

## Economic Insanity

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### Abstract

Richard Giles, a leading Australian Georgist political economist, suggests that criticisms of mainstream economics can be reduced to three: neglect of the Physiocrats, rejection of Georgist political economy, and the attempted revival of Georgist land economics with faulty variants of those principles. Yet, in defending Georgism, Giles fails to show it can resolve the legacies of chattel slavery, colonialism, and neocolonialism. Despite that limitation, Giles shows that the renewal of land economics is essential to achieving economic justice. Along the way, Giles provides original insights about the limitations of modern monetary theory, the Malthusian economics of global migration, and the rise of global nationalism.

### Introduction

As a well-known Australian exponent of the careful and conscientious reading of Henry George, the world's best-known land economist, Richard Giles has been critical of mainstream economists, political economists, and Georgist economists. As president of the Association of Good Government in New South Wales, and editor of *Good Government: A Journal of Political, Social and Economic Comment*, Giles has developed a version of Georgist political economy that is faithful to a formalist reading of Henry George without losing sight of the bigger questions that engaged Henry George. According to those who have reviewed his work, he does his Georgist political economy "[w]ithout compromise" (Balce 2018: 12).

Giles (2015, 2017, 2018) has pointed out fads and fallacies about using "land value tax" and "single tax" interchangeably, provided a corrective about what George meant by making "land common property," and fought against the transformation of Georgism into "geoism" and "geo-libertarianism." In reading Henry George, Giles could be called a textualist, with an eye on the purpose of George's own writings and speeches.

Giles challenges the contradictions in varieties of Georgism that veer from the original source material. He systematically shows how environmental and new institutional economists whose works are fundamentally at variance with the spirit of Georgism have been celebrated by both mainstream economists and Georgists, who are supposed to challenge orthodoxy. On the pages of the *Georgist Journal*, Giles (2008) has asked "Whatever Happened to Georgism? ... Where are the principles that Henry George taught? ... And more important, where is his methodology?" (Giles 2008).

Giles (2019) seeks to address these questions himself, arguably because existing attempts to critique mainstream economics have failed to do so in relation to Georgist political economy. In addition, he contends that overlooking these critical questions has created "insanity," not only in mainstream economics, but also in political economy, specifically in Georgist political economy. To make these arguments, he draws on primary sources, such as Quesnay, Turgot, George, Adam Smith, and Karl Marx, and on secondary sources.

The arguments in Giles (2019) are categorical and deal with fundamental principles. Similar treatments can be found in other issues of this journal (Ruiz-Villaverde 2019). For Giles, existing problems can all be reduced to three. The neglect of the economics of the Physiocrats is fundamental. The rejection of Georgist political economy compounds the insanity, and the attempt to revive Georgist land economics through variants called "geoism" and "geo-libertarianism" completes this insanity. On all of these counts, Giles indicts academic economists. In my view, he gives too much weight to the role of academic economists in the creation of economic insanity. He also fails to address how the "single tax" proposed by Henry George can resolve the continuing problems of historical wrongs such as chattel slavery, colonialism, and neocolonialism. He can also be faulted for failing to consistently illustrate principles with empirical evidence. Despite these shortcomings, his powerful exposition leads the reader to think through these problems deeply and to work on the reconstruction of a Georgist political economy capable of addressing a wide range of social problems. The most crucial feature of the methodology employed by Giles is to exhume for careful study the land economics of Anne-Robert Turgot and Henry George. Those sources put us back on the discovery of economic justice. Along the way, Giles introduces rich insights about the limitations of modern monetary theory, the Malthusian economics of global migration, and the rise of global nationalism.

In the rest of this essay, I describe what Giles's new book does in more detail, highlight the book's unintended contributions, and provide three comments on where more work could be done.

### The Insanity of Economics

Giles (2019) is not the first critic to attribute abnormality to economics. Steve Keen (2003) described "madness in their methods," while the post-autistic economics movement considers economics "autistic." However, "economic insanity" is different and far more specific, implying the deviation of economics from a particular standard of sanity. In this framing, Giles compares economic theory to the fundamental principles of the Physiocrats

and Henry George. This insanity applies not only to mainstream economics, the focus of previous critiques, but also to heterodox economics, to political economy, and to Georgist political economy itself.

