A Neo-Georgist Parable on the Financial Crisis

With a Nod to Marx, Keynes and the Usual Modern-Day "Elite" Suspects

The proximate cause of the current financial crisis in America was an explosion of credit, which, on a fully-diluted basis, reached a level three times greater than America's GNP. Americans are put in a diminished economical position; or, rather, 85% of Americans find themselves to be in this position. The obvious question is: Can the top 15% of Americans who are thriving stay viable long term while the condition of relative economic marginalization of the bulk of the American population continues apace? The tentative answer is: I believe that they can, indeed, stay very viable. And that, I will argue, is what the current financial crisis can be seen as being all about.

Let us travel back to the end of World War II. The unequivocal dominant hegemon in the world is the U.S. It survived totally intact after a brutal world war with its resources, its work force, and its industries left producing 50% of the industrial output in the world. All major competitors were economically prostrate. The U.S. led in technology, manufacturing capability-- with massive industrial capability-- and strong governmental aid both to domestic-industry, and in opening the world to an enlargement of exporting opportunity for its industry. For example, the American government's strong support of the dismemberment of the British, French and Dutch Colonial Empires was a prime objective of American foreign policy along with the containment of Communism. Those growing up in America in the period from 1945 to 1975, experienced America hurling itself into the production void created by the world war, and producing a powerful auto- centric-based explosion of manufacturing productivity enhanced by cumulative and continuous feedback and refinement of manufacturing. This enabled a significant part of the American working class to obtain the greatest standard of living achieved by any working class achieved in world history. To be an ordinary American up until the 1970s, in hindsight, was truly golden.

And then baseline reality reappeared. The seeds of that reality were, of course, sown by the fact that the U.S. had to rebuild both its allies and former enemies, again, as an antidote to the perceived threat of Communism. Post WW II saw Eastern Europe along with China join the Soviet camp as non-capitalist nations. Effectively, one-half of the world was theoretically withdrawn from the world markets of capitalism. The Soviet Union's ability to overcome enormous adversity after losing 40% of the country and suffering the death of 27 million of its citizens during World War II was seen to be a very persuasive demonstration of sacrifice for a cause greater than the capitalist model based on "market" planning. The U.S. was simply forced to enable all its allies and former enemies to rebuild on favorable and generous capitalist lines for fear of losing the balance of Asian and European markets to Communism and/or Socialism. The U.S. embarked on a policy of free trade, lending money to its allies, coupled with fixed and stable exchange rates anchored by the U.S. dollar as the reserve currency. This policy, it was thought, would end the autarkic and tariff-driven policies which all highly-productive countries used to achieve industrial success, but which were now thought unnecessary. It was then believed that at a certain level of development it was thought that these policies encouraged belligerent confrontation for export markets, which ultimately ended in armed conflict over access to those markets.

The policy proved effective, indeed, in terms of eliminating shooting conflict between capitalist nations and in rebuilding those nations to a high economic level. But a major weakness that surfaced became the proximate cause of the current financial crisis. The U.S. was forced to export capital as loans, investment, and military policing. It could do so easily by printing dollars, the world reserve currency to fund those expenditures. So far so good, but it also had to export technology and know-how to its allies and allow them, in turn, to export the output of their factories back to the U.S., the pump-priming market for accelerating their growth. Both foreign companies and American multinationals exporting back to the U.S. found the process advantageous. It was thought by American policy-makers that America would continue to have the ability to maintain an absolute technological lead over its "allies," a lead that would not be impaired during this process. It is this point that had a strong, unbalanced effect in creating the seeds of the current financial crisis.

It is my contention that at a certain point outsourcing manufacturing, whether low tech or high tech, slowly strangles the critical learning-by-doing skills, a continuous enhancement process necessary for long-term maintenance of industrial supremacy and, indeed, viability. This, along with the duties of the hegemon in militarily enforcing a containment of communism and a stable playing field for its allies, set in motion an irreversible negative set of consequences adverse for the bulk of the American working population. Outsourcing manufacturing to cheaper labor areas that use the same or newer technology ends up as simple labor arbitrage. This is good for mobile, real and financial capital, but ultimately, it undermines higher-wage productivity areas. If the high-wage areas of population have high and continuous expectations, even in the face of insidious decline, then the government must create asset booms to back-stop borrowing. This technique can be used to finesse the lessening ability of ordinary working people to continually earn a high standard of living.

