* can be downloaded or sent to anyone interested in why tax-and-tenure reform is imperative to erase mass poverty and territorial conflicts – www.UNpetition.net

adopted without a full understanding of the facts by people with open minds. The price of failure is beyond our present comprehension.

L&L

Fred Harrison is Research Director of the London-based Land Research Trust and the author of Boom Bust: House Prices, Banking and the Depression of 2010.

This article is an edited excerpt from The Silver Bullet by Fred Harrison. The book is the first of the economics of abundance series published by theIU (see Reviews p22).



The Greenspan years: more questions than answers

Ed Dodson is unsure of Alan Greenspan's legacy. Opening a two-part article on how the US economy has got to where it is today, he takes us from the establishment of the Federal Reserve, up to 1989.

IN THE last issue of **L&L**, Professor Michael Hudson provided readers with his insights into the personality and thinking of one of the more controversial public servants in recent us history. Alan Greenspan is known for the individualistic ideals he acquired from an early association with Ayn Rand. Despite this brush with the cultish *objectivism* preached by Rand, Greenspan's stock within the Republican Party was established when he was appointed director of policy research for Richard Nixon's presidential campaign in 1968. Gerald Ford later appointed him chairman of his Council of Economic Advisers. That Alan Greenspan served as "an economic lobbyist for the rich" is certainly true. Whether he was also a chief architect of the debt-fuelled inflation in land prices that occurred during his tenure as chairman of the Federal Reserve's Board of Governors is less certain, in my view.

The operation of land markets absent the public collection of location (and other sources of) rental values is the fundamental cause of the so-called *business cycle*. In this sense, politics does indeed dictate economic outcomes. The Federal Reserve System came into existence in an attempt to mitigate the periodic runs on banks and contraction of credit triggered by land, equities and bond market collapses. The Great Depression proved the banking system remained inherently unstable, although at least some, Milton Friedman most prominently, blamed the Depression on the actions – or inactions – of the head of the Federal Reserve Bank of New York allowing the Jewish-owned Bank of the United States to fail. Citizens lost confidence in the banking system and lined up to remove their savings, causing many otherwise healthy banks to close their doors.

Franklin Roosevelt's *New Deal* may have prevented political and social chaos during the 1930s, but what ended the Depression were the orders for war materials from European governments. By the end of the Second World War, savings by us households combined with government spending on the interstate highway system and mortgage loan guarantees provided by the Veterans Administration to stimulate demand for suburban homes and automobiles. Here was the real beginning of the credit and policy-fuelled escalation in

land prices that periodically outpaced (and outpaces) any increases in household incomes. Further instability was added by enormous expenditures on the military to achieve superiority over the Soviet Union and to support any and all anti-communist regimes (less for purposes of supporting democracy than for defending global corporate resource-extracting interests).

By the late 1960s, the us postwar economic expansion had run its course. Richard Nixon was forced to abandon the fixed price of us dollars in terms of gold and declared, in 1971: "We are all Keynesians now". A global economy dependent on an ever-increasing supply of fossil fuels was then shocked into stagflation by supply and price agreements reached by the oil-exporting nations. Only the discovery of new reserves in the North Sea and rapid steps to conserve energy saved the West from an even deeper and longer economic collapse.

The credit market response to stagflation was to create an unregulated (ie usury-free) avenue for the flow of surplus financial reserves – the money market funds. At nearly the same time, the influence of Milton Friedman's ideas on the Federal Reserve was translated into a dramatic change in monetary policy. For the next few years the Fed abandoned efforts to maintain interest rate stability; its tools were applied to achieve a constant growth in the money supply. The result was catastrophic. Interest rates surged upward, while the Fed found it impossible to calculate money supply changes in real time. Ronald Reagan's determination to outspend the Soviet Union on the military, combined with a flawed understanding of the outcomes generated by *supply-side* economic policies, extended and deepened the recession. Paul Volcker's strategy of attacking inflation by tightening access to credit drove interest rates up even higher, and non-military investment in new plant and equipment stalled.

Little attention has been paid by economic historians to the fact that the Carter administration initiated broad deregulation of the transportation sector and approved creation of the new money market funds. Reagan continued the process and pushed for further cuts in the taxation of capital gains and high marginal incomes. When Paul Volcker's tight credit and high interest rate policies

brought land markets to a crawl, a strong component of inflation was temporarily held in check. A *window of opportunity* was opened for non-inflationary economic growth.

Convinced inflation has been beaten, Volcker then cut interest rates. Recovery in the United States was aided by the fact that elsewhere around the globe the effects of stagflation were even worse. Investors returned to the us dollar as a safe harbour for their financial reserves. While the rising exchange value of the us dollar made exports from the us more expensive in external markets, us consumers benefited by lower prices for imported goods. Moreover, significant efficiencies in fuel consumption were achieved by us producers and automobile manufacturers, softening the impact of continued high costs for fossil fuels. Nearly four years of double-digit interest rates brought down land – and, therefore, housing – prices. However, the window of affordability remained open for only a short while. The nation's inventory of unsold housing units began to move, and those builders who survived the recession refrained from speculative construction. Market forces capitalised the savings from lower interest rates, once again, into gradually increasing land prices.

