

LAND & LIBERTY

since 1894

Restoring a timeless idea...

Issue 1238 Winter 2016/17

*Taking The
Long View*

“

HOW CAN A MAN BE SAID
TO HAVE A COUNTRY...



LAND&LIBERTY

No 1238 Vol 126 Winter 2016/17

PO Box 6408, London, W1A 3GY
+44 (0) 800 048 8537
editor@landandliberty.net

Editor
Joseph Milne

Managing Editor
Jesper Raundall Christensen 

Graphics and Production
Jesper Raundall Christensen 

Publisher *Henry George Foundation*

To receive Land&Liberty or support the work of the Henry George Foundation contact us at the address above.

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 justice at the heart of economics.

Copyright in this and other Land&Liberty publications belongs to the Henry George Foundation, which welcomes approaches for the reproduction of articles. However reproduction is prohibited without prior written permission of the copyright holders. No responsibility will be accepted for any errors or omissions or comments made by contributors or interviewees. Views expressed are not necessarily those of the publishers. Goods and services advertised are not necessarily endorsed by the publishers. Land&Liberty is produced by the Henry George Foundation and printed by Premier Print Group on 100% recycled paper.

ISSN 0023-7574



The Henry George Foundation is an independent economic and social justice think tank and public education group with offices in London and members throughout the UK. The Foundation deals in cutting-edge ideas, exploring and promoting principles for a just and prosperous society and a healthy environment.

The Henry George Foundation of Great Britain is a company limited by guarantee, registered in England, no. 00956714, and a charity registered in England under the Charities Act 1960, no. 259194.

www.HenryGeorgeFoundation.org

letter from the publisher

My recent attendance at the United Nation's Habitat III conference on Housing and Sustainable Urban Development in Quito, Ecuador led me to look at what George had to say about "Habitat" - i.e. the natural home or environment of an animal, plant, or other organism. He addresses the subject in his book *Social Problems* where he refers to a law of nature that governs organic life. Here he marks how every creature depends upon a subtle ability to acquire and apply knowledge of their habitat. Further, that the more complex the creature - the more different and connected parts it has - the more refined this ability becomes and that in man, compared with other creatures, this ability is:

"so superior, that the difference seems of kind rather than degree. In him, that narrow and seemingly unconscious intelligence that we call instinct becomes conscious reason, and the godlike power of adaptation and invention makes feeble man nature's king. But with man the ascending line stops. Animal life assumes no higher form: nor can we affirm that in all his generations, man, as an animal, has whit improved. But progression in another line begins. Where the development of species ends, social development commences..."

He goes on to point out how, with every advance of society that we call civilisation human powers increase and:

"In this progression that begins with man, as in that which leads up to him the same law holds. Each advance makes a demand for higher and higher intelligence. With the beginnings of society arises the need for social intelligence - for that consensus of individual intelligence which forms public opinion, a public conscience, a public will, and is manifested in law, institutions and administration."

George's call is for higher rather than more intelligence and his reference to conscience and will in addition to opinion points us to those aspects of human intelligence that are experienced in our heart and soul rather than in our heads or bodies - aspects that manifest in human creativity and love. His reference to the way in which man's ability to make and care for things resembles that of the absolute power that is responsible for the creation and maintenance of the universe reminds us of his recognition that every particle or aspect of the universe depends upon the whole of which it is but a part.

In October 2016 some thirty thousand good people from every country gathered in Quito to consider issues concerning man and his habitat and what was clear to Henry George towards the end of the nineteenth century was, for many even clearer today following the massive advances in technology and substantially increased interdependence that are a feature of modern civilised life. The need for higher social intelligence is now more than ever urgent if the social, economic and environmental catastrophes that so many fear are to be avoided, and George's emphasis on the Golden Rule - to "do unto others as you would be done by" is now more important than ever.

David Triggs
Chairman
Henry George Foundation

[henrygeorgefoundation@
googlemail.com](mailto:henrygeorgefoundation@googlemail.com)



www.landandliberty.net
follow us on Twitter @landandliberty

CONTENTS

issue
1238

WINTER 2016/17



Regulars

21

HGF News

The latest news and events of the Henry George Foundation in London

20

Reviews & Books Worth Reading

Fred Harrison reviews *Property Rights, Land Values & Urban Development* by Li Tian before your Land&Liberty editors present their Books Worth Reading

24

Closing Thoughts

Brian Chance reflects on the articles *LVT and the Housing Crisis of a Generation* and *Efficient Effective LVT Implementation* and presents his perspective

Cover Story

6

Lest We Forget

Edward Dodson takes on the build-up to 2008 - and the lessons not learned



Cover Photograph PublicDomain Pictures

Article image rights:
pixabay.com
- under public domain license
&
depositphotos.com
- under paid standard license

Features

10

One View On Interest

Richard Glover lays out the thought-provoking history of usury and contextualises the subject of interest to life in our modern world

16

Ruling Ideas

Springing from a number of lectures editor Joseph Milne connects the dots between Plato and Aristotle to the writings of Henry George - ultimately raising the question of what critical ideas have been lost or simply misinterpreted in the time past

letter from the editor

It is extraordinary how modern economics and politics never discuss the meaning of work. Yet if there is one argument above any other that ought to persuade anyone that George's remedy is worth applying, it is that it would change the status and meaning of work. In the closing chapters of *Progress and Poverty* George writes:

The fact is that the work which improves the condition of mankind, the work which extends knowledge and increases power, and enriches literature, and elevates thought, is not done to secure a living. It is not the work of slaves, driven to their task either by the lash of a master or by animal necessities. It is the work of men who perform it for its own sake, and not that they may get more to eat or drink, or wear, or display. In a state of society where want was abolished, work of this sort would be enormously increased. (Book X, Chapter 4)

For most people today work remains driven by "animal necessities". A recent survey shows that the average rent for a home in the UK is now 60% of income. At the same time wages are being driven down by zero-hour contracts which circumvent practically all employment legislation by defining the person as a 'worker' or as 'self-employed' rather than an 'employee'. Most zero-hour contracts are in the hotel and catering industry, supermarkets, health care, public services, and not-for-profit organisations. When wages are forced down to a mere minimum, and rents raised to a maximum, work becomes mere struggle for material necessities and degrades the human person. For the majority of employed people the idea of work being meaningful or fulfilling is plain wishful thinking. But George argues that the opposite would be so if the land tax were to be implemented:

The hard toll of routine labor would disappear. Wages would be too high and opportunities too great to compel any man to stint and starve the higher qualities of his nature, and in every avocation the brain would aid the hand. Work, even of the coarser kinds, would become a lightsome thing, and the tendency of modern production to subdivision would not involve monotony or the contraction of ability in the worker; but would be relieved by short hours, by change, by the alternation of intellectual with manual occupations. There would result, not only the utilization of productive forces now going to waste; not only would our present knowledge, now so imperfectly applied, be fully used; but from the mobility of labor and the mental activity which would be generated, there would result advances in the methods of production that we now cannot imagine.

It is the repression of the creative human spirit that is the worst effect of poverty, worsened by the fact that this poverty is sustained by economic ignorance. It requires a great effort of imagination to envisage how humanity would be transformed by the removal of 'fear and want' as the driving force of human work. Once it became easy for all to acquire sufficient for their material needs, human desire would then naturally aspire to higher things.

Consider the moral elevation, the intellectual activity, the social life. Consider how by a thousand actions and interactions the members of every community are linked together, and how in the present condition of things even the fortunate few who stand upon the apex of the social pyramid must suffer, though they know it not, from the want, ignorance, and degradation that are underneath.

The reduction of work to the acquisition of the mere necessities of life not only degrades the individual, it also destroys community and cooperation. In Book X of *Progress and Poverty* George argues that as society develops a natural division of functions and institutions emerge, and this tends to produce inequality which in turn inhibits progress as different factions seek power or status. It is this tendency for progress to meet obstacles that presents the greatest challenge to civilisation. It demands new insight into the nature of society to see how these natural obstacles are to be met. This is because the division of functions requires a higher order of cooperation. It is for the sake of this higher order of cooperation that the various civil institutions arise. The danger then is that these institutions may seek to serve themselves instead of the community that gives rise to them. When the institutions of society become self-serving they petrify and obstruct further social progress instead of enabling it. This in turn leads to further inequality. According to George, these issues are inherent in society, as the two principle forces of progress, association and equality, each drive innovation. Progress is not automatic but requires that society reflects upon itself as a whole and understands what George calls 'the law of human progress.'

But the great cause of inequality is in the natural monopoly which is given by the possession of land. The first perceptions of men seem always to be that land is common property; but the rude devices by which this is at first recognized - such as annual partitions or cultivation in common - are consistent with only a low stage of development. The idea of property, which naturally arises with reference to things of human production, is easily transferred to land, and an institution which when population is sparse merely secures to the improver and user the due reward of his labor, finally, as population becomes dense and rent arises, operates to strip the producer of his wages.

Here George illustrates that land monopoly arises naturally as society becomes more complex, presenting a precise challenge at a certain stage of development. If a society fails to meet this new challenge it will drift towards inequality. Innovation, instead of enriching all, will tend towards the production of luxuries for the rich and powerful. Supplying luxuries for the rich not only widens the gap between rich and poor, it is also a waste and degradation of labour. It destroys the real meaning of work and reduces it to servitude. And since work of this kind is essentially exploitative, keeping wages low, it also destroys community by limiting human cooperation. By limiting cooperation all kinds of higher social and cultural innovations are suppressed. And without cooperation there cannot be freedom, since freedom is the exercise of cooperation, and cooperation is the opposite of servitude.

Economic justice is about far more than fair distribution of wealth. Human nature is fulfilled through meaningful work, satisfying in itself, and further enriched through association. Work of this kind ennobles society and removes all envy. But so long as the private appropriation of land remains an unseen injustice and an unmet challenge to understanding, all other economic injustices can at best be only partly mitigated.



Joseph Milne
editor@landandliberty.net



THE 2008 CRISIS & TAKING THE LONG VIEW

Studying the works of Henry George was of tremendous help to me during most of my professional life in the financial sector. George provided me with a broader understanding of the relationship between household income, household savings, mortgage interest rates and what owners of land could charge for land they offered for sale. I came to understand that any measures taken to increase the demand side of the market would be capitalized into higher land prices, that our systems of law and taxation strongly favored rentier interests.

Early on in my career I was trained to analyze the creditworthiness of potential borrowers. Statistics gathered over many decades told us that the potential risk of default increased whenever the borrower had to spend more than 25-28 percent of gross monthly income toward what we called "PITI" (principal, interest and an escrow for property taxes and homeowners insurance). During the early 1970s we would not even include a female spouse's income in this calculation, unless her profession was in teaching or medicine. One benefit of such conservative underwriting was that if the primary borrower lost employment and income, the possibility existed for a spouse's income to help keep the family current on its loan repayment. In the late 1970s I was hired by a commercial bank to manage its mortgage servicing department.