Who is Henry George? Why is Henry George of Interest in this Current Financial Situation?

Henry George was an American journalist and economist who wrote in the 1880s. Travelling and writing in America at that time, he observed expansion to new lands, and the high phase of land speculation that accompanied American industrial development. Land claims and their ability to wrest surplus from the system were obvious to interested observers. In fact, as the primary claim on nature, land titles were the sources of the largest amount of current and expected surplus created in the American economy at that time, but were also a cause of continuous boom/bust economic cycles. George's writings are evidence of that fact. A similar process occurred with Marx's position as an observer of the expansion phase of English industrial capitalism. This gave him particular encouragement to emphasize the developmental power of industrial capital and its increasing monopoly ascendance relative to English land claims and speculation. I will use both writers as counterpoints to develop a view of the process that leads to the kinds of financial crises that we are witnessing today.

Both writers ultimately observed that dispossessing workers from property of any kind ultimately marginalizes them and destroys their bargaining power, a process that increases frustration in the bulk of the population. Private property is a double-edged sword. Obviously, without the ability to own and identify ownership of land and capital, and the resulting output of both, there would be no incentive to create in the first place. However, a contradiction arises in that whoever owns such a claim is in the long term in a much stronger position economically than those without such claims than just identifying what is his if the economic system has continuous positive productivity. Access is everything from that point on; if the rules of the system allow the surplus created to be reinvested privately, then those who have no means to claim property because of their relative lack of bargaining power are doomed to fall behind relatively. When land and capital concentrate spatially and combine to generate returns above the margin, sharing with workers and paying them above the margin of survival keeps them working and doesn't severely curtail capital accumulation for owners. Those outside the margin survive by the dole, and will, by example, deter the marginal-plus workers from strongly encroaching on the surplus, leaving system accumulation intact and moving forward. The Georgist versus Marxist question in the long run is which has the most stable strategic monopoly advantage, industrial capital, or claims on nature directly and their derivative financial claims like mortgages.

We can consider the world as a group of these accumulation centers. Over the preceding 200 years they have coalesced into extraordinarily high productivity centers, a la North America, Europe, and Japan. The cumulative reinvestment, learning-by-doing effects, new technologies enabled by carbon fuel-induced energy, propelled these units into becoming phenomenally high productivity centers. The Industrial Revolution, with the inception of the steam engine in the late 1700s, finally combines carbon fuel energy with metallurgy, thereby creating metal strong enough to withstand high pressure from carbon fuel ignition, and channeling that high pressure into continuous and directed useful mechanical energy. The metallurgy itself, I would argue, is a sum result of learning: clock-making gear technology, the making of accurate navigational instruments, and development of robust cannon-making techniques. Cannon-making metallurgy enabled the construction of metal chambers able to contain chemical energy release which could propel metal projectiles. This enabled Western Europe, during the period 1400-1600, to acquire by force surplus from differing social formations in the rest of the world, in turn, allowing western European manufacturers to invest these surpluses in a new means of production; these surpluses culminating in those carbon-energy-driven machines. The resulting unprecedented increases in productivity produced an unprecedented number of products which allowed these European productivity centers to dominate the world. Productivity per capital jumped from a factor of two to a factor of thirty in the past 200 years, all the while enabling the population to increase by a factor of six.

We can now incorporate George, Marx, and Keynes into the analysis. Capitalist development presupposes a creation of its own markets or absorption of new markets into its productivity system from older social systems. Assuming the system is self-sufficient in raw materials, and agriculture is highly productive and can support a large population, auto-centric growth can be maintained by distributing proportional increases of the productivity back to the workers. Absent that, taking surplus and/or material from other non-capitalist systems and venting the surplus from the central production system to the outside systems will also balance the growth. Here's where Marx, as the premier analyst of the requirements for balanced growth, indicates the potential realization (selling the manufactured output) difficulties that correspond with uneven development, sector imbalance, the possibility breaks in the circuit of capital, and the severe cutting of costs necessary to obtain competitive advantage; all of these cause pressure on working and middle class payouts. The centralization of capitals due to competition from these factors results in capital monopolies almost as strong as the Georgist natural monopoly of land and resources.