In 1980 the nation's savings banks were finally relieved from interest rate ceilings on the mortgage loans they made. Unfortunately, thousands of them were already insolvent, faced with rising costs of funds while holding low-yielding mortgage loan portfolios. Fannie Mae and Freddie Mac, the two Government Sponsored Entities (GSEs) and secondary market for mortgage loans originated by financial institutions and mortgage bankers, were similarly faced with eroding capital positions. They were saved from possible bankruptcy by two innovations – the introduction of adjustable rate mortgage loans and the creation of a market for mortgage-backed securities. Fannie Mae and Freddie Mac began to raise funds by pooling mortgage loans together as specific collateral for securities sold to investors. The negative spread (ie the difference between what borrowers were paying under the mortgage loans and the market rate of interest) represented a loss to the two GSEs; however, a ruling by the Federal Accounting Standards Board permitted these



edward j dodson's cooperative individualist view

losses to be amortised over the life of the securities. This dramatically eased the financial pain and stabilised their financial situation just as the housing market rebounded.

Securitisation also meant that commercial and savings banks could – for a guarantee fee – get Fannie Mae or Freddie Mac to pool their mortgage loans and issue additional mortgage-backed securities. The banks benefited similarly from the ability to amortise losses.

The return to low interest rates also stimulated a prolonged period of mortgage loan refinancings, reducing the annual costs of credit for millions of us households and generating desperately-needed revenue for the banks in the form of loan origination and mortgage servicing fees. At the same time, borrowing secured by second or even third mortgage liens on property skyrocketed after passage of the Tax Reform Act of 1986, which eliminated the deductibility of most non-mortgage interest payments. The banks now began to aggressively market new home equity loans and equity lines of credit. Many us households measured their ability to carry higher and higher levels of debt based on the amount of disposable income they enjoyed after paying their bills each month. For the majority of households in the nation, saving was either not possible or put off into the future. Whether there were one or two adults employed full-time, this meant that any prolonged interruption in household income resulted in credit problems, possible foreclosure on their residential property, and bankruptcy.

Into this financial world Alan Greenspan arrived to take over as Chairman of the Board of Governors of the Federal Reserve. Greenspan was immediately faced with the late-1987 stock market crash. The most-astute investors knew the market was overheated and moved their reserves into land and real estate speculation. Land prices rose accordingly – to levels that made profitable development difficult in many parts of the nation. Newly-constructed condominium units, particularly, started to remain unsold even as asking prices were slashed. Developers defaulted on construction loans, and when the banks foreclosed they were forced to dispose of these properties at prices far below the original cost of the land and construction of the buildings. By late 1989 conditions were set for another broad collapse of land markets and the subsequent failure of hundreds of banks facing heavy loan losses. **L&L**

Edward J Dodson is Director of the us-based School of Cooperative Individualism and author of Discovery of First Principles. Picking up in 1989 and taking us to the present day, this article will be concluded in the next issue of L&L.

Some of us are old enough to remember the nearly decade-long United Nations *Convention on the Law of the Sea* that met from 1973 through 1982. The resulting treaty finally took effect in 1994, when a majority of member governments became signatories. Although the present Bush Administration finally agreed to US participation, the US Senate has yet to ratify the treaty. Opposition has come from conservative think tanks fearful of international interference with US security measures and rights as a sovereign nation-state.

I do understand and share concerns regarding transfer of legal authority of the global commons to an agency of the UN (the International Seabed Authority). If, as we argue, the laws of the social democracies have been structured to secure and protect entrenched privilege, the laws of other societies are even more overtly unjust. How can we be convinced that an organisation of governments will ever act in the interests of all?

The social democracies have a very thin claim to any moral high ground. We in the US have been a use, abuse and throw-away society from the earliest European settlement. If there is any universal moral principle, it is that the earth is the birthright of all persons, equally. Our acceptance of the system of sovereign nation-states makes the application of this principle extremely difficult, but within the rules of access to and exploitation of the resources of the oceans is our chance to begin to dismantle the systems of law that have acquiesced to the claims of sovereignty over territory.

A major reason for US reluctance is the structure of the bureaucracy empowered to administer the treaty provisions. The process of issuing licences for mining of the ocean sea beds needs to be depoliticised, with one set of rules for all and licences awarded to the highest bidders. The amount any company will bid for a licence will factor in the costs of compliance with all regulations (rigorously enforced).

A provision of the treaty guarantees the US sovereign control over oil, natural gas and any other natural resources found in the ocean a distance of 200 miles from the US coast. The mining and fishing industries in most nations with access to the oceans should be reasonably satisfied with these provisions, although there are many regions where negotiation over conflicting sovereignties is urgently needed.

