

# A social fantasy?

MARGRIT KENNEDY knew there was something deeply wrong. Why, she wondered, was it so difficult to persuade people to invest in ecologically-friendly living environments?

There were no technical difficulties. She had the qualifications to know that; a PhD from the University of Pittsburgh, consultancies all over the world for UNESCO and the OECD; responsibility for research in ecology and energy for the International Building Exhibition in West Berlin, a wealth of knowledge distilled in many articles and books.

Her expertise as an architect and planner had led her to believe that the time had come to design buildings fit for the times in which we live, but time and again she was thwarted, told that her ecological outlook clashed with economic reality.

Back in her native Germany, she worked restlessly to discover the answers. Then, one day, she was offered an explanation; the cost of borrowing money was prohibitive. Basically, people were deterred from investing in environmentally-sound technology because prices were distorted by the amount of interest which had to be paid for loans.

She found the answer to that problem in Silvio Gesell's *Natural Economic Order*.<sup>1</sup> He had devised a scheme for creating money that could circulate without impeding people's

*INSITE explores the vision of a German architect who dares to "fantasise" about a new world social order.*



• Dr Margrit Kennedy

aspirations; for example, the arrangements would be so constructed that people would not hoard the cash which others needed to use.

*By speeding up the circulation of money, and ruling out the payment of interest, communities would be liberated from the tyranny of compound interest.*

In Germany, for example, she said in a lecture at the Royal Institute of British Architects in London on July 3, the cost of interest on capital borrowed to provide a public-sector home was 77% of total costs.

Because people had to pay interest, they produced only those goods that would yield the going rate. But, she concluded, by abolishing interest, people would be able to create sustainable communities that harmonised with the ecological imperatives of the times. And she has no doubt that, without this change, the prospects for mankind are bleak:

"The earth is telling us it is not tolerating this kind of behaviour any more. We have the ozone effect, storms in Britain, hot win-

ters, cold summers, our whole ecological system is out of balance."

BUT WHILE lecturing on the need for sound money to an audience in Holland, she was confronted with another problem which, she was told, was also important: the problems associated with land tenure and taxation.

Dr Kennedy investigated further. She found that, in West Germany, 70% of the land is owned by 20% of the population. But if the western system of private ownership was faulty, so was the socialist system of communal use of land. Again, there had to be an answer. She found it in the book written by American social reformer Henry George.<sup>2</sup>

And in her book, which has now been translated into six languages, she explained: "A combination of private use and communal ownership would be the most advantageous solution for achieving social justice and allowing individual growth.

"In practical terms today, it would mean that a community

would buy up all its land (over a period of time) and lease it out to its inhabitants (some to the original owners, some to the new leasees).

"Countries with a progressive constitution would have no trouble implementing this change from a legal point of view. Thus the constitution of the Federal Republic of Germany describes land as an asset which carries a 'social' responsibility.

"Up to this date, however, this social responsibility has not been met. [In West Germany] on the average, people had to work three times as long in 1982 as they did in 1950, in order to pay for a piece of property".<sup>3</sup>

Dr. Kennedy explained to her British audience: "If you know that you have to pay 3% on land that you do not use, you will immediately try to get rid of it. A lot of land would come on to the market, so land prices would drop. Everybody would profit. It makes a lot of sense."

To complete her package of reforms, she concluded that there had to be a further fiscal reform: taxes should be shifted off incomes and onto products.

DR. KENNEDY thinks big: she believes the time has come for the world to explore alternatives.

Socialism no longer offers an escape route from the excesses of 19th century capitalism, and the western system cannot continue to function without radical reform.

"The time has come for social fantasies," she told INSITE. Hence her search for a "fantasy" that would meet the challenge of our times, and become the new reality.

Critics would say that her vision does not meet the test of practicality. For example, Gesell's money plan is not accepted as feasible even at the level of theory - whereas the fiscal policy of Henry George,

which is built on the well-tested formulations of the classical economists, is at least acknowledged as *theoretically* sound in the textbooks.

In support of her proposal for abolishing interest charges on money, Dr. Kennedy cites a short-lived scheme in Worgl, a village in Austria, during the inter-war years; the local citizens created their own money, which was used in tandem with the Central Bank's currency.

On such a small scale, the scheme can work; but for how long? Eventually, people need to interact with the rest of the world's economic system. Well, replies Dr. Kennedy, that is only a problem of scale: why can't the same principles operate everywhere in the world?

The answer, alas, appears to be that it is not possible to function without a system in which people pay interest on borrowed money. And Dr. Kennedy cites two examples that favours this point:

- When the Popes banned the payment of interest in the Christian community during the Middle Ages in Europe, she admits, this "just shifted the problem to the Jews, who became the leading bankers of the world. While the Jews were not allowed to take interest from each other, they could do so from the Gentiles."

Evidently there was a demand for loans, despite the strictures of the Popes, and some people were willing to pay for the benefits.