As these contradictions become more acute, the predictability of balance of flows throughout the system becomes more problematic. Keynes enabled the crossing of the psychological barrier of encroaching on individual private property ownership, making it desirable for private property to give up part of its surplus to a central repository (government), which could act as the system balancing reserve of last resort of purchasing power, to even out dislocations in the flow of funds. This enabled the system to overcome contradictions in particular instances in order to save private property as arbiter of the economy for a longer term. This allowed buying of time, to defer the strong, unbalancing tendencies into sometime in the future. If taken to its logical extreme, government control of the whole surplus (a la Marx) could theoretically ensure a balanced distribution of that surplus to all parties. However, history has demonstrated that the incredible productivity-inducing coercion of competition becomes muted and finally dormant when surplus is totally controlled; it finally works to discourage creativity and productivity, the very things that encourage strong growth in the first instance.

History from the 1930s on can be read as a tremendous effort to try to resolve these contradictions without significant structural change to the system. We can use wars, conquests, worldwide investment and disinvestment, planned obsolescence, etc., to mute and resolve these contradictions. Yet, as ever more of the world's resources and population are drawn into this game, and at the levels of higher productivity obtained, all work forces become sophisticated enough and desirous of the good life, wanting to share in the increase in productivity at an increasing rate. Their entitlements and desires cannot be easily met by the Keynesian patches. The whole world wants in; the demands on relatively cheap and limited energy sources at cheap levels become ever more frenetic. Environmental destruction proceeds apace. The hegemonic government, luckily, is able to use its universal currency on demand, and at will. It will pay off extra claims on its center of productivity by printing and exporting money and productive wealth to other productivity centers and emerging productivity centers in return for their resources to satisfy its own workers' claims on its system. But the resulting financial pressures induce an ever more precarious system, and cause more of the real productive capital in the center to run to other more propitious areas where working class claims on the surplus are less onerous.

To Sum Up:

The auto-centric model of industrialization followed by England, America, Germany, Japan, Korea and now China, presupposes building up manufacturing behind tariffs and encourages the national division of labor, mechanization and learning by doing. Spillover effects are constantly fed back into the process, which culminates in ever-increasing productivity, with carbon energy as the hyping factor, a significant part of the mix. The U.S. tried to cure the major defect of that process: the historical attempted monopolization of world markets by the above-mentioned separate world centers, which led to war or arming for war as resolution for the full employment and entitlement aspirations of working people within a given system. A free-trade regimen to search for markets was enabled by using the U.S. as the buyer of last resort, to allow a smoother, less angry worldwide expansion.

With continued improvement in transportation and communication, and use of Keynesian methods, the U.S. succeeded in dramatically improving the profitability of its multi-national corporations at the expense of U.S. labor by importing lower price inputs, and relying on its financial sector, with the aid of the reserve currency status of the U.S. dollar to recirculate the surpluses made by those overseas sellers to America, which in turn created asset inflation into the U.S. working class balance sheets to mask the hollowing-out effect's consequences of moving manufacturing overseas. This allowed workers in the middle class to use debt to replace lost income resulting from the importing of cheaper labor inputs to replace domestic manufacturing. The hollowing out of the U.S. economy, and continued loss of good-paying jobs, along with the continued stable aspirations of the American people propelled the government into a final acceleration of debt-enabling. Converting increasing foreign export surpluses into dollars invested back into the U.S. banking system culminated in more credit for loans, which, in turn, were backed up one way or another by the U.S. government.

Two good examples of creative asset boom creation can be cited. One would be the Internet boom. Here we have a useful boom in a double sense. The technology promised huge labor savings throughout the system. These were obvious if the technology could be quickly and massively deployed. Easy bank credit encouraged the necessary means of investment. Entrepreneurs raced for first-mover advantage. The investment feedback cycle created a perfect storm. Many investments were made; a few succeeded spectacularly. Those that carried the day tended to become monopolies, employing relatively few high-paid people, but millions of other workers in the total system became unnecessary; because the productivity of the monopolies induced savings throughout the system. Google, Microsoft, Amazon and the like are examples of such companies. Wasted investment monies were channeled into the financial centers by means of financial commissions or high salaries in failed companies, all of which contributed to concentration ever more tightly of financial capital in fewer hands.

The real estate boom which followed the Internet bust was an asset boom with different outcomes. Here, huge credit was pumped into land speculation by means of mortgage-backed instruments guaranteed by the government, which in addition served as the guarantor of financial institutions deemed too big to fail due to excessive poor quality loans. Huge construction outlays were made on much socially unnecessary construction, which induced increases in low-wage labor being pulled into the construction process. The speculation created feedback effects inducing further speculation, which made everyone feel wealthier, in turn, creating more borrowing and unhealthy spending. But this boom, along with the Internet boom gave the working and middle classes a feeling that what they were losing permanently on the wage side, could be made up on the asset side.