A fair and effectively enforced *Law of the Sea Treaty* is in the interest of all. For one thing, our global food supply must be protected. We continue to struggle to protect species from catastrophic overfishing. The ocean ecology evolved over millions of years, and human intervention is on the verge of irreparably destroying the delicate balance that supports our own survival. We ought to call for scientists to determine what the maximum sustainable annual take is, as well as the use of sustainable harvesting methods, set the number of licences to be issued, then conduct an auction for those licences. This revenue stream, as well as that derived from issuing licences to drilling and mining companies, must then be equitably distributed under rules negotiated by members of the UN. This, then, would be a good beginning, but only a beginning. The list of resources rightfully belonging in the commons includes the wind, waves and currents, ocean life other than just fish, clean air, anchorages, locations conducive to floating development (like casinos and desalination plants) and licences issued for flight paths. You can surely think of others.

Free lunch – calling last orders

In this third and concluding part of his series on privilege, **Ole Lefmann** considers the means and consequences of eliminating the bad effects of privilege.

The story so far...

All sorts of privileges are allowed in Western societies. They can be categorised broadly as privileges granted because of the need for regulation of certain activities, so-called privileges that in fact are rewards for service and should be honoured by wages, and 'intellectual property rights'. Privileges can have real value, which people are willing to pay for. Those values are an element of what economists call economic rent (L&L spring 2007). Privileges can have good and bad effects. The bad effects of privilege must be eliminated. One of the important good effects of privilege is the protection of trade freed from monopolies and the bad effects of privilege (L&L Autumn 2007).

NATURE PROVIDES human beings with the necessities of life and all the raw material for the production of goods or the provision of services to meet human demands; all is provided to us, in the raw, as a free gift. But access to that gift is not free. Powerful holders of exclusive rights, or holders protected by power, claim their price for letting access. Those who pay the most to those privilege holders are allowed to use the gifts of nature.

Other privilege holders – producers whom power grants exclusive rights to do what is prohibited for people in general – claim extra profits from prices higher than those they could have claimed for their products or services had they not held their privileges.

In both cases, every day, privilege holders collect a 'free lunch'. The widespread notion that 'there's no such thing as a free lunch' is a misapprehension. The rules in force in society today ensure that free lunches are indeed served up, but reserved for privilege holders only. Such an outcome can have extremely bad effects on the lives of other citizens, not to say on society as a whole: but we need not tolerate these bad effects: they can be eliminated in one

or in a combination of the following ways.

The most radical approach to eliminating the bad effects of a privilege is the simple abolition of the privilege itself. This approach is, in principle, in fact the preferred course: it should be the favoured conclusion following an appropriate examination and assessment. However, although some privileges that attract a value may have bad effects that we want to eliminate, a number of privileges may also have good effects that, in fact, we want to take advantage of.

So then our problem becomes – how might society rid itself of the bad effects of certain privileges that also have effects which we consider good and which we want to take advantage of? For that purpose there are two possibilities available.

We can 'socialise' certain privileges – that is to say nationalise them: render them public functions. The idea of socialisation may be unattractive to some – for instance those who consider public administration slow, ineffective, rigid, or corrupt. But such problems also occur in the private sector. The risk of inefficiency, rigidity, and corruption is latent in all big administrations; and it is true that it is seriously increased in organisations that work without competition or with restricted competition, such as public organisations and others whose operation is based on monopolies or privileges.

The excess profits of monopolies and privileges go to the owners of those monopolies and privileges. In the case of public ownership the excess profit goes into the public coffers, and this reduces the need for taxes. In the case of private ownership the excess profit goes to the private owners. With the rules in force today these may have bad effects on private as well as national economies, and on the wider life of society. (These bad effects, as well as the good, were discussed in detail in the second part of this series in L&L 1219).

These bad effects of privilege are the scourge of today's society. But they can be eliminated quite simply, by the changing of a few rules. When these changes are made it will be found to be good advice to accept many of the private privileges that have good effects. The particular

provisions which are required to eliminate the bad effects of privilege are:

- the public collection of the rental values of all tolerated private privileges. The rental values of privileges means the annual excess profits derived from non-landed privileges, or the amounts users are willing to pay to privilege holders for the rights to access the advantages of nature and society – that is, the rental values of landed privileges. The bad effects of those rental values of privilege, which presently become concentrated among the few, will end when those rental values – created by the public – are paid to the public purse,

and

- the application of the revenue raised for the benefit of all citizens equally.

The public annual collection of the rental values of privileges is the most important step to take; but it is not enough to abolish the bad effects of the rental values of privileges and allow the good effects to flourish: the revenue has to benefit all citizens as equally as possible. And for that purpose we may look at two different ways of using it:

- by financing public undertakings that will benefit all citizens,

or

- by financing the distribution of equal shares to all citizens.

Looking at these two ways from an ideological point of view, the first one may be called the socialistic way. It presupposes the government's ability to decide which of the citizens' demands shall be fulfilled before other demands, and when, where, how and by whom it shall be fulfilled. The second of the two ways allows individual citizens to decide for themselves which of their wishes shall be fulfilled before other demands, and when, where, how and by whom it shall be fulfilled. This might be called the libertarian way. Each way will have its supporters in today's society.

The first way will certainly appeal to politicians and civic servants clamoring for the limited resources available for the financing of public services and infrastructure. Their concerns are to achieve the proper funding of current projects presently under-financed, and the funding of new projects that

cannot presently be realised because of lack of finance.