A few years later I was promoted to manage both mortgage originations and servicing. At that time, the bank still required a minimum cash down payment of 20 percent of the purchase price of the subject property (although exceptions were made for borrowers who had more extensive relations with the bank). Throughout the 1950s and well into 1960s, the property purchaser was essentially paying cash for the land parcel and financing the purchase of the home itself. However, as land prices began to climb faster than household income and savings, banks and other mortgage loan investors had to accept greater risk in order to be competitive and maintain market share.

A segment of the U.S. homebuyers with lower savings and lower household income were already being served under a government mortgage guarantee program administered by the Federal Housing Association (FHA). FHA loan limits were significantly lower than "conventional" bank limits, and the borrowers paid a monthly mortgage insurance payment calculated based on the outstanding loan balance. This mortgage insurance payment continued for the life of the loan. As property costs increased, conventional lenders were forced to increase their maximum loan limits almost every year. Cash down payment requirements were reduced, to 10 percent, then to 5 percent. Insurers stepped forward to offer private mortgage insurance, paid for by the borrower, to protect the lender from a significant portion of any loss associated with a defaulted loan and sale of a property take by foreclosure and later resold. On average, even after payment of a claim by the private mortgage insurer, a lender would experience a loss unless the loan had amortized to an effective loan-to-value ratio of under 75 percent. By the mid-1980s the ongoing deregulation of the banks resulted in an almost endless process of bank consolidations.

The bank I worked for merged with a larger institution. Our mortgage lending program was absorbed into the senior bank, and I sought employment elsewhere, accepting a position to supervise a group of review credit underwriters with Fannie Mae, at one time a government agency that since 1968 had become shareholder owned but with a very limited charter to serve as a secondary market for residential mortgage loans. At the time, Fannie Mae's financial picture was bleak, indeed.

Fannie Mae purchased mortgage loans from mortgage bankers, savings banks and commercial banks, holding these loans until they were repaid. In an effort to tame inflation, the Federal Reserve had lifted all efforts to control interest rates, and the cost of funds for Fannie Mae (and its main competitor, Freddie Mac) climbed well above the interest income generated by loans held in portfolio.

Two strategies developed to offset these losses. One was to introduce mortgage loan product with rates that would rise or fall based on what happened to market interest rates. The second was to begin to pool the loans as collateral for new mortgage-backed securities. These initiatives would not have been sufficient to prevent insolvency and a government take-over. Fortunately, the Federal Reserve Board eventually declared victory over inflation and interest rates began to fall.

The nation's bankers had also gone through the same interest rate risk problem, although only a few were overly exposed to declines in the value of these fixed-rate assets. The larger banks capped their residential mortgage loan portfolios to around 10 percent of assets. Less fortunate were the nation's thousands of savings and loan associations and savings banks (the "thrifts"), subject to restrictions on what type of loans they could originate and the rate of interest they could charge. One after another they became insolvent and were forced to close their doors, waiting for regulatory changes that would allow them to compete for deposits with the fast-growing money market mutual funds.

By the early 1990s the banks and surviving thrifts were selling most of their residential loans to Fannie Mae or Freddie Mac, or they were working with Fannie and Freddie to package the loans and issue mortgage-backed securities, securities given a stamp of approval by Fannie or Freddie in exchange for payment of a guarantee fee. The banks could then hold the securities as a form of liquid asset or market the securities to investors through Wall Street. Regulators required the banks to hold much lower reserves against mortgage-backed securities than for whole loans because of the greater liquidity of the securities. The mortgage loan market was becoming increasingly complex. As interest rates continued to fall, millions of borrowers refinanced to lower monthly payments or to convert an adjustable rate structure into a fixed rate loan, locking in the rate of interest for the life of the loan. Transaction volume steadily increased, providing huge increases in fee income to all of the participants. And, as the demand side of the market rebounded, so did property (i.e., land) prices.

Already, I could see signs of trouble ahead. In many regions of the country appraisal reports were showing a steady increase in land prices. Median land-to-total value ratios in higher priced markets such as New York City, Boston, Washington, DC and San Francisco rose to 40 percent, higher in some neighborhoods. Ratios for existing ocean-front properties or in resort areas were as high as 80 percent, meaning that the depreciated value of the property improvement comprised only 20 percent of total value. We were throwing more and more financial fuel into speculation-driven markets. And, everyone around the globe wanted in on the game. Huge amounts of financial reserves came pouring into the U.S. residential and commercial real estate markets. Investors then began to look at other countries when the U.S. demand for additional funding sources was fully satisfied.

The fundamental reasons for the eventual global crash in land markets is one most readers of this publication fully grasp. Everyone who owns land or bids for the purchase of land expects the value to continually increase. Only a small number of investors recognize the signs that a crash is coming and cash out at or near the peak to capture their gains. On the other hand, individuals and entities that have owned the land they hold for years or decades and are carrying little or no mortgage debt know that even in the event of a steep decline in a few years land prices will climb back and are likely to surpass the previous high. As economists sometimes say, "land prices are sticky downward." For land prices to fall and remain at a low level for years and years an entire area must experience a significant economic downturn and the loss of business activity.

What occurred in the financial sector to deepen and lengthen the crash of 2008 was the culmination of a long period of deregulation, ineffective internal controls and many decisions made to secure and protect market share and transaction volume. Although Fannie and Freddie did not participate in any direct way to the growth of the sub-prime mortgage market, their decisions almost every year to increase maximum loan limits had devastating longer-run consequences. As these loan limits were increased, the banks began to lose market share in what had been the "jumbo" market. Loans that a few years earlier would have been made by the banks at a rate of interest similar to that charged to commercial borrowers were going into the conventional market. Bank profits were suffering. With restrictions on business activities lifted, many banks had acquired finance companies and second mortgage lending companies, channeling billions of new dollars into those markets. Within the financial sector, these were the companies that too often victimized borrowers with high cost loans, teaser initial interest rates and other predatory terms. Early in the 2000s they entered the first mortgage loan market with the so-called "sub-prime" mortgages.

Most of my colleagues and I knew this business would have serious fraud and default problems. The problem would have been much less if the banks had actually performed rigorous quality control reviews on the loans to ensure borrowers could handle the debt and confirm the property values were supported by accurate appraisals. Instead, the new securities were submitted to the bond rating companies who did almost no loan level quality control analysis.

From what I have read, the few people who tried to sound an alarm came under heavy criticism by more senior executives





whose compensation was depending on a continuous flow of this very business channel.

Near-depression level unemployment and literally millions of foreclosures have ruined the lives of a lot of people, some of whom were victims, many others were willing participants in the property market casino. The major banks have all been bailed out with infusions of near-zero cost funds by the Federal Reserve. Historic low rates of interest on mortgage loans allowed millions of property owners to refinance out of high cost sub-prime mortgage loans. Millions of other properties turned over to new owners, a high percentage of whom were and are investors speculating that demand would recover and asset (meaning “land”) values would renew their upward climb. In many markets this has occurred. Land prices are back to and even above levels reached prior to the 2008 crash.

What should have been done to stabilize the property markets was not even considered. To protect the bankers from themselves and taxpayers from the bankers, new regulations should have been passed to prohibit any financial institution that accepts government insured deposits or other government loan guarantees from extending credit for the purchase of land or acceptance of land value as collateral for borrowing. After 2008, Fannie Mae and Freddie Mac (now managed directly by the Federal government) were the only investors purchasing mortgage loans, so this restriction would have had little immediate effect on the banks.

Exceptions would be necessary to make it feasible for victims of predatory lending to refinance out of high cost mortgage terms, but this would be a one-time opportunity. Those purchasing a property would have to make a cash down payment equal to the land cost component of the property value, or seek a second mortgage loan from an investor operating outside the protection of depository insurance. With these regulations in place, the level of speculation in the property markets would be far lower. Property prices would remain affordable for more households, provided they accumulated sufficient savings and could meet high standards of creditworthiness.

A side benefit of removing some of the speculation from the nation’s land markets would be the construction of a higher percentage of housing units affordable to individuals and households with lower incomes.

Sadly, none of the most important lessons to be learned by the study of the build-up to 2008 have been studied by any level of government or resulted in meaningful changes in public policy. By the infusion of cash into the banking system, the banks are able to meet the more stringent “stress tests” developed by the Federal Reserve. However, if the banks are not watched carefully, they will gradually return to practices that bring in the high fees and high nominal yields but also expose them (or their institutional and individual investors) to the huge losses that come with imprudent lending practices.

When the next downturn occurs we will have moved into uncharted territory. The United States government will by then have accumulated a public debt in excess of \$30 trillion. Just servicing this debt may require curtailment of spending on many existing programs. [🔗](#)



JUST INTEREST

Interest is a key aspect of the modern economy; its rate affects pensions, public and private investment, mortgages and savings. How could commerce and business function efficiently without being able to borrow money at interest? How could savings be directed towards their useful application without revenues from interest? Macroeconomic thinking has it that interest rates are a key lever in central regulation of an economy, dealing with ups and downs of each cycle. Although the 2008 financial crisis brought in other levers, notably QE, present efforts do appear to be towards raising interest rates and use of the lever of preference once again.

A wider perspective of the world's cultures and history reveals that lending at interest, often termed usury, has been viewed very differently. Usury is expressly forbidden in the Islamic world, and it is only relatively recently that its many restrictions eased in traditionally Judaic and Christian cultures. It has been the subject of religious, philosophical and pragmatic debate for well over two millennia, usually resulting in prohibition. Today we may well ask ourselves if the battle of commercial pragmatism over ancient dogma has reached its final throes. Can we assume only a few skirmishes remain such as moderation of charges whilst we wait for the Islamic world to see sense? Are market-set interest rates necessary to bring prosperity to the world's people? Have we finally dispelled any arguments of morality or justice in relation to loans at interest?

This article seeks answers to these questions by starting with a review of some past authorities; Aristotle, the Bible, Thomas Aquinas, Martin Luther, and Francis Bacon; they all addressed the subject to meet the needs of their time. This is followed by consideration of the many facets of interest in today's world and a short excursion into the nature of money and investment. Having gathered contrasting views and ideas, sifting through them may reveal the nature of interest that makes sense for all time and all cultures, and help us distinguish what is helpful to society from anything that is not.

One of the difficulties we have to face here are words and their meanings. This will be returned to later, but for now a brief look at the words interest and usury will suffice. For much of history both were used synonymously for any charges made for money or commodity loans other than the repayment of principal. Later, their meanings diverged with usury denoting excess interest, or interest for loans for consumption rather than enterprise. The terms will be used synonymously in this article.

ARISTOTLE

Any serious look at the subject of usury leads back to Aristotle. His surprising views on retail trade, which he categorised as commerce, usury and service, placed it at a lower level of human activity compared to household management or wealth creation.

There are two sorts of wealth-getting, as I have said; one is a part of household management, the other is retail trade: the former necessary and honourable, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another.

The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it.