The game ended, but the essential productive outsourcing had been completed. Banks and multi-national corporations had made themselves independent of national profit realization needs, and the working and middle classes are now left trying to figure out what happened to their future. Fortunately for workers' peace of mind but not their pocketbooks and future, elites have shifted the blame to the working and middle classes as having caused this by their lack of education, greed, support of big government, desire for handouts, excessive time on Facebook, etc. After all, any of these people, if they just had more ambition, could certainly get a job at Goldman Sachs, for example, and could also be masters of the universe, if only they tried a little harder. I think you get the point here.

In America, as the new Rome, the results of this process are as follows: a smart, aggressive elite controls finance, government, and a powerful group of multi-national corporations backed by a strong military. They control the bulk of world oil reserves, directly or indirectly. The U.S., Canada, Mexico, Saudi Arabia, Kuwait, Iraq and Libya hold 70% of known oil reserves, which transact by using the U.S. dollar to settle accounts. This creates a quasi oil backing for the dollar, making the printing of the U.S. dollar still acceptable, but creating the potential for unlimited commodity inflation which ultimately will check this process. Unfortunately, in the new Rome, out of a population of 300 million, perhaps, no more than 50 million people are truly economically necessary. The balance of inputs, both labor and resources, can be gotten elsewhere. With 1% of the U.S. population owning 60-65% of the assets, and another 19% owning 20% of the assets and manning the higher-valued occupations, the balance of 80% of the population is left with ownership of minimal wealth assets and subject to low-wage competition from around the world through imports. In addition, they face low-wage competition at home from both legal and illegal immigrants, while more and more workers at home are made redundant by high-productivity methods; all of this consigns them to a slow, downward spiral in living conditions--all in the face of the increasing real productivity of worldwide capitalism.

Since American elites can move investments anywhere internationally with tacit agreement of corresponding elites from other high-production centers, they can ensure the average standard of living for ordinary people will be arbitraged down to the lowest common denominator. Marginalized people around the world will be fighting with each other to hold onto residual pockets of wealth, as the basic wealth tide for working people flows to more propitious climes. This process is simply one of divide and conquer. It's all about bargaining power, and the lack of it.

This process continues at an ever-increasing pace and draws more and more scarce resources into the process worldwide. It allows an ever diminishing number of highly-functioning people who control claims on wealth to influence government to dismantle social protections for short-term profitability, further exacerbating the process. Governments are left scrambling to find tax money to redistribute back to the majority of people who are less and less necessary for production.

Looking forward from today, we argue that the current system will continue the process of uneven development and expansion in some areas of the world, slow-downs in others, regions rising, regions falling. However, elites will prosper no matter what happens since they can move claims to wealth at will. They will continue to seek low wages and minimal environmental regulation, with huge sections of the world pushed into marginalized employment. New areas will be in the ascent until their increasing wages put a crimp on capital expansion. The problem is millions of people have become more aware of the arbitrariness of this process, complaining either actively or passively, which further puts constant pressure on the surplus.

The process writ small can be likened to that of coyotes and rabbits in a woodland. Coyotes will eat the rabbits unchecked until the rabbits begin to disappear. If territorial markers become compromised through environmental damage, deregulation can be a similar process for "civilized" humans, and, of course, the coyotes then disappear, and so on, and so forth. Civilization presupposes something better. The elites operate much like smart coyotes. They acknowledge the predator/prey process and mute it to a certain extent, but the system dynamic is so powerful and explosive that it currently defies permanent attempts to tame it. The ultimate question is: Can we tame the system and still have productivity and individual initiative and freedom, or can we have only productivity and freedom along with periodic explosions that are doomed to get bigger and bigger as we approach severe indeterminacy?

Three divergent thinkers have tackled this problem: Marx, Keynes and George. The Marxian solution assumes that non-elites can assume control from the elites--here we define "elites" as people who are significantly smarter and more aggressive than the rest of us, but not too altruistic, to say the leas--and put them under the control of everyone else by seizing all wealth claims, and assuming whatever productivity rising from the resulting system can be redistributed back equally to everyone according to need. History has shown so far that a model like that would have the smarter people retire on the job or take control of the system as commissars who would try to regulate and manage the production processes by top-down command without using any significant market-signaling mechanisms. This culminates in using force and coercion to mandate and enforce production targets. In short, intelligence is short-circuited into sub-optimum performance. It results in quasi high-tech feudalism with ever more sophisticated ways of draining surplus rather than creating surplus.