It seems that today, in the first decade of the 21st century, 'financing new public projects by land value taxation', for instance, is likely to be a more successful argument for the implementation of the policy than the idea of 'replacing other taxes by land value taxation', which attracted so much attention at the beginning of the 20th century.

The second way of ensuring revenue benefits all citizens as equally as possible might have less partisan appeal. During recent decades this alternative policy proposal has attracted growing interest. It coincides with the still-more widespread idea of a 'citizen's dividend' – encouraged by the growing sense that each individual of the community has a moral right to a share of the huge value of the community. This is the same sense that accepts the assertion that all human beings have equal rights to nature and to the values of it.

To eliminate the bad effects of privilege, where might support for these policy proposals come from? Different groups which urge the establishment of a 'Citizen's Dividend' have differing ideas about to whom and how much should be paid out, and about the important question of which source(s) might finance the project. However the following formulation might have broad appeal: 'equal dividends to all citizens funded by the 'free lunches' provided by nature and society, collected and distributed by the public'.

Further support for this might be gathered when considered as a green policy initiative. A green perspective should fit comfortably around the equal distribution of the rental values of privilege. The public revenue slogan 'pay for what you take – not for what you make' fits well with a green sensibility. In addition, those concerned with the resolution of conflict within and between societies should appreciate that an equal distribution of common wealth will support a more friendly and more harmonious society. Tax reformers – of the left and right – may prefer public collection of the values of visible land and registered privileges instead of the traditional assessment and taxation of private values (such as moveable assets or earned income) that can easily be hidden from or taken beyond the grasp of the taxman.

So we see that the public collection of the value of nature and society, and the use of the revenue for the betterment of all citizens on an equal footing, has supporters in groups and individuals of very different outlooks and points of view. This broad grouping of supporters might provide a perfect base for cooperation. But it also raises a problem that cannot be ignored. If the use of the revenue, in

broad terms, is not agreed by all campaigners, it may cause problems.

It may be astute, in order to secure greatest public support for change, to consider as a point of strategy that all revenue raised by the proposal should be hypothecated – earmarked – into two divisions, in which one half shall finance public undertakings, and the other finance the distribution of an equal Citizen's Dividend paid to all citizens.

Public information and education would be essential. It would be up to campaigners to inform the citizens of the advantages of the proposal. People in general are unaware of the causes that provide them with good economic conditions.

Proponents of the reform and campaigners will have to inform the general public about the ongoing implementation of the change: namely, that public expenses will increasingly be financed by the values of nature and society, and that the Citizen's Dividend will increase year by year as the market value of privileges rise. It is important that citizens come to understand and keep in mind that they will receive their Citizen's Dividend not as a social security payment but as a citizen's universal and equal right to a share of the value of nature and society.

We should ask how much revenue might be collectable from the free lunches provided by nature and society? Privileges 'eat' from each other. As one privilege is able to take to itself more value, the others can get less; with one exception. Landowners are not able to take anything from other privilege holders: they can scoff of the free lunches only what is left at the table by those others. Both taxes and privilege profits are legal claims – supported by government power. They reduce the spending power that people could and would otherwise use to pay to access their preferred locations – whether to landlords or as a purchase price for their homes and workplaces.

In today's developed societies taxes have increased to a very high portion of the economy. Privileges have increased in number as well as in their economic capacity. The size of the rent of land (the free lunches provided by nature and society) left for the landowners to pick up therefore constitutes a smaller percentage of the gross national product than in the days of the classical economists. The classical economists explained that the results of production would be shared between labourers, investors and landowners only.

Today, landowners have to accept that rent of land is reduced to what remains when other powerful privilege-holders have captured taxes and excess profits from the market.

Conversely, this relation between the 'rent of land' and the proceeds taken by others, also means that the rent of land will increase when privilege-increased prices are eliminated. The increased rent of land means a higher revenue from land value taxation, and more funding for financing public undertakings and the universal Citizen's Dividend. That will reduce the need for social security benefit, which also will reduce the demand for taxes.

Reduced taxes – except land value taxation – will increase the citizens' private spending power, propelling the virtuous cycle onward; all without increasing inflation. The amount of expected revenue from the public collection of the rental value of privileges would prove sufficient. It would be enough to pay for both new generally-needed public undertakings (which aggregate more rental values than spent on investments) and a Citizen's Dividend; *and*, further, the scheme would be capable of replacing those 'old taxes' and aggregate in quantum at least the same rental values as the reduced taxes.

So, the size of the 'free lunches' from nature and society is sufficient for society's needs. The public collection of the value of those free lunches is self-funding; and therefore inexhaustible so long as revenue is distributed equally to all citizens – or in other ways used to benefit all citizens on an equal footing. **L&L**

Ole Lefmann was Deputy President of the IU 1993-2001, since when he has served as the Union's Honorary Assistant Secretary.

(On the following pages, LL Blake takes up the question of privilege from a different perspective.)



Privilege, aristocracy, monarchy

LL Blake reflects on the traditional constitutional role of privilege in Britain.