For money was intended to be used in exchange, but not to increase at interest.

And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent.

Wherefore of all modes of getting wealth this is the most unnatural.

These words have been highly influential but probably jar with today's understanding. Rather than simply dismiss them, it may help to consider what he means. His elevated state for wealth creation can be explained as those activities that benefit society as a whole such as with food provision etc; elsewhere these are described as limited ends, simply because we can only eat so much, there being a natural measure. His dim view of retail trade can be seen through relationships between people where one gains at the expense of others, "zero-sum-games". This may reflect the practices prevalent at the time. As one example of later thinking, Henry George went to great effort to distinguish created from acquired wealth; his analysis showed aspects of retail trade to be very much part of wealth creation.

Aristotle emphasizes the most important aspect of money is as a medium of exchange. No amount of money has the power to grow despite frequent financial advice to the contrary. Hence Aristotle sees money as sterile, unlike cattle or crops which have nature's power to reproduce. Hence interest is not in the nature of money itself.



DEUTERONOMY

For Europe and indeed much of the world, another great influence has been Judaism and Christianity. One of the most frequently quoted references is Deuteronomy 23: 19-20.

Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of any thing that is lent upon usury:

Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury: that the LORD thy God may bless thee in all that thou settest thine hand to in the land whither thou goest to possess it.

Usury is usually associated with money loans, but traditionally has also applied to commodities such as wheat; any transaction where one gained at the expense of another could be included. Perhaps surprisingly, usury is in fact OK with strangers but not to ones brother. In practice this was taken as a brotherhood of all Jews who could without sin lend at usury to Christians. But how can usury itself sometimes be sinful and at others not? One possible interpretation is that *brother* refers to family, which can healthily be considered as the smallest economic unit; of course relationships between family members are closer to unconditioned love than a negotiated trade.

COMMERCIAL PRESSURE

Christianity and Aristotle remained highly influential for many centuries, perhaps something that is difficult for us to appreciate today. Usury was a sin and you really did not want to get caught, even if you found it necessary or desirable to practice it. This presented difficulties in a post-Roman world where trade and commerce was flourishing again. Each ship's voyage needed financing and all enterprise involves risk; Popes and the more temporal rulers were often short of money; so where was the money going to come from? Luckily Deuteronomy allowed the Jews to step in; others had to help during the various periods of Jews' banishment.

Then as now, financial innovation could be counted on to come up with solutions that ensured that the authorities could not mistake money transactions for usury. One such scheme featured pairs of complementary foreign-currency-exchanges with different rates that yielded suitable profit for the lender; these were sometimes called "dry exchanges", especially where the currency exchanges were on paper only.

An ingenious arrangement showed itself as a written interest-free loan contract with defined penalties on default; for example, a principal of £100 is to be repaid ten months from now, but any default will mean that £130 has to be paid 12 months from now. The unwritten agreement was to always default, yielding 30% "non-usurious" return for the year's loan.

Annuities were another technique for financing public or private projects for profit without usury. The advances were made in exchange for future income in the form of rents, generally not related to the investment.

Bills of exchange also helped obscure any sense of interest payments in transactions involving a merchant bank; they use the concept of discount rather than any additional charges for interest. Effectively, the money borrowed is returned without interest; however, what is received at the point of borrowing includes a discount.

AQUINAS

Another significant influence was St Thomas Aquinas. Many arguments in favour of usury had been voiced over the centuries since Aristotle. Aquinas collected these into four general areas: charging money interest; non-money charges for loans; repaying usurious gains; and borrowing under usury. For each, he carefully formulated counterarguments often with reference to Aristotle. He maintained that usury was a sin against justice itself, as it was charging for something that did not exist (echoing Aristotle's money having no ability to grow). He argued that additional payments made in anything that money could be exchanged for was much the same. However where a lender incurred real costs or losses through making the loan, this could be charged for. Interestingly it was OK to borrow at usury if used for a good purpose.

"To take usury for money lent is unjust in itself, because this is to sell what does not exist, and this evidently leads to inequality which is contrary to justice."

"... just as it is a sin against justice, to take money, by tacit or express agreement, in return for lending money or anything else that is consumed by being used, so also is it a like sin, by tacit or express agreement to receive anything whose price can be measured by money."

"A lender may without sin enter an agreement with the borrower for compensation for the loss he incurs of something he ought to have, for this is not to sell the use of money but to avoid a loss."

"It is by no means lawful to induce a man to sin, yet it is lawful to make use of another's sin for a good end, since even God uses all sin for some good..."

DANTE

Aquinas's influence ensured the general ban on usury was maintained for several more centuries. But how sinful is usury? To get a sense of its reputation in these times we can see where Dante positioned its practitioners in his inferno, depicted here by Bartolomeo Di Fruosino c 1435. The main gates descending into hell are in order Limbo – Lust – Greed – Heresy – Violence – Fraud – Treachery. Usury is behind the gate of violence which distinguishes three areas that violence targets: people and property; life (suicides and profligates); God and nature. Usury is an aspect of violence against God and nature and is the most sinful of the three examples: Blasphemers – Sodomites – Usurers. Usury was believed to be the very worst form of violence, worse than heresy. Aristotle's point of money being sterile by nature may help explain this; if an increase (usury) was superimposed on its nature, or a charge made for God's gift of time, this would be a sin against God and nature.

MARTIN LUTHER

Martin Luther re-enforced the general ban on usury. A sense of where he was coming from can be gleaned from how he described trading relations between persons; following a surprising statement on honesty, he defines the four legitimate forms of Christian trade.

Luther takes honesty much further than any feelings we may have of honesty being a vital aspect of good trading practice. Trust God before men; men sometimes err from being honest and hence it is better to trust "that which never errs". We may wonder what he means, but could get a clue from a little reflection on our dealings with other people. Perhaps we are able to literally keep complete faith in God; perhaps we can trust their more godly aspect such as their humanity; perhaps we can connect with a sense of unity embracing both. These may hint at what he means in trusting in that which does not err rather than an occasionally erring character.

Luther's four Christian forms of trade also challenges our modern understanding of trade:

- If someone takes your cloak, give them your tunic as well.
- Give without charge to whoever is in need.
- Lending is OK where there is absolutely no expectation of return
- Then thankfully there is a form of trade we can recognise, cash buying and selling. However, these are spot-cash transactions; no credit terms and corresponding debts to pay.

THE PRAGMATISM OF FRANCIS BACON

Francis Bacon gave us the scientific method, and lent his practical mentality to the very real problems of usury of his day by assessing its relative problems (discommodities) and benefits (commodities). Discommodities included an increase in both inequity and poverty; commodities included encouragement of commerce through finance and easing life's ups and downs through the occasional loan. His judgement came down in favour



of usury; however this was based on constraining interest rates to households at 5% and facilitating the greater needs of merchants and their riskier investments through licensed lenders. He wanted to “grind the teeth of usury” but use its benefits. Although regulation and practice did not quite settle in this way, it does represent the general direction for the future, as does the lack of reference to scripture or moral in the argument.

LIFE CONTINUES TODAY

Life continues and its costs were supported through loans, despite the general prohibitions. Jews were able to lend, and Christians were able to borrow. Lenders always run the risk of becoming unpopular and were only sometimes protected by law, Jews were outlawed much of the time. Whilst accepted, their trades were often restricted to money lending and doctors. The possibility of avoiding loan repayments probably encouraged their expulsion. In England, Jews were expelled in 1290 and were not allowed to freely return until 1829.

Italian merchant families and banks were able to provide finance for a time. A few English kings defaulted here as well, taking down some of the banks. Wealthy merchant families were able to facilitate financial transactions across Europe and beyond with bills of exchange being a key financial instrument. Trust within an extended and well-placed family was an important factor, and such merchants could become much wealthier.

Gradually new usury laws made lending at interest easier. The Netherlands in 1540 permitted 12% on commercial loans; Henry VIII 1545 permitted 10% on all loans, later modified several times until restrictions were removed in 1854. The United States lagged Great Britain in removing usury restrictions; this was especially for its national banks, which helped London take the lead in the Euro/Dollar trade and become the leading currency market today. In the period where some US states had less restriction on others, it helped determine where financial organisations were located. Of course modern banking has no hesitation in charging the highest possible rates, it being merely the operation of supply and demand.

USURY IN THE ISLAMIC TRADITION

Islam continues to forbid usury, and there is something to learn here from this. The general word for interest is *riba*, meaning increase; *riba* is forbidden, and manifests in two ways. *Riba-al-fadl* is where one party gains at the expense of the other in like-for-like transactions.

“Gold for gold, silver for silver, wheat for wheat, barley for barley, date for date, salt for salt, must be equal on both sides and hand to hand. Whoever pays more or demands more (on either side) indulges in Riba.”

Riba-al-nasiah covers transactions involving time; the four characteristics of time-separated trades are significant:

- Fixed and guaranteed
- Increases with time
- Secures lender; exposes borrower
- Does not increase with Allah; invites his anger and wrath

We can see that where the deal is fixed in advance, especially under pressured circumstances, life’s inevitable uncertainty will tend to expose the borrower to risk and keep the lender secured.

If the charge is greater for longer periods of time, this is a charge on time, which is not man-made. To understand what is meant by the “charge not increasing with Allah”, it is helpful to consider that the more pure-hearted transactions are less likely to involve higher charges; higher charges are most likely associated with less pure hearted motives which are to an extent sinful; hence only no charge for money loans can be sinless.

COMPOUND INTEREST

Compound interest is now so much the norm that we may overlook that it has not always been so. There does seem to be some confusion surrounding compound interest. This has in fact been the case for many centuries, and only become clearer with the publishing of calculation tables in the 16th century. For example, one myth propagated today is that compound interest necessarily leads to an ever-greater money supply. To help demystify compound interest we can return to Aristotle and imagine that shortly after writing *Politics* he invested 1p at 1% interest under three different regimes of interest as represented in the table.

The first is simple interest, which would accumulate to a debt of 25p today. The second is compound interest which accelerates to astronomical debt today, increasing by more than £1million each year; this is obviously extortionate and fuels spectacular claims and myths. The third example is still compound interest, but where a modest payment of 1% is made; this exactly matches the case of simple interest in terms of overall outlay. Most fantastic claims regarding compound interest assume no repayment; the small print is always important. Perhaps the main problems of compound interest are the almost universal belief in it being a natural part of lending money and its arguable abuse.

Years	Simple	Compound	Compound + Repay
1	1p	1p + 0.01p	1p
10	1p + 0.1p	1p + 0.105p	1p (+ 0.1p)
100	1p + 1p	1p + 26p	1p (+ 1p)
1000	1p + 10p	1p + £209.58	1p (+ 10p)
2337 (today)	1p + 23.37p	1p + £125,617,611	1p (+ 23.37p)

Table 1. Comparison of Interest Regimes

NATURE OF MONEY

Money is very much the medium of interest and warrants some consideration. The healthiest way to view money is as a readily accepted medium of exchange. We accept it in exchange only through knowing someone else will accept it in exchange for what we really want. It is a token of trust, and this trust is of the whole nation. We would be much the poorer without the facility of money.