- Then there is the current case of Islam, where "people do

#### REFERENCES

1. *Die Natürliche Wirtschaftsordnung* (1904, Nuremberg).
2. *Progress And Poverty* (1879), Centenary edn 1979, New York: Robert Schalkenbach Foundation).
3. *Interest And Inflation Free Money: How To Create An Exchange Medium That Works For Everybody*, Steyerberg, W. Germany: Permakulture Institut, 1988, pp.31-32.
4. *Ibid.*, p.58.

not pay interest for a loan, but the lending banks or individuals become shareholders in their business - and share part of the ensuing profits. In some cases, this may be better - in others worse - than paying interest."<sup>4</sup>

If "interest" (however disguised) cannot be banished in the Middle East, despite the overwhelming authority of religious doctrine, what chance is there of stopping the emergence of a black market in loans and interest?

It is easy to sympathise with Dr. Kennedy's strictures on usury, but money - whether cowrie shells or bits of colourful paper - which facilitates the circulation of real wealth, need not destabilise the economic system.

Governments, like the princes of old who debased the coinage, do tend to behave badly; inflation is a convenient way of concealing taxation. In an enlightened democracy the citizen has the power to exact revenge at the polling booths.

Dr. Kennedy would reply by invoking a conspiracy of bankers and corporations, which denies people the information they need to make considered judgments. The stakes are huge: she points out that firms like Siemens and Daimler Benz earn more money through investments in the money markets than in the production sector: "they have been characterised in the German press as large banks with a production front."

IN HER analysis, Dr. Kennedy primarily focuses on the impact of interest rates on the system, particularly as it relates to the redistribution of income. This is a pity, for closer inspection would disclose that her proposal for correcting the land market is not only a necessary, but also a sufficient, reform. It would deliver the social and economic

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# BUILDERS' POLL TAX FURY

BRITISH house builders are furious that the government's Poll Tax is hitting their industry.

Councils can now charge a double Poll Tax (called a Community Charge by Premier Thatcher) on empty newly built houses.

Graham Pye, president of the House Builders Federation, wrote in a letter to the government: "It is not a responsible exercise of local authorities discretion to charge housebuilders double Community Charge when, in the short term due to high interest rates, they find themselves unable to sell their houses.

"Although there was a similar power to levy rates on unsold houses under the 1967 Rating Act, this was conceptually justifiable since the domestic rates were a property tax. The Community Charge is a personal tax on the use of services, and as such, it is wholly inappropriate to levy a charge on empty property."

The builders propose that the



• Graham Pye

levy should be either abolished - unless houses were deliberately being kept empty - or reduced by half, "Since the bulk of the expensive local authority personal services are not 'consumed' in an empty house."

LONDON architect Dr John Parker was shown street maps of land values recorded in 1908/9 when he visited the Moscow Research Institute for Town Planning.

Similar maps are also being consulted in Leningrad, as officials - ordered by President Gorbachev to bring *perestroika* to the land

market - try to figure out how to charge market rents for publicly-owned properties.

In a report on his findings, Dr Parker states that "the encouragement of private enterprise there is now encouraging the re-establishment of a land value market.

"This is not to be created on a speculative basis but possibly through a 'fair-rent' system, so as to help individual firms.

"At present all land has the same value everywhere due to rents being equal. Now old, pre-Revolution land value market maps of the cities are being studied as a guide to how a land value system might be set up to give enterprises' prime sites at 'fair' rental levels.

"The economic forces at work in Moscow's 'Arbat' - the first paved pedestrian street in the USSR - exemplifies how such trends are manifesting themselves, e.g. the co-operative stalls being set up here and in other primary trading positions."

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transformation that she seeks, without having to take on the money markets.

Take the current case of Japan, where interest rates are very low: no obstacle to people wanting to borrow money. Yet families buying a house have to take out a mortgage which, in some cases, has to be repaid over three generations. Why? Because of the astronomical price of land.

Besides, a very low rate of interest is a double-edged sword. Through the capitalisation of rents, they lead to very high land prices!

This primacy of land in the mechanism of exploitation is well illustrated in India, where people sell themselves into debt-bondage because they cannot pay back the money they borrow from money-lenders. But that condition of slavery does not originate with interest rates: it is

directly linked to the denial of access to land.

Without land, as Dr Kennedy emphasises, people cannot work. And if they cannot work, they cannot generate the wages that would give them a decent living. So, to finance special needs (like weddings), landless Indians submit themselves to the money-lender, whose power is derivative.

*Give the peasant a stake in his land, and he would hold the whip hand over the moneylender!*

IN HER search for a "third level solution", Dr Kennedy has burdened her proposals with a series of complexities that are unnecessary.

As a result, she fails to accord sufficient attention to the ecological implications of a tax on the rental value of those resources of nature which we allow users to treat as free. Consider the rivers, oceans, skies, into which we dump waste without

charging rent for the privilege of occupying that space with the by-products of the manufacturing process.

If the community charged rent (= land value tax) for the privilege of using these scarce resources, the price of products would rise. This would render them less attractive compared with environmentally-friendly products.

She would also discover that the additional revenue was sufficient to enable governments to abolish income tax, a fiscal policy favoured by the other philosopher whom she admires - Henry George.

It is down this route that Dr Kennedy should search for her vision of the sustainable economy and society. Her quest, a vital one for all of us in these times of change and opportunity, will present sufficient political difficulties without compounding her problems with interest.