EDMUND BURKE, in the 18th century, wrote and spoke copiously about tradition in this country. On the subject of the constitution, he wrote: "...it is a constitution made by what is ten thousand times better than choice, it is made by the peculiar circumstances, occasions, tempers, dispositions, and moral, civil, and social habitudes of the people, which disclose themselves only in a long space of time". He was not fond of instant "improvements". He said also: "To innovate is not to reform".

Burke would have been saddened by the assertion recently by a Director of Public Prosecutions that we should not be ruled by what happened in the thirteenth century. She spoke in connection with modernising our criminal procedures. In fact the 13th century was the time of Magna Carta and the emergence of Parliament in a form recognisable by us; even more it was the century in which the lawyer Bracton gave us the principle which judges invoke almost daily in the High Court, bringing all officials under discipline, "the king must be under no man, but God and the law, for the law makes the king" (and all his officers). Magna Carta was relied on recently by a judge who found that the court system had delayed access to justice for a young woman who was pregnant and had nowhere to sleep save for her car. The judge applied chapter 40 of the Great Charter which states: "To no one will we sell, to no one will we refuse or delay right or justice". In the light of this judgment we may wonder indeed whether the proposal to delay charging a suspected terrorist for a period not exceeding 42 days is legally sound!

We think we know all there is to know about privilege and abhor it. Why should some people have it and not others? But what about parliamentary privilege which protects freedom of speech in Parliament? Members of the Commons and Lords can speak freely in the Houses of Parliament without fear of legal action on grounds of slander. Privilege does have its good side. It is privilege which guards communication between lawyer and client.

Aristocracy is another word that currently has a bad press. We have driven out the hereditary peers from the House of Lords, save for 92 of them. But aristocracy really signifies government of the best, according to its

etymology. What more could we hope for?

Thomas Jefferson, in the early years of the American republic, said that government should be exercised by a 'natural aristocracy'. No doubt this accounted for the requirement in the constitution of the United States that voters vote not for a person to act as President, but a college of electors who would determine collectively who was the best citizen for the post.



That was the intention, although now the college usually tamely follows the popular vote, and elects the man or woman who gained the most votes.

In Britain we had a natural aristocracy, based on families that had demonstrated long and faithful service to the state: families such as the Cecils, who led through the House of Lords. This was natural, because family is the natural basis of the community. However, modern experience has shown that in a number of hereditary peerages the element of service to the country has been put aside for personal gain, such, for instance, as the opposition to justice in regard to the taxation of land values in 1909-10. Accordingly, it was

popularly possible to decree the abolition of the hereditary peerage in the House of Lords (save for the time being of the 92) by the Blair administration. In the circumstances, probably the continued presence of those members would be about right for the 'mix' of the House of Lords – which has such a firm reputation of wisdom and sound common-sense in regulating legislation and debating great issues of the nation.

Monarchy in its modern sense of 'constitutional monarchy' has undoubtedly wide popular support, at least as conducted by the present Queen. Ripples of dismay have, however, disturbed the peace ('The Queen's Peace' as it was known) in such matters as the death of Princess Diana. And frequent protests have been heard about the nature and extent of the Queen's function. What exactly does she do that merits all the splendour and the money?

First let it be said that in foregoing the income from royal estates (which goes to the Treasury) in exchange for a Civil List of moderate proportions, the Queen's services come at a very fair price. The financial cost to the United States taxpayer of a presidency is astronomic in comparison.

Secondly the monarchy brings with it immense dignity and majesty to the government of Britain. It gives light and distinction to the institutions which rule our daily lives. Her Majesty was once asked what she thought her role was; she answered "My function is one of being, not doing". That is exactly so: to have someone at the centre of government who has constant regard to and supervision of the workings of the constitution is a supreme gift. She does not let her gaze fall, she is constantly in touch with the affairs of the state, and she, no doubt, asks the right questions of her prime ministers. When one compares this with the incessant political chatter and hasty decision-making of an American presidency one sees the great virtue of stillness and constant and unbroken vigilance at the heart of the nation. Such stillness ensures our freedom.

Professor Anthony King, in his seminal work on *The British Constitution*, describes the traditional constitution, in part, as follows: "The British system actually delivered the goods – on a very large scale – and it had done so for nearly two hundred years. It delivered liberty, the rule of law, a stable currency, remarkable prosperity, the great industrial

cities of Glasgow, Liverpool, Manchester and Birmingham, the City of London, cheap food, law and order, a navy that commanded the world's oceans, an empire on which the sun never set, victory in the Napoleonic wars and then in two world wars, water that was safe to drink, the world's first railways, half-way decent roads, old-age pensions, unemployment insurance, better and better housing and the National Health Service, among many other things..."

This traditional constitution may be amended, but substantially it should be maintained, as Peter Osborne says in his excellent book, *The Triumph of the Political*

Class: "This is why the presence of our great institutions – judiciary, Parliament, civil service, a free press and (in the private sphere) the family – have such profound importance. They offer protection against the populism that is such a potent feature of the democratic system. They stand for values – fairness, decency, protection of minorities, freedom under law – which inevitably come under strain in a democracy". The theme of his book is countering the onset of tyranny of the political class, given the strains which democracy brings with it.