Money’s pre-eminence in exchanges makes it a useful measure of value of tradable things, making it a unit of account. Pricing does not need access to money, but buying them certainly does.

Money is often seen as a store of wealth, and this notion greatly confuses economic analysis. Lastly, it also underpins any notions of it being lent rather than kept held in the hand warrants compensation as interest.

CREATING MONEY

One aspect of money that stirs emotions over interest today is of its creation. Perhaps rather surprising to many, most money is created by our high street banks when we want mortgages or other loans. Our agreement to repay underwrites the banks ability to create new money and lend it to us. This accounts for some 90% of UK money, which is the sum of all loans less sum of all repayments, about £1.7 trillion. The nation effectively pays the commercial banks interest on the nation's money supply. In practice banks get the net interest, which is interest paid on loans less what the banks pay out on deposits. As money creators, they have to attract sufficient deposits to balance the books, and this may involve interest payments.

One concern is that this money supply is invaluable to the nation, and the profit-orientated money-creating banks could be charging more than the cost of service provided, owing to their somewhat privileged position. Market players with any significant monopoly power are able to raise prices significantly above costs, one of today's challenges in many areas. This has led to calls for money creation to be effectively nationalised to avoid conflict between profit and public benefit. History can remind us of the long-term periods of rulers abusing their control of the currency through debasement or inflation. Great care is needed to avoid either private or public abuse of the nation's money supply.

INFLATION

We fear inflation, but fear deflation even more. Inflation is a measure of changing relation between nominal money, say £1,000, and the goods, services and other entities it can buy. Expressing inflation as a single figure is extremely challenging and relying on such figures can be misleading. For example, do the rising rents paid by part of the nation to the rest get captured?

Interest rates are highly sensitive to inflation; loaning £1,000 for a year in 10% inflation will only return to lender without loss of purchasing power if interest was set at 10%. Interest rates are described as "nominal" when inflation is included and "net" when the element related to inflation is removed.

PURPOSE OF LOANS

It has long been recognised that loans for consumption are less wise than loans for business. Loans to households to make ends meet till payday often make things worse; in desperation, onerous terms can be agreed to which result in their supporting the rich with no hope of escape. The relatively modern phenomenon of a consumer boom has been fuelled by innovative ways of presenting debt; store-based credit terms, hire-purchase and now credit cards, all being supported by vast advertising campaigns for consumption. Getting into debt now seems to be an attractive proposition rather than a necessary evil; nevertheless, paying back loans will always involve forgoing future consumption, the iron rule of borrowing.

In contrast to consumptive loans, loans for enterprise are instrumental in establishing new business and hence new means to repay them. This is the healthiest form of investment. Where new enterprise increases the national level of economic activity, creating new money is wise as it supports the additional goods and services being exchanged. However, where no net increase in economic activity is likely, an increase in the money supply is generally unwise.

The third general purpose of loans is less healthy but unfortunately the most widespread, loans for assets and in particular land as property. Rather than create new wealth or sources of repayment, it affects who gets the benefit of pre-existing wealth by redirecting economic rent flows, and tends to drive up asset prices.

The money supply for a nation needs to grow or shrink as the level of economic activity grows or shrinks. Recent decades have seen a money supply increase easily outstripping the rise in goods and services; thankfully this has to date supported asset inflation such as for land prices rather than high inflation of goods and services. Banks in this way have managed to gain a share in the economic rent of the nation's land.

MICROCREDIT

It may be helpful to consider where a relatively high rate of interest does not seem to be unjust. For this we can look to the excellent example of escaping the grips of moneylenders through the agency of the Grameen bank, the first microcredit institution. During a famine Mohamed Yunis as economics professor spent time investigating the plight of the poor. He met a young mother virtually slave-bound to a moneylender that was the only source of funds to buy materials, but the loan condition meant that the stools she made could only be sold to him. She earned US\$0.02 per day, and was thereby kept at subsistence level! From this observation evolved the Grameen Bank and microcredit. Without written contracts or collateral, trusting only in the integrity of the poor, using the strength of village community, notably of women, a system of small loans to be paid in weekly instalments for a year began. It mushroomed and lifted many out of abject poverty. Their savings are typically banked with Grameen and earn interest. Savers own Grameen as it is a not-for-profit bank. Now interestingly, especially given it is a Muslim nation, they charge 20% interest; and yet the borrowers thrive. This rate pays for the costs of the bank's intensive support for the various communities managing their enterprises. Both the moneylender and Grameen can be seen to charge interest; are both "sinful", or is there a "sin-free" aspect of interest that needs to be discovered?

WHAT DO WE MEAN BY INTEREST?

It is now the moment to consider more carefully what we mean when using the word "interest" - and when using the synonym "usury". Deuteronomy seems to imply usury is sometimes a sin but perhaps not sinful at others. Aristotle is adamant but commerce benefitting the community appears to prosper where interest is permitted. The moneylenders were displaced by Grameen but interest was transformed rather than removed.

It is as though the words "interest" and "usury" have very different meanings when they applied to Grameen and the moneylender, or to the two verses of Deuteronomy, or for Aristotle and the purveyors of commercial prosperity. Economists have searched for a cause or natural origin for interest; if a natural cause or law of interest exists, how can it be sinful?

One note of caution is that the term "interest" has been used as either the profit associated with lending money as assumed for this article so far, but it has also been regarded as the profit or return on capital. A second note of caution is on the word "capital"; economic capital is tangible wealth such as machines, buildings and roads; financial capital is any form of financial asset which includes and is assumed to be commutable with money. By failing to keep these meanings separate, the significance of economic capital is lost. However, here we have to embrace both senses of capital, not only as they are often believed to be interchangeable, but also to understand what these economists were seeing as interest.

Bastiat suggested interest is due to the power in physical capital or tools to increase the productivity of labour. This can be challenged by pointing out that free market competition would naturally disperse any concentration of such power in tools as they would become commonplace; any ability to charge a premium imply the presence of market restrictions or property-right claims.

Bohm-Bawerk suggested interest was due to a natural time preference for using the good today rather than next year. Whilst the potential borrower's preference is clearly to spend today rather than next year, this commonly held belief also implies the potential lender's preference to spend the money next year rather than today. If so, the potential lender could gain by actually paying for the money's safekeeping for a year! Hence, risks aside, a loan at zero interest would still be of mutual benefit. Thus any charges over coverage of risk must be due to the relative negotiating positions of the parties involved and not to any natural time-preference.

Marshall suggests interest is a reward for frugality in deferring consumption till a later time. Although this may seem to make sense, let us dig deeper. Does it make sense that a potential lender is rewarded for frugality whilst the potential borrower is to be penalised for investment risk? Society at large would be immeasurably poorer without innovation and development, and also the poorer where some have too much and others not enough. Hence it may be argued that sitting on spare cash should be penalised rather than making good use of it? Some forms of money used to attract stamp duty to encourage money circulation; this was as though all money were borrowed at interest from the government. Keynes saw interest as an indication of the future's uncertainty and illustrated this as a seesaw between bonds and money. Speculators buy bonds on the expectation of falling interest rates and sell them if rates are expected to rise. This is due to a market-led alignment between the rate of interest and the return on holding bonds being the coupon based on nominal bond value rather than its market price. Low interest rates give similar returns to coupons when bond prices are high and vice versa. Hence expected falls and rises in interest rates correspond to expectations of rising or falling bond prices, and hence the speculation.

Good guessers win over those lesser able, but no one knows for certain, especially over the medium to long-term; hence some money is always held both as a precaution against unexpected asset failure and for unexpected speculative opportunities. Hence bonds have to offer sufficient returns to attract money and this effectively sets a general rate of interest. However, this relates to the speculation with money well in excess of that needed for the nation's exchange of goods and services. Although important, it is not possible to do justice to this aspect of interest here.

Henry George wrote on interest in the sense of a return on capital. Nevertheless his great guidance to us is his insistence that what we called an interest charge was examined carefully. If we accept legitimacy of a money-lending business that serves the community, what should it charge and be paid for? Those managing the business need wages; the business has service and building costs, and its landlord will need rent. All of this will have to be paid for by the lenders, and it may be seen as equitable if the charge was proportional to the amount borrowed and the period of loan. It could be called interest or service charge. On top of this is the question of risk; somehow the business has to charge a premium to make up for defaulting losses. Again, the more risk the more premium. It is worth remembering that fees are often paid as well as interest, and the total charge does include both. However, if this charge was in excess of costs, or the penalties of default were in addition to any premium already charged for risk, then the negotiations over the loan may not have been free; some form of privileged position is likely to be meeting a deprived one and the terms of agreement settled accordingly. Traditionally debtors are rarely forgiven, with the force of law even depriving them of any livelihood through imprisonment. Really free negotiating positions are where borrowers and lenders are both able to say *yes* or *no*.

CONCLUSIONS ON INTEREST


To reach a conclusion we have to return to the starting point where interest is the charge for borrowing money. To really make sense of this, arrangement fees need to be included as part of the charge. Injustice prevails where the charges exceed the costs of providing loan service, including allowance for risk; it is also present when conditions are such that people are forced to borrow money. Aquinas allowed legitimate costs to be charged, but prohibited conceptual costs such as opportunity cost, a subject that warrants further consideration.

We live on one planet earth as have our ancestors and will our descendants. Our acquisitive aspirations often exceed natural measures and hence scarcity. Economics becomes necessary to allocate these scarce resources amongst competing aspirations. Without wise application of just economics, we are left with might is right. This becomes a property frenzy separating haves from have-nots. What can be common interest becomes a series of divergent interests as inequality develops. Governments have the power but not the inclination to move taxation towards privilege rather than enterprise. In the more democratic societies, education could but does not explain the effect of privilege without responsibility; this affects government policy. In the meantime privilege manifests as being in command of considerable debts, pools of money, acres of real estate and the means of tax avoidance. Injustice in charging for loans is really as aspect of a much wider issue that needs to be faced.

Do we have any option to make interest and our other economic relationships more just? Rather than simply point a finger at government, bankers and the like, perhaps we should start at home. Then we can see more clearly the issues involved and support societal movements for change. And so here is the three point plan to bring justice to interest:

- 1) Cultivate a fresh lifestyle, moving towards living within ones means and moderation of some of our desires. Happiness being based more in self-contentment and less in consumption could reduce the tendency towards debt and resulting interest.
- 2) Collectively begin to see privilege and ownership as necessarily being balanced through obligations. Discourage all aspects of exploitation at the expense of others such as through onerous property rights in their various forms.
- 3) At the national level of government move taxation away from enterprise and towards privilege where this is not balanced by obligation. The dominant need is to implement some form of taxation of location value as with LVT, which is the main driver of inequality. This can be usefully supported through improved means of charging banks for their particular privileged position.