Keynes would take the current system as is, and use the government powers to tax and borrow money to, in effect, even out and mitigate the explosive dynamics of the system. He would leave the surplus in private hands, but take enough of that surplus from both workers and owners to, hopefully, balance the unevenness of the system. That system presupposes a balance of bargaining power among all parties to make the process equitable. However, elites being elites, they will, sooner or later, find a way to shift the burden onto everybody else, and, thus, destabilize the system to their short-term advantage. This can be roughly stated as the current state of affairs – a powerful flow straight into indeterminacy.

Neo-Georgists would argue that all forms of monopoly, not difficult to identify by competent accountants, should be taxed away and immediately distributed pro rata to each citizen of a productivity unit. In this formulation, productivity units will be defined as the nation state. This, however, is not a perfect solution because in the modern world some nations, due to the uneven development process, have a huge productivity apparatus and large markets, and others have low productivity and small markets. This problem has to be considered for a secondary remedial development solution after a neo-Georgist first solution. The most obvious monopoly in any social system is land and resources or the natural environment, owned and claimed before it is used in the productivity process by labor and capital. But today's carbon-energy-fueled economy also creates aggregates of capital mixed with high concentrations of human capital which, along with nature, may create significant technical monopolies, creating high absolute surpluses. Theoretically, if we leave labor and capital untaxed in any way, paying capital for risk and productivity, the remaining surplus available for redistribution will approximate 1/3 of the GNP (historically true since 1600 A.D.). Technology has, of course, increased this surplus on a per capita basis 30 to 40 fold since then.

Land and natural resources are left in private hands, but monopoly derived from mere ownership of them would be taxed away and directly redistributed. From this fund, after it has first been distributed to all participants, needed social taxes can be levied and the balance can be left available for reinvestment, private or public, under the control of the general population through their investment accounts. Everyone would take an active interest in what was happening to their money. This would allow the general population to specify and be involved in the investment of capital--in which technologies, and in which local areas--so that a central productivity unit (country) can retain long-term coherency. Technology investments would be allowed to run as untaxed monopolies in certain instances, and for certain periods of time, where, in fact, the prospect of monopoly profits would be necessary to induce taking on risky but desirable projects. This process would be bounded so that monopoly profits could not be used to politically subvert the system itself.

There are a number of questions to be dealt with here: Environmental and social issues conducive to maintaining a civilized society would have to be continuously dealt with as society evolves. The problem of the smooth running of the system, a classic problem in a capitalist system, is dealt with effectively by this monopoly redistribution mechanism. As it takes fewer and fewer people to do the real work of society, the resulting marginalized people have no claim to output. In this formulation, everyone has a residual claim over and above their contribution from salaries, which may vary, and from their direct capital investments, another source of income. If handled correctly, dynamism is encouraged, and adequate purchasing power is always available.

The coyotes may object that the rabbits are not of equal value, as they have the natural "God-Given" ability to kill rabbits, and rabbits have no such ability to directly kill them. However, civilization requires the participation and survival of all parties, strong and not so strong, period. If not, the "superior party" can always be divided into two new groups, able and less able, and so on and so forth. This sequence could only end with one person left standing; an obvious absurdity for civilization. We argue only a neo-Georgist system can come close to solving all the above problems and for the following reasons:

1. Taxing monopoly does not discourage initiative and productivity.
2. Where there is extra risk, or society deems certain activities desirable, monopoly can be allowed over bounded time periods.
3. Monopoly taxes ultimately are not taxes on productivity. Released monopoly revenues allow a broad-based circulation of purchasing power which is fair and based on natural law that allows all people to have an equal right to access to nature.
4. It allows for the equitable distribution of the increasing productivity of the system which, to a great extent, is a cumulative social construct developed over hundreds of years.
5. It recognizes that unlimited, unchecked issuance of money and debt can be one of the most serious ways of creating monopoly, and must be closely watched and regulated to prevent them from becoming so.

6. Finally, it ensures that every person is juridically neither a coyote nor a rabbit, the recognition of which is the sine qua non for civilization.

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