Tradition thus has a leading role to play in civic affairs. We should all work to maintain it

in the face of increasing populism, the herald of tyranny, which Plato says is the probable outcome of democracy. Our precious heritage of freedom – our gift to the civilised world – depends on tradition, particularly in the form of the rule of law. Despite bad press, privilege, aristocracy and monarchy have enduring roles in the constitution of modern Britain. **L&L**

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reviews – continued from p. 23

Mr Taylor went to his club on nights when Mr Mill came round. Mill married Harriet in 1852; she died in Avignon in 1858. Mill dedicated the rest of his life to overpraising her memory, holding her jointly responsible for his great works *On Liberty* (1859) and *The Subjection of Women* (1869). He exaggerated as regards *Liberty*, but she had certainly helped to radicalise Mill, making him more socialist as well as more feminist.

Like any other radical political economist, Mill believed in land reform. He did not need any push from Harriet; he simply followed directly in the footsteps of Adam Smith and David Ricardo, for whom he had worked in his infant prodigy years. They all shared a very simple view: income from landownership was unearned; it rose and fell for reasons that were irrelevant to the landowner's efforts ("falls into their mouths as they sleep", said Mill). Therefore it was appropriate to tax it more heavily than other income. Mill rejected land nationalisation, but only on pragmatic grounds ("I think it will be a generation or two before the progress of public intelligence and morality will permit so great a concern to be entrusted to the public authorities"). How far have

public intelligence and morality progressed since 1871? Would you entrust land ownership to the public authorities? These remain open questions. In words that might delight Ken Livingstone and either delight or alarm Boris Johnson, Mill concluded: "If the Grosvenor, Portman and Portland estates belonged to the municipality of London, the gigantic income of those estates would probably suffice for the whole expense of the local government of the capital."

Iain McLean

Rebirth

New Life in Old Cities

by Mason Gaffney
Robert Schalkenbach Foundation,
revised edition 2007, 50pp, p/b
ISBN: 0-911312-92-7, \$7

This booklet gives an interesting insight into the growth or decay of American cities over the last hundred years. When, in the 1920s, New York City exempted residential buildings from the property tax while maintaining the tax on land values there was a surge in building and population, creating a city attractive to people and business.

Vancouver under a 'single tax' mayor went further than any US city in exempting buildings, and grew much faster: it quintupled in population after exempting half and then in 1910-1918 all buildings from the above-the-site property tax. It remains one of the most beautiful and livable cities in North America.

Historically, the depression of the 1930s; the fact that the single taxers died or retired, that there seemed to be few heirs to Henry George's ideas; and in many cities selfish vested interests put economic justice aside, had a negative impact on reform.

Perhaps the work going on today will reverse this and restore land value taxation to its rightful place in the canons of taxation.

Geoffrey Lee

'Orange' Peel

Robert Peel

by Douglas Hurd
Weidenfeld & Nicolson, 2007,
440pp, h/c
ISBN: 978-0-297-84844-8, £25

Sir Robert Peel, Prime Minister from 1834-5 and 1841-6, cleared hundreds of archaic criminal laws from the statute book. He created

the modern police force whose constables 180 years later are still known as Bobbies. As a freetrader he repealed the Corn Laws, splitting the Conservative Party.

Curiously, although he was never Chancellor, Peel did largely draft two major Budgets. Inheriting a large deficit from the Whigs, he consulted Gladstone who suggested reviving the house tax. But Peel realised he would never get this through. Deviously circulating Gladstone's paper to other ministers – so that what he did propose, the reintroduction of income tax, would seem attractive by comparison – Peel got his way in the 1842 Budget, with the real Chancellor sitting meekly beside him.

If the climate had been right this would have been the ideal moment to introduce land value taxation, but as an immensely rich landowner, lvt was not something he ever contemplated.

Gladstone, however, Peel's disciple, retained an interest in the land question and read Henry George's *Progress & Poverty*, and eventually introduced a form of lvt into the Liberal Party's programme, where under the LibDems it continues to this day.

Geoffrey Lee

Fire!

The Silver Bullet
by Fred Harrison
theIU, 2008, 220pp, p/b
ISBN: 978-0-904658-10-1, £10

Many countries suffered from the advice of celebrated 'end of poverty' economist Jeffrey Sachs. Illustrating how the Washington Consensus perpetuates and aggravates the world's social and economic problems, Fred Harrison highlights the case for policies such as land value taxation. By switching our attention from the role of lvt in the countries of Europe and North America, to many countries in Latin America, Asia and Africa, he drives home the potential worldwide importance of the policy.

Harrison emphasises that "competition delivers optimum efficiency *only if the distribution of income also conforms to the principle of justice....*In the capitalist economy, most social and economic problems stem from the fact that the pricing mechanism is legally and institutionally constrained from functioning either efficiently or fairly. Specifically, the problem is located in the system of public prices – government's taxes – which are a covert way of redistributing income *from the poor to the rich*". I needn't spell out here Harrison's explanation of how that works, but it is clear and it is important to understand it. Harrison's case studies all throw up points of interest.