It may seem rather of a tangent to advocate LVT or similar as a means to tackle excessive interest charges, but, it is a fundamental point. Economic rents flowing through society from those without to those with, and land-economic-rent being the dominant but not only form, create pools and deaths of money and encourage the need for money loans. The move towards property-based taxation has recently been advocated by the IMF and the Nobel Prize winning economists Joseph Stiglitz. It would tend to increase household prosperity reduce government deficit, and reduce the need demands for loans.

As a final conclusion, it would seem that the sin associated for so long with interest is more to do with the exploitation of the weaker by the strong. If it were simply man's nature to exploit the weak, this could not be a sin. However the human being is capable of working in such a way that benefits the whole of society rather than some at the expense of others; it is choosing to not work in this way that makes it a sin. Let us be encouraged. 



philosophy

RULING IDEAS

Over the last three years we have been meeting on Friday evenings to explore the writings of Henry George and the *Laws of Plato*. We have now embarked on a study of Aristotle's *Politics*. Some have asked, why should the HGF be looking at Plato and Aristotle? Surely the works of Henry George are enough. There are several answers to this question. The main reason, however, has been to try to understand why the implementation of George's policies face such enormous obstacles. It is not simply a matter of the land question being difficult to grasp, although it has all too often been reduced to arguing for a fiscal change. Even where it is understood, resistance is mounted on various fronts. The implementation of a land tax is at once efficient, just, encouraging to free trade and virtually impossible to evade. So the question becomes: Why the stubborn resistance?

Of all the arguments against the implementation of a land tax, leaving aside those that fail to properly understand it, the most interesting is the claim that it is too idealistic. George is seen as a utopian dreamer ignorant of the harsh realities of the world and the true powers that drive the modern economy. This utopian argument has more force than any of the arguments against the practical implementation of a land tax, all of which can be rationally answered. The utopian argument is on another level to either the fiscal or the practicable. It is rooted in a host of notions about the nature of society, human nature, and justice. These notions are never directly articulated, but are rooted in a belief that a truly just society is unattainable, either because all political systems are inherently corrupt or unstable, or because human beings are essentially selfish and do not really desire justice, or even that justice itself is only a relative concept with no universal meaning. These kinds of suppositions have become generally acceptable, as is evident in most media and advertising, where the public are invariably addressed as selfish individuals no matter what their politics. Indeed, it is commonly assumed that the best we can hope for is protection by government from the selfishness or exploitation of others like ourselves. Seen in this way, all politics and all trade become nothing else than negotiated self-interest. Most ordinary people, although they intuit this is wrong, are resigned to it and doubt if it can ever change.

These ideas that shape the general attitude of the modern West, and which make progress towards economic and social justice such a struggle, have roots of which few are conscious. These roots are not obscure. They are present at the birth of economics as a science. We find them formulated in the works of Hobbes, Locke, Adam Smith, Mill, to name the most obvious and most influential. In a sense Francis Bacon is father to them all, as it was Bacon who envisaged our relation to the world as purely instrumental and that nature should be conquered and exploited for the exclusive benefit of a materialist society, as argued in *The New Atlantis*. Hobbes, an associate of Bacon and for a time his secretary, took Bacon's empiricist principles and applied them to the study of human society. Thus, from the beginning, economics is a mechanistic science. For Hobbes, every individual is driven by the desire to rule over all men and to possess all wealth. There is no natural social inclination in human nature. On the contrary, everyone is instinctively solitary and sees all others as a threat to their life and possessions. According to Hobbes, the most basic human passion is the fear of death, and so the primary concern of politics must be to protect the individual from all other individuals. This fear of death is the origin of human rights, the first right being the right to self-defence, originally formulated by Hobbes as the right to kill. We see this in full force today in the American right to bear arms.

The basic ideas of Hobbes, expressed in his *Leviathan*, although they met with strong criticism in his time for their harshness, are adopted in modified and gentler form by Locke and Adam Smith. Human relationships are tamed by contract, and even membership of society itself is conceived as contractual. What formerly had been social relationships, including commerce, now became legal relationships. What formerly had been the sense of the common good, now became each individual's claim upon the state. The human person, as Simone Weil observed, was reduced to a legal entity.

These ideas, which still rule modern democracy, did not spring out of thin air. They are rooted in a deliberate rejection of the traditional understanding of society and of human nature. In particular they aimed to overthrow the tradition of Natural Law stemming from classical Greece and Rome, and the Christian understanding of human nature made in the image of God. Natural Law understood the whole of nature as harmonious and ordered toward universal good. Human or written law was understood to be derived from this. The 'golden rule' of Christianity – to do unto others as you would have them do unto you – and the Great Commandment – to love God and one's neighbour as oneself – are attacked as either absurdly utopian and unrealistic, or else as devices of religious oppression. In *The New Atlantis* Bacon reverses the golden rule to 'do not do unto others as you would not have them do unto you'.

The consequence of these ideas is the separation of humanity from nature and of commerce from civil life. And from these come the ruthless exploitation of the earth and ecological destruction, and the reduction of the majority of citizens to labour at exploitative wages. The aim of society becomes the acquisition of luxury, as formulated by Adam Smith, and the means is continuous competition of all against all.

This is the world that Henry George is confronted with, which to him manifested as the consequence of an injustice in our relation to the earth, the private appropriation of rent, the natural revenue of government. George could still appeal, however, to the sense of justice of the ordinary citizen, and to the Christian idea of the neighbour, because these ancient values still lived in the hearts of most citizens, while the 'intellectuals' were sold to the mechanistic world of Bacon, Hobbes, and Locke. If the ordinary citizens of George's times had read Cicero or Aquinas they would have seen their sense of natural justice reflected there. But with few exceptions the 'educated' dismissed Cicero and Aquinas, and along with them Plato and Aristotle. For the educated it was the unrealistic belief in universal justice and the harmonious order of nature that prevented social progress, which must come from the resolute application of science and technology and mastery of the forces of nature. This doctrine was promulgated by Herbert Spencer whom George directly challenged in his *A Perplexed Philosopher*.

George did not return to Cicero, Aquinas, Plato or Aristotle. Instead he grappled with what he saw to be the misunderstandings of the classical economists, attempting to retrieve from them what was demonstrably true and expose what was obviously false. In addressing the ordinary citizen he could do this convincingly, calling upon the innate sense of justice and the Christian understanding of the neighbour and the common good. This is clear in all his writings and speeches. But his academic opponents were armed with sophisticated arguments that turned economics into an abstract science, and this suited the vested interests of

monopolies and those who lived off the labour of others. Thus economics, and the study of society generally, were abstracted from their roots in human community and the tradition of ethics and morality.

George, one feels, could not have turned to Cicero or Plato or Aristotle. But he was not that kind of thinker, even though he makes occasional references to Marcus Aurelius and Aquinas. But he could still call upon the traces left by them in the common wisdom of the ordinary citizen, and of course the teachings of the Gospels. This is no longer the case. The modern realm of economic thinking is bounded by the rootless abstractions and an amoral analysis of human exchange. It is a closed world of thought, and even where attempts are made to break out of conventional economics at the universities nothing really new arises. Even the most radical thinking is still rooted in Hobbes and Locke and no real connection can be made between economics and universal justice. It remains an assumption that economics and ethics are naturally at variance with one another. In George's time the Church also, still grounded in a medieval conception of community and the common good, had no resources with which to meet the rise of secular individualism and the growth of the industrial society. Besides, the new economics and the contractual conception of society demanded separation of the Church and State.

Nothing can change so long as these ideas of the seventeenth and eighteenth century are not challenged. But so long as they remain invisible yet shape all our presuppositions about economics and the nature of society, they cannot be challenged. The private appropriation of the value created by the community is integral to the basic assumptions of the modern world view. Likewise, all ideas of redistribution of wealth or land are rooted in the same world view, because such policies are merely mitigations of a fundamental injustice that remains unseen and unaddressed.

It was with the aim of bringing to light what is invisible in modern economics that we embarked on the exploration of Plato's *Laws* on Friday evenings at Mandeville Place. We decided on the *Laws* for two reasons: first because it is Plato's *practical* exploration of the founding of a just society, his Republic being a purely philosophical exploration; second because the birth of modern economic theory begins with the outright rejection of Plato and Aristotle and their influence through the Middle Ages, as may be seen repeatedly in *Leviathan*. Bacon likewise dismisses ancient philosophy in his *Novum Organum* with the words:

We have as yet no natural philosophy that is pure; all is tainted and corrupted: in Aristotle's school by logic; in Plato's by natural theology; in the second school of Platonists, such as Proclus and others, by mathematics, which ought only to give definiteness to natural philosophy, not to generate or give it birth. From a natural philosophy pure and unmixed, better things are to be expected. (Novum Organum, XCVI)

The new 'natural philosophy' here proposed by Bacon is mechanical deduction, which will discount 'Aristotle's Logic', 'Plato's natural theology', and the 'Platonists mathematics'. That is to say, all *philosophical reflection* not based on mechanical measurement. Hobbes adopts this method in *Leviathan*.

The arrogant certainty of these founding fathers of empiricism is now in question, and modern philosophy no longer accepts that there is a single mode of knowledge or 'methodology' that

discloses the truth of things – what Bacon calls ‘natural philosophy’. ‘Postmodernism’, for all its flaws, has thrown in doubt much of the thought of the last four hundred years, though largely in the name of historical relativism which comes with its own problems. Nevertheless, this new situation of uncertainty has opened up ancient thought to fresh exploration and understanding, as it is no longer seen through the eyes of rational materialism. There is a growing reappraisal of ancient philosophy, accompanied by fresh translations that avoid the tendency to use terminologies belonging to later periods.

Given this new situation we can now see how Bacon and Hobbes and their followers completely misconceived the ancient thought which they so fiercely attacked. The new materialist outlook of the age made Plato and Aristotle, the Stoics such as Cicero or Marcus Aurelius, and the Schoolmen such as Aquinas, incomprehensible to them. They misconstrued the very words they read because they conceived human nature and causality differently. For the ancients the question ‘What is the good life?’ was not about the competitive acquisition of wealth or ‘conquering nature’. It was concerned with how to live in justice and in harmony with nature.