On one end of the pole is physiocratic economics, on the other end is mainstream economics. Georgist economics is immediately next to physiocratic economics, so the spectrum defines degrees of insanity relative to the Physiocrats. Mainstream economics is the most insane. It neglects the work of Henry George, but it goes beyond that by overtly and covertly attempting to bury and mischaracterize George, for example, through penalizing those who seek to study, practice, or apply Georgist political economy. While those who know the work of Gaffney and Harrison (1994) on the corruption of economics might imagine that Giles's book repeats a well-known story, they are wrong.

Giles (2019) is not simply a critique of orthodoxy. This is a book that cuts both ways. Also, unlike Gaffney and Harrison's (1994) brilliant challenge to orthodoxy, Giles also discusses how Georgist political economy itself has been corrupted. Giles adds an intriguing dimension to the history of how economics became corrupted by arguing that the more economics became concerned with practical problems and public policy, the worse its insanity became. As key principles have been sacrificed for immediate solutions, symptoms have become mistaken for causes.

To demonstrate these contentions, Giles (2019: 24–34) offers an abridged, but highly intriguing, history of economics and economic history. From Adam Smith to David Ricardo, they all became “insane.” Even revolutionaries like Karl Marx and Friedrich Engels became “insane.” Although Marx is praised for being a good researcher, his insanity can be found in his concepts and politics. Consider surplus value, the rhetoric of revolution, and the utopia of worker liberation. Whereas the surplus value extracted from workers by the owners of capital is usually regarded in Marxist political economy as the universal form or source of unearned income, Giles insists on viewing it on a comparative basis. After carefully examining the historical evidence, Giles concludes that the surplus expropriated from factory workers at the time Marx wrote was much smaller than the surplus extracted by the largest landowners in the form of rent. So the problem was not the “capitalists,” but landowners.

Indeed, landowners were quite comfortable with socialist agitations, an oddity because many capitalists invested their money in land (Giles 2019: 29–30). The real breakthrough here is the historical inversion of two types of surplus. Many political economists claim that surplus value (derived from labor) is large and surplus product (equivalent to rent) is a mere fraction of surplus value. Yet, Giles argues that the relationship is the inverse: land rent is much larger than the value expropriated from labor. This relationship was known to the Physiocrats, but it was lost to later generations. How could the economics profession be so insane as to move away from the work of those from whom the profession got its name, the *économistes* who followed Anne-Robert Turgot?

## Adrift to Insanity, Addressing the Problem

According to Giles, ignorance is a key reason for economic insanity. Yet, Giles shows that economic insanity has a material logic of its own that is sustained by interest groups. Anne Haila (2016: xxii, 124) called such interest groups “the property lobby.” These interests include real estate associations, foundations, the military, and the media. Previous issues of this journal have examined the role of those interest groups (issue 74(4)—how foundations shape elite-friendly political culture; issue 75(5)—how economics justifies property inequalities; issue 76(2)—how the CIA plants messages in films in support of U.S. imperialism; and issue 77(2)—how laws and treaties turn transnational corporations into quasi-states). So, economic insanity is not simply the product of ignorance nor is it driven exclusively by professional economists, who are the primary focus of Giles's critique. Indeed, as Fred Foldvary (2008) argues, many marginalists took the land question very seriously until specific interest groups outside of the academy intervened. Jorgensen (1925) revealed that R. T. Ely, the pioneering academic land economist, was colluding with real estate developers to undermine Georgist political economy under the guise of “research.” Economic insanity has a material logic of its own that cannot be reduced to ignorance alone. There are many historical and contemporary reasons for misguided thought.

Similar comments could be made about the single tax and whether it alone can address social problems today. While Giles contends that the single tax is sufficient, it is not clear how the single tax can address deliberate historical chattel slavery, colonialism, and neocolonialism. The present conditions of most Africans, the shocking conditions of the indigenous people of Australia, the long-term suffering of descendants of enslaved people in the Americas, and the enduring consequences of the Holocaust reflect the compounding effects of historical oppression. While a single tax could prevent the recurrence of problems, it is not clear how the historical roots could be attenuated. Henry George ([1883] 1981: 157–158) himself recognized this limitation and suggested a single tax unlimited, including reparations in the form of the “forty acres of land and a mule” promised to freed Black slaves in the United States:

“Forty acres and a mule” would have ... given them something of that personal independence which is necessary to freedom. ... Such a measure would have given the freedman a fairer start.