For example, after overthrowing the last imperial dynasty in China in 1911, Sun Yat Sen – in his *Three Principles of the People*, combining economic understanding from the West with the ancient wisdom of China – followed the teaching that land values shall revert to the community, *or*: when Chiang Kai-shek led the Kuomintang to Formosa after their defeat by

Mao's Communists in 1949, Sun Yat Sen's *Three Principles* helped to launch Taiwan's development as a modern economy. But Harrison hopes the way may still be open for China to evolve a form of what he calls 'social capitalism', based on the *Three Principles*.

Social capitalism, he emphasises, would not be "a hybrid (a pastiche of existing political doctrines), but a unique

philosophy of social organisation designed to liberate the individual and protect the common good". It would be based on "the socialisation of rent and the privatisation of wages and profit".

President Chavez of Venezuela, for example, should have realised that "the socialist paradigm is of little use to the people. It was well tested and abandoned in the 20th century. So why wave the socialist flag under the beak of the American eagle?...If Chavez had announced not land reform but tax reform, Washington would have found it more difficult to justify its plots against [him]."

That insight into presentation prompts me to end with three suggestions for getting intelligent, active people to give serious attention to the book's case.

First, we should use today's language. Busy, fully engaged people don't have the time and energy to figure out how the meaning of 'rent' in classical economics differed from what it means in everyday life today.

Second, beware the 'silver bullet' concept. Don't fall into the 'single tax' trap. People think they know very well that there is no single solution to poverty. Not only taxation, but other elements too have a bearing on poverty. Public spending, instead of distributing a share of the value of common resources as a citizen's income, now subsidises profit-making private sector corporations (including financial ones) to provide public



a quick note ...

Reclaiming the Economy – Alternatives to Market Fundamentalism in Scotland and Beyond by Andy Cumbers and Geoff Whittam (eds). p/b £9.99

Prem Sikka, Mike Danson and others go in search of "a radical left agenda...grounded in a practical politics" and a "global vision challenging the free market fundamentalism of our time."

Bring on the Apocalypse: Six Arguments for Global Justice by George Monbiot. p/b £11.99

Five stars, for anyone who has not read Monbiot's articles in the Guardian or on his website. Vivid, radical and wide ranging.
– R Dunn, Amazon

On the Wealth of Nations: A Book That Shook the World by PJ O'Rourke. p/b £8.99

For an easy introduction to Smith and his ideas (and this is a very quick, undemanding read) this is not a bad point to start, so long as you take O'Rourke's interpretation with a very large pinch of salt.
– Humphrey Plugg, Amazon

Economics of Poverty, Environment and Natural Resource Use by Rob B Dellink and Arjan Ruijs (eds). p/b £38.50

An academic book searching for explanations for the "resource-poverty nexus" and asking "to what extent [can] payments for environmental services...be an effective tool for stimulating sustainable resource use and poverty alleviation?"



Lars Rindsig's view from the right

If people won't give us their hearts and minds (quite literally) we'll jolly well have to take them ourselves. This seems to be the logic behind the human spare parts appropriation programmes that an increasing number of Western governments are initiating. The debate raged in the Danish press in the autumn and has since appeared in the UK and America: should the government be able to nationalise organs from corpses? In Spain and other countries they don't debate – they act. If you have a kidney, they'll come and get it. Just like that.

It's not that it doesn't make a twisted sort of sense – rather like how, when governments decide they need money for public services, they raise it simply by grabbing the funds. It's the same simple reasoning used by Faith, the mean-girl character in *Buffy the Vampire Slayer*, once she fully fathoms her super strength and what it puts her in a position to do: "want, take, have".

This brand of government-sponsored grave robbery, in other words, is indicative of the way the basic concept of property rights is being – whether by intent or by folly – misrepresented and perverted and misrepresented and perverted again because of its continued removal further and further from how things ought to be. This is true not only in economics where (crikey are they ever) concepts are royally screwed up, but also in the realm of people. Like when forced labour is the accepted norm as long as you're forced to work for the military. Or when the state gets to lock you up on bread and water for keeping what's rightfully (if not legally) yours, instead of donating it to the taxman? Or when it's alright for the state to chop up the recently deceased, contrary to their own wishes and those of their bereaved families. What's next? – An impost on keeping your child alive in a respirator because the longer she lives, the longer you are preventing the excavation of her organs as a 'societal resource'? Utter brutal madness.

Forty-eight years ago Marilyn Monroe sang "My heart belongs to daddy". Miss Monroe's intentions may not have been as literal as L&L's in its interpretation of her catchphrase. But the way things are going, we're approaching a situation where we might all burst into a song of our own: "My heart belongs to Big Brother." Boo-boop-be-doo, indeed.

The very real need for organ donation, of course, cannot and should not be denied. One might consider it an imperative to help out our fellow man when in dire need of something that we ourselves aren't quite capable (being dead and all) of utilising to its full potential. "I leave my body to science" used to be an eccentric thing to put in your will, but it rather does make sense.

For all I care you can do with my soulless body what you will when I'm done with it, be it human repairs or fish bait. However I've long signed up as an organ donor, because – it seems to me – there's no good reason why my or anyone else's remains should not go to further use.