Indeed, the word ‘justice’ is one of the words that became incomprehensible in the new ‘natural philosophy’. For Plato, Aristotle, the Stoics and the schoolmen justice was a universal that applied in all times and in all places. It belonged to the very order of the cosmos itself as the opposite of chaos. It was to be discerned by reason in the nature of things. This ancient conception of justice, which lies at the core of Plato’s enquiries into society and politics, was discounted at a stroke by Hobbes. For him nature is not an order or harmony of all things, but rather a state of war of all against all:

To this war of every man against every man, this also is consequent; that nothing can be unjust. The notions of right and wrong, justice and injustice, have there no place. Where there is no common power, there is no law; where no law, no injustice. Force and fraud are in war the two cardinal virtues. Justice and injustice are none of the faculties neither of the body nor mind. If they were, they might be in a man that were alone in the world, as well as his senses and passions. (Leviathan XIII)

Hobbes is perfectly aware he is here contradicting Aristotle, who says:

We may begin by observing that they have been defined relatively to two kinds of law, and also relatively to two classes of persons. By the two kinds of law I mean particular law and universal law. Particular law is that which each community lays down and applies to its own members: this is partly written and partly unwritten. Universal law is the law of Nature. For there really is, as everyone to some extent divines, a natural justice and injustice that is binding on all men, even on those who have no association or covenant with each other. (Aristotle, Rhetoric, 13)

These words accord with eighteenth century jurist and politician William Blackstone:

This law of nature, being coeval with mankind and dictated by God himself, is of course superior in obligation to any other. It is binding over all the globe in all countries, and at all times; no human laws are of any validity, if contrary to this: and such of them as are valid derive all their force, and all their authority, mediately or immediately, from this original. (Blackstone, Commentaries on the Laws of England, Introduction)

Hobbes rejects any such universal law. He presupposes that society comes into being through the gathering of solitary individuals, and that all laws are either written or imposed by force. This theoretical assumption, unsupported by any evidence, is adopted in subsequent economic theory. The notion of the lawless solitary individual can be traced back to *nominalism* which holds that

there are no universals, and *atomism* which holds that the parts create the whole. This means that ‘society’ is an artificial construct made up of autonomous individuals all naturally opposed to one another since each wants all property and all power – the ‘artificial Leviathan’ of Hobbes. In this situation of mutual war ‘justice’ can only be by contract or power of the ruler. There is no universal justice, as Plato and Aristotle claim, to which a society may look in order to devise its laws. All justice is contingent and arbitrary, and this is the basis of the theory of moral relativism that permeates the modern social sciences.

By direct contrast with this view, for the ancients ‘society’ is the natural state of humanity. The human being is naturally social and political. The theoretical solitary individual is an economic fiction that distorts the communal nature and origins of the human species. Society does not arise out of the association of solitary individuals, but rather individuals arise out of society. To be a ‘person’ is first to be a ‘citizen’. The ‘state of nature’ is the reverse of Hobbes’ theory, and justice is a universal that determines all subsequent relations. Richard Hooker, in his *The Laws of Ecclesiastical Polity* immediately prior to Hobbes, seeking to recover the Natural Law tradition in the Protestant Church, reasserted the ancient understanding of society:

Civil society doth more content the nature of man than any private kind of solitary living, because in society this good of mutual participation is so much larger than otherwise. Herewith notwithstanding we are not satisfied, but we covet (if it might be) to have a kind of society and fellowship even with all mankind. Which thing Socrates intending to signify professed himself a citizen, not of this or that commonwealth, but of the world. (The Laws of Ecclesiastical Polity, Book 1, Chapter X)

To be ‘a citizen of the world’ was the Stoic ideal, for whom the cosmos itself was conceived as the ‘city of man’, from which comes the word ‘cosmopolitan’. For the philosophers of the seventeenth century onwards this classical understanding of society and justice is rejected on the grounds that it aims too high. It is the utopian dream of ‘idle philosophers’. In order to be practical our sights must be lowered and a more realistic account be given of human nature. This new account discards the traditional view of human nature as rational and replaces it with the rule of the passions, the driving passion being the fear of death. In traditional terms this is to reverse the natural order in which reason rules over the will, and to replace the love of the good with the fear of evil. This theory of the primacy of the passions later becomes the utilitarian ‘will of the people’.

Given that the first passion is fear of death, protection therefore becomes the basis for devising the laws of society, and the revised conception of ‘justice’ becomes the basis of human rights. This brings to an end the tradition of Natural Law. Justice becomes what the individual can claim for himself from society, rather than what serves the welfare of all.

How does this affect the conception of property, and especially land? It is here that the classical economists get into difficulty, since on this basis any claim upon land can be maintained only on the basis of who first claimed it, without contract or consent, or who subsequently paid for it. But the original claim itself cannot be defended, nor, according to Locke, can it be remedied. The notion that labour applied to land creates ownership of the land (as distinct from its produce), by extending self-ownership, can have no natural, contractual or social basis. The Natural Law tradition, on the contrary, understands that *all things*, including land, are by nature common property. Nor is there such a thing as ‘self-ownership’. The ‘proprietary self’ is a new conception rooted in the primacy of the solitary individual that theoretically precedes society.

This is why the Guardians in Plato’s *Republic* are allocated no property. Common ownership is the ideal, but it is interestingly

modified in Plato's *Laws*. There each household, which amounts to an extended family, is allocated two plots of land which provide for self-sufficiency. These plots cannot be bought or sold but remain the property of the original household in perpetuity. And since all citizens contribute to the governance of the city, the land question is solved at a stroke and 'rent' takes the form of communal service. Yet Plato maintains that this is a compromise of the ideal, which precludes all land ownership, but this is possible only for the most virtuous people or for the gods. Thus the property laws of Plato's Magnesia are a compromise to the unsteadiness of human character, measured against perfect justice.

In his questions on theft in the *Summa Theologica* Aquinas asks: what should a destitute person do who has no food. He replies that such a person may take what he needs from one who has enough, and this is not theft because all rights to private property are suspended for the destitute and *the law reverts to the natural condition in which all property is shared in common*. He acknowledges that private property is a compromise for 'fallen man' who would neglect property if it was held in common. It is only in the monastic life, he suggests, that property may be held in common. Thus 'perfect justice' is the ideal that society may be measured by, but which may be adapted to suit the moral condition of any particular community. It is the adaptation of the Natural Law that serves as the basis for customary law for Aquinas. The Christian model of common property remains, however, the ideal.

The purely contractual justice of Hobbes, even where it adapts to meet new circumstances in a democracy, is likely to be influenced more by minority or factional claims than by a concern for the common good. The modern drift towards the litigious society is a consequence of this contractual conception of society, while community itself becomes more and more fragmented into opposing interests and claims to special rights.

The effect of this philosophy of mutual fear is to foster a society of mutual exploitation. Yet since such a societal life is against nature in the traditional sense, most ordinary people are split by a double ethic, one that intuitively recognises goodness and justice, and one adapted to the so-called 'real world' and all its moral compromises. The moral and the legal realms are consequently dissociated from one another - precisely the dissociation that the Natural Law tradition resolves, and which government is meant to resolve.

Although George seeks to illustrate the laws of economics and society from the classical economists, his heart does not lie with their conception of society but with the Natural Law tradition, which recognizes the primacy of community and universal justice. In *Progress and Poverty* he writes:

The laws of the universe are harmonious. If the remedy to which we have been led is the true one, it must be consistent with justice; it must be practical in application; it must accord with the tendencies of social development; and it must harmonize with other reforms. (Progress and Poverty, Chapter 25)

This in no way accords with Bacon, Hobbes, Locke, Smith or Mill. On the contrary, it accords with the Stoic understanding of Natural Law, as George immediately shows:

Economic law will prove the perceptions of Marcus Aurelius: "We are made for cooperation - like feet, like hands, like eyelids, like the rows of the upper and lower teeth."

Is George aware that he is contradicting the classical economists who explicitly refute the Stoics, and who deny that the 'laws of the universe are harmonious'? The new 'natural philosophy' proclaimed by Bacon and Hobbes refutes this ancient view directly as we have seen. For them the 'laws of nature' are purely mechanical laws, devoid of any moral dimension or teleology. There is no 'harmonious universe' with which human justice can conform, nor are we naturally social beings 'made for cooperation'.

George is appealing to the discarded Natural Law tradition which still resonates in the minds of the ordinary citizens of his time for whom 'natural justice' remained a self-evident truth.

It is worth comparing some of the main differences between the Natural Law tradition and the Natural Rights tradition which arose with the Enlightenment. (In the following summary NL stands for Natural Law, and NR for Natural Rights.)

NL: Known by intuition, NR: known through legal codes and charters. NL: based upon universal justice, NR: devised by human reason. NL: man-made law should conform to universal principles, NR: should conform to the will of the people. NL: aim, the common good, NR: aim, individual freedom. NL: liberty based on responsibility, NR: liberty based on personal values.


The most obvious difference between these two conceptions of law is that one is founded upon the general good of the community, the other on the autonomy of the individual, one on a conception of natural justice, the other on human preference. There is no constant ground upon which Natural Rights are founded apart from their assertion. It is therefore impossible to demonstrate any moral foundation for the laws of economics based on Natural Rights theory. This is why most modern economic theory is morally neutral. It is also why land, labour, and money are regarded as saleable commodities. In Natural Rights theory neither the human person nor the land can be distinguished from any other economic resource, save by contractual agreement. George, on the contrary and in accord with the Natural Law tradition, finds that everyone has an innate sense of justice, as he states directly in *Progress and Poverty*:

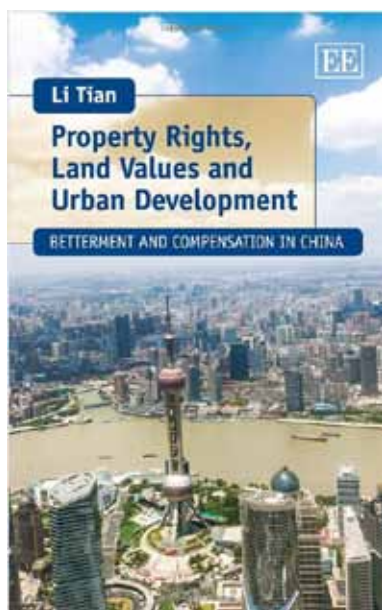
Justice is fundamental to the human mind, though often warped by superstition, habit, and selfishness. When I propose to abolish private property in land, the first question to be asked is that of justice. Only what is just can be wise; only what is right will endure. I bow to this demand and accept this test. If private property in land is just, then what I propose is false. If private property in land is unjust, then my remedy is true. (Progress and Poverty, Chapter 26)

George could never have asserted this on the basis of Natural Rights theory. His appeal to justice is to a universal principle true at all times and in all places. It equally follows that if private property in land is unjust, then all its consequences will be unjust too, as George demonstrates in detail. The whole economic argument of George is based on justice as a principle discernible in the order of nature. To appeal to justice in this way shows that in his heart of hearts George belongs to the Natural Law tradition, and that the words of seventeenth century barrister Sir Edward Coke would have resonated with him:

The Law of Nature is that which God at the time of creation of the nature of man infused into his heart, for his preservation and direction; and this is lex aeterna, the Moral Law, called also the Law of Nature. (Sir Edward Coke, Selected Writings of Sir Edward Coke, Volume 1).