”

George did not view reparations and the “single tax” as mutually exclusive; he believed they were complementary. As Darity and Mullen (2020) demonstrate, horrible oppression and marginalization in the past continue to impose a burden on Black people in the United States and elsewhere in the world today. Henry George himself could have been more solid and more forceful in his support of oppressed races, genders, and other identities.

That is why principles, necessary as they are, need to go hand-in-hand with empirical studies. George ([1879] 1935: 557) seems to point in this direction.

“ I have in this inquiry followed the course of my own thought. When, in mind, I set out on it I had no theory to support, no conclusions to prove. Only, when I first realized the squalid misery of a great city, it appalled and tormented me, and would not let me rest, for thinking of what caused it and how it could be cured. ”

Thus, we see that his primary guide was not a predetermined ideology but a desire to respond to a condition that he had directly experienced. He concluded his work with what is clearly a call for a school of Georgist political economy that is both faithful to his mode of analysis but that also challenges Georgist conventions and not merely the geoist and geo-libertarianism variants of it. That is precisely what Giles has sought to do, with considerable success. His exposition of principles is illustrated with empirical case studies about land. No doubt doing more of these will more forcefully unleash the power from the land.

## The Power in the Land

Harrison (1983) shows the centrality of land to the global economic crises of our era. As a critical endeavor, he excoriates the misguided focus of mainstream economists, Keynesians, and Marxists for respectively focusing on markets, the state, and capital. As a constructive exercise, Harrison shows how a focus on land could limit the risk of spiraling crises and unleash the power of land to provide progress and prosperity.

In August 1984, Harrison offered a copy of his 1983 book to Anne Haila, the leading Finnish Georgist urban economist. Haila (2016) would later build on Harrison's work to show how the city-state of Singapore used land to address political-economic challenges of the time. As I note in my own review of Haila's book, the focus on land offered a corrective to inadequate explanations of Singapore's crises, demonstrating concretely that this Georgist methodology has promise for the future and that new problems could be addressed using that approach (Obeng-Odoom 2016).

Giles (2019: 39–43) also offers fascinating routes on which to travel. Four of them require particular emphasis. The first is economic depression, a threat that continues to loom over the world today. Modern monetary theory has gained a following, but a similar prescription failed to address the land-based crisis that caused the collapse of the Japanese economy in 1989. Second, George's critique of Malthus on population, progress, and poverty is now more relevant than ever. Both populist anti-immigration hysteria and more sober research on migration have neglected the nexus of land, population, and labor. Unlike Malthus, who criticized population growth from a static method of analysis, George took a much more farsighted position. According to Giles, George saw that a) more population actually helps innovation and that b) while wages as a proportion of rent tend to fall with growing population, real wages actually do not fall because of population growth alone.

So, again, focusing on land offers important insights. For those puzzled about how democracy could be so helpless in the face of global problems today, Giles (2019: 95–97) shows why in his third topic of discussion. Treating democracy as the answer to every problem that arises is faulty. Democracy is not a panacea, particularly when it is framed as a function of joint political rights (the right to non-rival collective goods such as national security). Many current problems would be resolved if democracy were instead conceived of in terms of equal rights to the land, a commonwealth in which all residents shared equally in the value derived from land. Without recognizing this “power in the land,” presidents and parties will come and go, but our problems will remain.

Finally, the land-based economic history of Giles (2019: 61–66) throws up some other fascinating insights. Consider the socialist roots of A.C. Pigou. Not only did a socialist orientation lead Pigou and others to abandon George's emphasis on land and rent as the root of social problems, the socialist emphasis led Pigou to focus on consumption and “scarcity,” not rent. Hence, environmental analysis based on Pigou's insights has continued to focus on behavioral concerns that might be characterized as economic insanity.

## Towards Sanity

Richard Giles is a pillar of strength in Georgist political economy. He has been a voice of sanity, consistently offering critique and correction. Giles's reconstruction helps to show the limitations of economics, regardless of approach, to addressing global crises; he also highlights the need to center the analysis of the global ecological and socioeconomic crisis on land. Were his advice heeded, economics would heal itself of insanity and would, as in the days of Anne-Robert Turgot and Henry George when economics was built on economic justice, once again become sane.

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