But, please, have the decency to ask first.

infrastructure and services to dependent citizens. Creating the national money supply in the form of profit-making loans to bank customers, encourages its investment in rising land values, not productive employment. Those, like the present tax system, are poverty-creating institutions that need reform.

Third, global warming and green taxation are now central concerns, as we face the 21st century threat of combined worldwide systems collapse – ecological, economic and social. We need to explain why land and tax reform is relevant to them. The answer is that people should pay for the value they take from using or preventing others from using scarce common resources. Among these are land sites as well as the environment's capacity to absorb carbon emissions and provide many other kinds of support.

James Robertson

On liberty

John Stuart Mill: Victorian Firebrand
by Richard Reeves

Atlantic Books, 2007, 616pp, h/c
ISBN: 978-1-84534-643-6, £30

Many readers will know one poem about Mill, which is quoted in this book.

John Stuart Mill, of his own free will / On half a pint of shandy was particularly ill.

A few may know another, which is not.

John Stuart Mill / By a mighty effort of will / Overcame his natural bonhomie / And wrote Principles of Political Economy.

(It is lucky that Mill's grandmother abandoned the original more Scottish surname Milne). Between them the poems summarise what is still, probably, the prevailing view of Mill: a humourless, frigid pedant of hooded eye, black coat, and winged collar, as in the portrait by GF Watts, which glares out from the cover of Richard Reeves' book.

Reeves tells a different story: one which is well known to scholars, and partly known to anyone who has read Mill's self-bowdlerised *Autobiography*, but still needs to be told in the lively way this book does. There are some factual errors, but generally the book is reliable.

The picture Reeves paints is dramatic and rather sad. JS Mill was a one-boy educational experiment. His father proved that he could pump all knowledge into his pre-teen son, who was apprenticed to his father's colleague Jeremy Bentham at 14. But at 20 he suffered what he called 'a mental crisis' on realising that Benthamite utilitarianism was emotionally shallow. He started to read conservative thinkers like Coleridge; he wrote poetry criticism; he was for a while a friend of the violent reactionary Thomas Carlyle. He fell in love just once, but passionately, with Mrs Harriet Taylor. In the ensuing triangular relationship,

continues on p. 21

The Evolution of Resource Property Rights by Anthony Scott. h/c £65

Traces the development of property rights over different kinds of natural resource from classical times through to the 19th century, and makes a special plea for the multiple-purpose and multi-owner management of resource rights.

George: Political Ideologue, Social Philosopher and Economic Theorist by Laurence S Moss (ed). p/b £19.99

Can we imagine a reworking of the entire theory of capital based on the idea of georgist monopoly rents? Part of a series of 'Studies in Economic Reform and Social Justice' of the *American Journal of Economics and Sociology* (see next issue for full review).

Carbon trading – getting its auction house in order

Jo Stocks applauds as the government gets it right.

LAST MONTH'S UK Budget, the first from Chancellor of the Exchequer Alistair Darling, contains within it one particularly significant policy announcement. The proposal will help secure carbon trading as a key feature of the future global fiscal landscape. This should both help save the planet and provide further demonstration of the new model of public finance.

There is still no agreement on the appropriate policy response to climate change. Joseph Stiglitz said recently: "Better incentives must be part of the solution. But there is a raging controversy over whether the Kyoto protocol's cap-and-trade system or taxes work better." The UK move tips the argument in favour of trading.

Trading schemes mostly suffer from two serious shortcomings. First is the allocation of grandfather rights – ie permits are issued to polluters on the basis of historic emissions, effectively rewarding the worst offenders. Secondly, the allocation of the permits themselves is on a free basis – ie the permits are given away by government – which opponents say is tantamount to giving away money. Large corporations who tidy up their act can trade no-longer-needed permits, and profit handsomely in doing so.

The 2008 budget has recognised that second shortcoming, and it puts forward a solution: public auctioning. The proceeds go to the public purse. Darling announced that the government had decided on "auctioning 100 per cent of allowances for large electricity producers in Phase III of the EU Emissions Trading Scheme". While not a universal scheme for auctioning carbon permits, the decision is seen as an important market signal of the government's intention.

Dr James Wilde of the UK Carbon Trust

said: "We strongly welcome the decision. More auctioning will be important as the current national allocation plans only propose a small amount of auctioning, but governments retain the right to decide to auction more. Auction revenues can help us to move to a low carbon economy. The government should now work alongside industry to determine the role that auctioning should play in other sectors within the context of maintaining and enhancing the sectors' competitiveness."

It seems unlikely that the Chancellor's budget will make much difference in the coming global economic storm. But as a long-distance beacon for the future direction of fiscal policy, his decision on auctioning carbon permits will shine straight through the hard times ahead.

Meanwhile the leader of the Green Party of Ontario, Frank de Jong, reports: "British Columbia has become the first North American jurisdiction to implement a full-fledged carbon tax. It will apply a \$10-per-tonne charge of emitting carbon (rising to \$30-per-tonne), the revenue used to reduce income taxes." De Jong hopes it's just the beginning for his continent.

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