Georgists may be encouraged by the current revival of interest in Natural Law and virtue ethics, and also by the renewal of the social and environmental teaching of the Church. Economics and ethics belong together in a true understanding of the nature of society where the common good has precedence over private interest. By studying Plato and Aristotle we may take advantage of this new opportunity. But I give the final word to George:

The natural laws which permit of social advance, require that advance to be intellectual and moral as well as material. The natural laws which give us the steamship, the locomotive, the telegraph, the printing-press, and all the thousand inventions by which our mastery over matter and material conditions is increased, require greater social intelligence and a higher standard of social morals. (Social Problems, Chapter 17). 



**PROPERTY RIGHTS, LAND VALUES & URBAN DEVELOPMENT
BY LI TIAN**

Reviewed by Fred Harrison

Edward Elgar Publishing, 2014
ISBN: 1783476397

A great leap forward in evolutionary development of mankind was possible on two separate occasions in the 20th century. The first came with the decision by Mikhail Gorbachev to try and chart a new course for the block of countries that had come together as the Soviet Union. The second opportunity arose when Deng Xiaoping decided that the Chinese Communist Party needed to adopt elements of market-based economics. Tragically, both experiments failed. The result: One third of the world has lapsed into the same culture of greed which afflicts the West.

It need not have happened. At the end of the Communist experiment, land and natural resources were in public ownership. Had the leaders of those countries merely modified the tenure-and-tax system, they could have emancipated their peoples to embark on entrepreneurial enterprise while securing for the public good the net income – the economic rents – which they would collectively generate in the course of going about their private business. This didn't happen, in the case of Russia, because Western ideologues launched a campaign to persuade Boris Yeltsin, who had taken control of the Kremlin, to privatise land and natural resources. Despite the efforts of a global network of experts who spent 10 years explaining to the Russian people that keeping the rents in public ownership would free them of taxes and nurture a new value adding economy, what was then called *The Washington Consensus* prevailed. Today, Russia is dominated by an authoritarian regime that depends on oil rents and a network of oligarchs whose primary interest is in extracting rents out of Russia and investing them in Western real estate. It might have been different in China, because the Communist Party retained control. To this day, the party claims that land and natural resources are public property. But as Li Tian explains, government failed to ensure that the rents were recycled into the public purse. As a consequence, a rent-seeking culture emerged which cannot be differentiated from the one which cripples the UK and US societies.

Li Tian provides her readers with an introduction to the philosophy of property rights as they relate to land and its value, and offers a succinct comparison of the works of classical philosophers like Hobbes and Locke. But the most important part of the book is the detail of the history of land ownership from 1911, with the onset of the Republic, and the influence of its first president, Sun Yat Sen.

The author provides some valuable detail on the way in which the Kuomintang government established a land value-based tax in 1924, and a capital gains tax that was intended to forestall land speculation. Following the death of Sun Yat Sen, the government persisted in applying land reforms and it clearly affirmed that all land was state land and belonged to the state on behalf of the people. But there was one exception to this rule: some land had been transferred legally into private ownership. Here, Li Tian creates confusion by claiming that this complex system of property rights became the weakness which the Communist Party was able to exploit, paving the way for the final victory of Chairman Mao over the Kuomintang.

A more nuanced account of this history would have demonstrated that the Kuomintang was persistently thwarted in seeking to collect rents for the public purse. The combination of warlords (rent seekers with guns) and Mao's Red Army challenged the legitimate government, creating the havoc which inhibited peaceful social evolution. The outcome was the victory of Mao and his Marxist doctrines. The Kuomintang was driven into exile on the island of Formosa. There, free to embark on a consistent programme of reforms, the Kuomintang introduced the land-to-the-tiller programme and the land value tax. These laid the foundations for the emergence of the first Asian Tiger.

We now have dramatic empirical evidence to test the claims made on behalf of the rent-as-public-revenue thesis: that when the burden of taxation is minimal because government relies on rents to fund public goods, growth is optimised and people's freedoms are maximised. If we compare mainland China with the record of economic and political development in what became Taiwan since the 1960s, we get a sense of the huge cost that the people of China paid for following Mao rather than Sun Yat Sen.

The outcome, today, is a heavy focus on real estate speculation on mainland China, which threatens to undermine the achievements of that country in the realm of reducing poverty and creating new forms of market-based industrial production. At the heart of this failure is the corruption which Li Tian describes in these terms:

Motivated by the high profit return, some developers pay bribes to government officials to obtain land at low prices and with favourable planning parameters. The ambiguity of property rights in land has left much leeway for government officials to take bribes. The recent most common corruption in land management is the grant of high plot ratios. As noted earlier, the plot ratio is critical for the land value (p.115).

This is not, in fact, a problem of ambiguity in relation to property rights in land. The Chinese constitution makes it crystal clear that land is in public ownership and must be held on leases. The problem is with the doctrine of rents. One would have thought that the Chinese *Politburo* in Beijing would have understood that rents are the monetised expression of the property rights in land, all of which ought therefore to have been directed into the public purse.

Speculating in real estate is now evidently a national pastime. This is complemented with a bizarre state policy of expanding urban development far beyond the demographic needs of the population. The outcome is a gross waste of capital resources and a preoccupation with the purchase of empty apartments in the hope of accumulating capital gains.

China is now in a bad state, with potentially serious consequences for the rest of the world. Reforms are needed in the realm of public finance, but Li Tian's discussion is disappointing. Instead of emphasising the wisdom of a simple and direct collection of all rents payable by those who benefit from location-based services, she wanders off into a review of the kinds of tools employed by Labour governments 50 years ago – such as betterment levy and compensation – which failed the United Kingdom.

Nonetheless, the book is stimulating in providing the opportunity to explore the central weakness of the new China: the failure of the Communist Party to retain command over the rents that are collectively created by the people of China. 🇬🇧



BOOKS WORTH READING

Proponents of LVT often know very little of the political history that gave rise to the modern market economy and the theories of the seventeenth to nineteenth centuries upon which it is founded. Yet the political theories of Machiavelli, Francis Bacon, Thomas Hobbes and John Locke still underlie our conceptions of society and social morality. For anyone who would like to understand the thinking on the nature of society from Plato to modernity there is no better book to read than *Key Texts of Political Philosophy* by Thomas Pangle and Timothy Burns (Cambridge University Press, 2015). There are chapters on Plato, Aristotle, the Bible, Aquinas, Machiavelli, Francis Bacon, Thomas Hobbes, John Locke, Montesquieu, Rousseau, Marx and Engels, Tocqueville, and Nietzsche.

Of particular interest is the way the seventeenth century begins with a critique of all previous political theory as utopian and rooted in a false conception of the goodness of human nature. The new 'realism' begins in acknowledging the selfishness and brutality of human nature, and how society needs to be conceived as a way of suppressing this selfishness to collective advantage. Politics and economics from this moment on conceive society as 'artificial' and not 'natural' as understood in previous tradition. Both nature and society are in a state of perpetual war. Justice itself becomes an artificial construct aimed, at best, at mitigating the inherent ruthlessness of citizens and nature. It is in this harsh vision of society that the various modern notions of rights and liberties and equality arose, as well as the various theories of democracy. It is within this turmoil, culminating in Marx, that George's economic theory is born, seeking to redress a fundamental injustice at the heart of modern commerce. It is therefore helpful to understand that there are wider and deeply complex notions of society than fiscal reform alone can address. Readers of this book will be astounded to see how many of the most brutal ideas of the seventeenth century still rule politics, morality, and economics today, and how these ideas obscure the relation between society and the land. 🇬🇧

HGF BRIEFING NOTES

FRIDAY MEETINGS AT MANDEVILLE PLACE

The Friday afternoon study group continues reading Henry George's *Social Problems*.

Friday evenings this term launched a study of Aristotle's *Politics*, a work that influenced political thought from ancient times until the Renaissance. It is also the work that the rational materialists Machiavelli, Francis Bacon and Thomas Hobbes attacked and rejected on the basis that justice is only a relative concept with no universal basis.



This was followed by four presentations by David Triggs, freshly returned from UN Habitat III conference on Housing and Sustainable Urban Development in Quito, Ecuador. David presented his reflections on how Henry George's teaching can contribute to the United Nations 2030 Agenda for Sustainable Development and the new Climate Change Agreements.

Themes of the sessions were:

- 1) *An overview in which he presented his reflections on how Henry George's teachings can contribute to the United Nations 2030 Agenda for Sustainable Development and the new Climate Change Agreements.*
- 2) *Implementing Value Capture in Latin America - current limitations but how it might be a step towards wider Land Value Based Fiscal Reforms leading to a just distribution of wealth.*
- 3) *The Resource Curse, Real "Free Trade" and Monetary Reform - a Georgist perspective. Then a special lecture by arrangement with the Coalition for Economic Justice: John Christensen of Tax Justice Network will speak to an on the harmful political and economic effects of tax competition. Finally,*
- 4) *A policy framework for "Public Space" and "The Challenge of the Marginals".*

These Friday meetings are open to all, free of charge. 🇬🇧

THE HOUSING CRISIS AND LVT IMPLEMENTATION

The two articles *LVT and the Housing Crisis of a Generation* and *Efficient Effective LVT Implementation* in the Spring and Summer issues, respectively, outline a practical approach to the work needed for restoring to the community as a whole the economic rent of land. Practical policies must accord with true principle if they are to be effective and further development of the policies outlined in these articles is proposed.

To be successful, the ultimate objective must be the recovery of all the economic rent of land, with the whole proceeds being used to reduce every form of taxation of earnings. There will have to be some special arrangements, such as for the 'asset rich income poor widow' but in every case the intention must be to defer the collection of tax due rather than to forgo it. Interim stages may also be necessary but these must be consistent with the ultimate objective. The process of implementing LVT must therefore avoid the temptation to allow dispensations for present land owners. For instance there is no general justification for allowing individuals to deduct LVT from taxation on their earnings. Earnings are taxed in order to replace the natural revenue lost to the government through the private appropriation of the economic rent of land. The aim must be to reverse this process to restore a natural level of earnings free of taxation. After replacing existing taxation of land, all LVT revenue should be used to reduce taxation on earnings in whatever way benefits the community as a whole.

There is a fundamental difficulty. It is usually assumed that the occupier is enjoying the unearned benefit of the location value and should therefore pay that location value as LVT, either directly or as part of the rent, in which case the landlord can pay the LVT. However, this overlooks the way in which land owners benefit on sale of property. Whenever real property is sold at the market price, the price of the land element is the capitalised value of the estimated future rent in perpetuity. The vendor receives the future rent of the land element immediately. The new owner pays it in advance, or more probably, agrees to pay it later as the repayment of a mortgage loan together with loan interest. The process is repeated with every subsequent sale, usually at a higher price because of the increased rent then obtainable. The rent of land is an unearned claim on the future production of real wealth, goods and services. Every sale adds to this claim by the land owners.

Although this process lies at the root of wealth inequality including generational inequality, it is still perceived as desirable by those who benefit. The introduction of LVT will bring a dramatic change. Instead of the expectation that future increases in property prices will provide windfall gains, there will be the realisation that the new liability to LVT will eventually reduce the value of the property to the value of the house only. All payments made or still to be made for the land will be lost, together with expected windfall profits. The potential overall benefit from the reduction of tax on earnings may not be recognised. It will be very difficult to persuade those concerned, who are also predominately those who influence and control public policy, that this is a desirable objective.

I believe that this difficulty needs to be faced at the very outset.

It is no good trying to avoid the issue by offering preferential treatment because this will prevent the redistribution of land value to the community as a whole and cause the project to fail. Applying the principles to the articles prompts some suggestions:

1) A National or Local Tax?

LVT should be a single national tax at a uniform poundage, collected locally with partial redistribution to local authorities to meet local needs, as for Council Tax.

2) Allocation of Revenue

LVT should initially be revenue neutral in respect of existing property taxes. It should not be offset by individuals against taxation based on earnings. Additional revenue from subsequent increases in poundage should be used to reduce taxation on earnings of the community in general and not be limited only to those paying additional LVT. Probably it will be better to assess LVT on residential land first and to include commercial and agricultural land later.

3) Poundage Levied


The poundage levied should initially be revenue neutral as in (2) above. Subsequent increases should be staged so that the general economic benefit from the reduction of taxation on earnings offsets the increased LVT payable by the most vulnerable.

4) LVT Revenue on Residential Property

Because of the way in which Council Tax on higher value homes is limited to three times that on the lowest value homes, it is inevitable that to raise the same or more revenue from LVT, the LVT on higher value homes will be higher than the Council tax. There is no justification for deferring the excess. Furthermore If LVT in excess of Council Tax were to be deferred as suggested, the Initial total revenue would be less than the current Council Tax revenue and would only increase gradually as homes are sold.

5) Interim Preparations

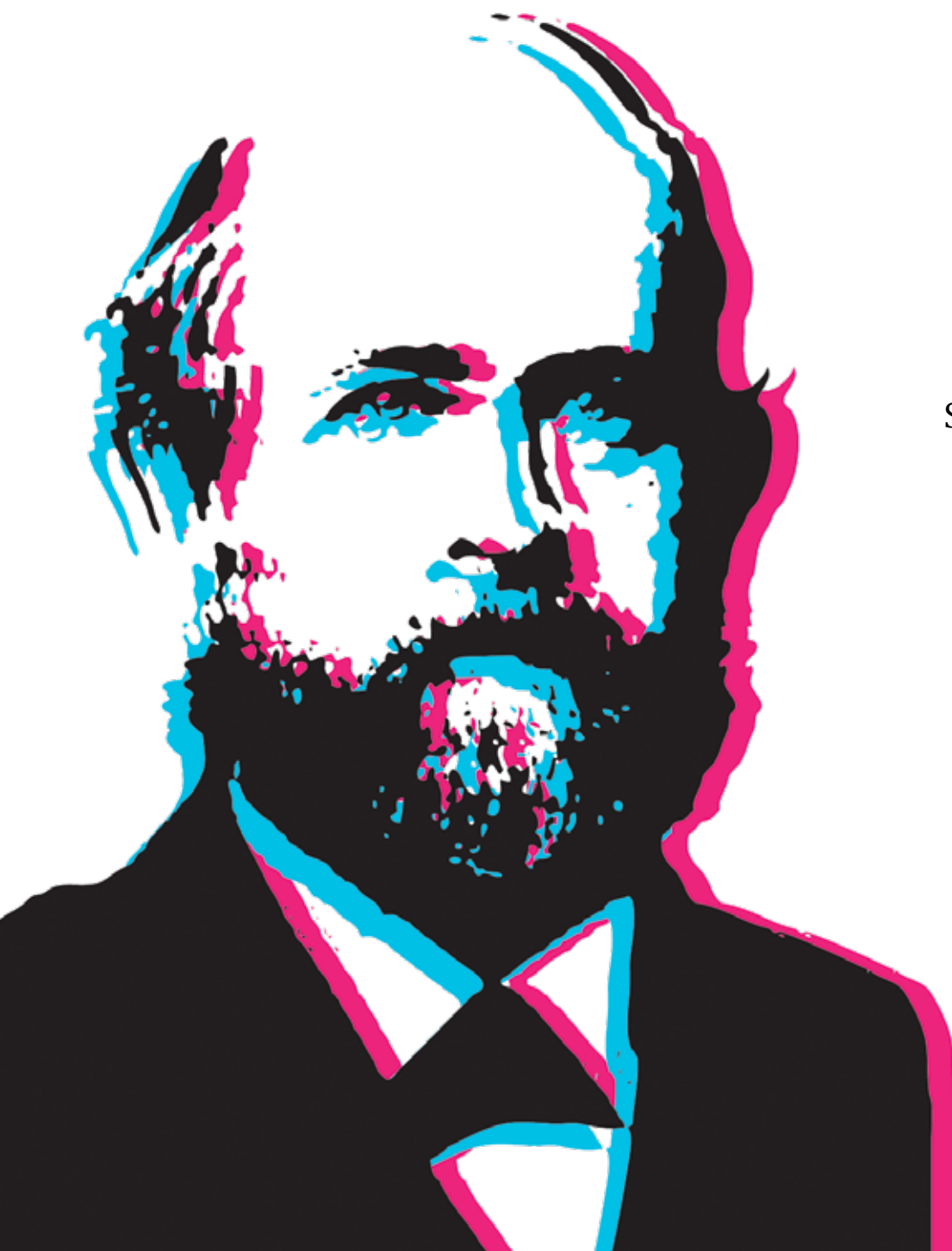
The introduction of Land Value Taxation in accordance with the stated principles will be a long and difficult process not because of technical difficulties but because of the change in hearts and minds that will be needed. It is also likely to need many small incremental changes in order to protect the home owners who have most to lose. A useful interim stage would be an easy and obviously reasonable change in the existing system. This is the proposed correction of Council Tax as shown in the Spring Issue of *Land&Liberty Introducing Land Value Taxation on Residential Land*. The arithmetical formula now used to calculate council tax, which limits the highest rate to three times the lowest, could be easily and quickly corrected. By making small incremental changes this ratio could be changed from 3:1 to 10:1 to correspond with the Council Tax bands. It would be fair and would prepare for the still larger increases for higher value properties when the assessment is based on land value only.

Whatever is finally decided, it has to be accepted that explaining the need for LVT is only half the battle. Devising an equitable way of introducing it will be just as difficult. 

...WHERE HE HAS NO RIGHT
TO A SQUARE INCH OF SOIL

”

Henry George,
Social Problems 1883



To find out more visit
www.henrygeorgefoundation.org
or
www.landandliberty.net

Our Philosophy



What is Land&Liberty?

Land&Liberty, a quarterly magazine published by the Henry George Foundation, has chronicled world events for over 100 years. Dedicated to promoting economic justice along lines suggested by the American writer, social reformer and economist Henry George, it offers a unique perspective to stimulate debate on political economy with its reports, analysis and comment.

Who was Henry George and what is special about his ideas?

In 1879 George published one of the best-selling books on political economy ever written, *Progress and Poverty*. By the twentieth century the wisdom he expounded was recognised and supported by many of the world's most respected thinkers including, Tolstoy, Einstein, Churchill, Keller, Shaw, Huxley, Woodrow Wilson, Hayek, Stiglitz, and Friedman. Today, as the world faces environmental and economic crises, we believe George's philosophy is more relevant than ever. But, as George foresaw in *Progress and Poverty*, and is inscribed on his gravestone:

"The truth that I have tried to make clear will not find easy acceptance. If that could be, it would have been accepted long ago. If that could be, it would never have been obscured."

Today Henry George is mostly remembered for his recognition that the systems of taxation employed in his day, and which continue to dominate fiscal policy in the UK and throughout the world, are unjust, inefficient, and ineffective.

He saw how taxes discourage wealth creation, positive economic activity and employment and prevent people and nations from realising their full potential. By ignoring property rights they involve theft and encourage dishonesty and environmental abuse. In short, as a method of raising public revenue, they fail. By offering an alternative, George also showed that taxes are unnecessary.

George realised that some land at particular locations acquired a value that was not due to the actions of any individual or firm but was due to natural influences and the presence, protections and services provided by the whole community. He saw that this value grows as the need for public revenue grows and is sufficient to replace all existing taxes. This could be collected by levying a charge based on land values and is commonly referred to as land value tax or LVT. However, George was clear that this is not actually a tax but is a rental payment individuals and groups need to pay to receive exclusive use of something of value from the whole community, i.e. the exclusive possession of a common, limited and highly-valued natural resource.

Henry George's ideas were not limited to his proposal to change taxes. His

profound body of theory also included issues such as: the difficulties inherent in the study of political economy, the fundamentals of economic value, a proper basis for private and public property, trade, money, credit, banking and the management of monopolies.

Key to 'the truth' that Henry George tried to make clear is that every thing is bound to act in accordance with the laws of its own nature. He saw that these laws of nature operate everywhere, at all times, and throughout a creation that includes man and society and the worlds of body, mind and spirit. Further, that people and societies can only behave ethically and succeed in their own designs where they take proper cognisance of, and act in harmony with, those natural laws.

This magazine is free, as are the meetings and classes of its publisher, the Henry George Foundation. However, we rely entirely on charitable donations of members, supporters and friends to survive.

To receive complimentary copies please send your name and postal address to:

The Henry George Foundation, PO Box 6408, London, W1A 3GY
or email editor@landandliberty.net

To make a donation or to set up a standing order to give us your regular support please fill in one of the forms below:

— My Gift to Help Advance the work of The Henry George Foundation of Great Britain —

Please find enclosed cheque for £ _____ Name _____ Address _____

To make a donation by BACS through the telephone or internet please use the following details:
HSBC Bank, Belgravia Branch, Sort Code 40-06-03, Acc. No. 51064320 or by PayPal through our website: www.henrygeorgefoundation.org

If you are a UK tax payer you can make your donation go further by making a Gift Aid Declaration. We get an extra 25p from HM revenue and customs. To make your donation Gift Aid please tick the box and sign below:

☐ Today ☐ In the past four years ☐ In the future I am a UK taxpayer and understand that if I pay less Income Tax and/or Capital Gains Tax than the amount of Gift Aid claimed on all my donations in that tax year it is my responsibility to pay any difference.

Name _____

Address _____

Signature _____

Date _____

If you are able to commit to a regular donation through a standing order that would be particularly welcome.

STANDING ORDER: Please complete and send to:
The Henry George Foundation, PO Box 6408 London W1A 3GY (Not to your bank)
To: The Manager (name and address of bank)

Post Code _____

Please pay: The Henry George Foundation of Great Britain A/C 51064320
Sort Code 40-06-03 at HSBC Bank, Belgravia Branch, 333 Vauxhall Bridge Road
on __ / __ / __ (date) and then every succeeding ☐ month ☐ quarter ☐ year
and thereafter until further notice or __ / __ / __ (date) the sum of £ _____

My Account No. _____ Sort Code _____ Name of Account _____

Holder _____ Signed _____

