

RENT UNMASKED

*How to Save the Global Economy
and Build a Sustainable Future*

A basic principle of economics holds that it is highly efficient to tax rents because such taxes don't cause any distortions. A tax on land rents doesn't make the land go away. Indeed, the great nineteenth-century progressive Henry George argued that government should rely solely on such a tax. Today, of course, we realize that rents can take many forms – they can be collected not just on land, but on the value of natural resources like oil, gas, minerals, and coal. There are other sources of rents, such as those derived from the exercise of monopoly power. A stiff tax on all such rents would not only reduce inequality but also reduce incentives to engage in the kind of rent-seeking activities that distort our economy and our democracy.

Joseph E. Stiglitz
The Price of Inequality
(2012: 212-213)

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*How to Save the Global Economy
and Build a Sustainable Future*

Essays in Honour of
Mason Gaffney

Fred Harrison (Editor)



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A TRIBUTE TO MASON GAFFNEY

Conflict Resolution and Ethical Economics

WORLD WAR 3 is not possible – is it? When the proposition was advanced in 2012 (Harrison 2012: 206), the world was locked in a deep depression, but statesmen were reassuring their constituents. Since then the President of the European Union (Donald Tusk, a historian by profession) observed that Europe was experiencing ‘some very dangerous moments in our history. It is like the day before the World War One’ (Holehouse 2016). And Russia’s Prime Minister, Dmitry Medvedev, informed a German newspaper that the conflict in Syria was in danger of erupting into ‘another world war’ (*Handelsblatt* 2016).

The global economy is locked into a void which evokes the Depression of the 1930s. We shall call this void the ‘suppressed depression’, a term that came into use in 1937 but long since forgotten. How we got here is the story of the failures of governance. The blueprint for what we can do about it is the subject of this volume. The ethical economics which could resolve the conflicts that constitute a world at war with itself have been most meticulously analysed by Mason Gaffney.

The financial implosion of 2008, and the failure of policy-makers to adopt appropriate remedies, turned the global economy into a hostage to malevolent forces. Those forces, centred on global real estate, had been allowed to gather strength and momentum over the past century. They culminated in the sub-prime mortgages which threatened to crush the banks and financial institutions which purchased those toxic mortgages

as ‘collateralised debt’. Now, *working within the existing economic paradigm*, law-makers are helpless. They resorted to monetary policy to prevent the West’s banks from collapsing. They pumped up the money supply to levels so high that it became difficult to keep track of the zeros at the end of the numbers. Their fears are justified: governments and central banks no longer have at their command the tools which could cushion the downward spiral.

It need not have happened.

Remedial action could have been taken at any stage in the build-up to the crisis. One policy alone could have charted a course to sustainable prosperity. That policy would have rebalanced the global economy on the twin axes of ethics and efficiency. It could have been promulgated in response to any of the crises that were building towards the seizure of the western financial sector in 2008.

- The Black Monday stock market crash (1987)
- Japan’s real estate boom/bust (1989)
- Recession at end of the 18-year business cycle (1992)
- The Asian financial crisis (1997)
- The toxic mortgage boom/bust (2007)
- Implosion of the post-Marxist economies (2010s)

Any of these episodes could have been forestalled; or, failing which, could have been used to reconstruct economies on sound foundations. Repeatedly, policy-makers ignored the advice of high-profile authorities like Nobel Prize economist Joseph Stiglitz, and the guidance offered by contributors to the present volume. They explained how to eliminate inequality of incomes while raising growth, in harmony with the reconstruction of communities and natural habitats. That advice was ignored. The richly-rewarded advisers to governments are missing something. What?

In a speech in Paris on April 8, 2015, Joseph Stiglitz sketched the issues.

[M]inor tweaks in the economic system are not going to solve the problem ... The underlying problem is the whole *structure* of our economy, which has been oriented more at increasing *rents* than increasing productivity and real economic growth that would be widely shared in our society ... one has always to think about issues of *shifting* so that, for instance, just a tax on capital might be shifted, and a lot of the models have shown this would

happen, but a tax on land, rents, would actually address some of the underlying problems. This is the idea that Henry George had more than a hundred years ago, but this analysis that I have done ... goes one step beyond Henry George. Henry George argued that a land tax was non-distortionary, but this analysis says that *a land tax actually improves the productivity of the economy because you encourage people to invest in productive capital rather than into rent generating*. Well, the result of the shift in the composition of the savings towards more productive investment leads to a more productive economy and in the end leads to a more equal society.

(Stiglitz 2015, emphasis added)

The italicised concepts in the Stiglitz speech are forensically examined in this volume.

To understand the grave implications of the new reality, we need to unmask rent. The emphasised sentence on the 'land tax' identifies the nub of the solution to the debt crisis. No-one has contributed more to the task of forensically examining the nature of rent, and the associated solution to society's problems, than the professor whom we rate as the foremost authority on the economics of real estate: Mason Gaffney. And so, *Rent Unmasked* must serve two purposes.

The first is to honour Mason Gaffney, academic and activist who dedicated his life to shedding light on the issues that his peers, for the most part, have preferred to shroud in darkness. The debt crisis provides a fitting backdrop against which to evaluate his works of a lifetime. The second purpose is in keeping with Professor Gaffney's wish that the contributors to this volume should analyse the state of our world both theoretically and empirically.

In relation to the debt crisis, we will explain how the transformation of the tax regime could elevate consumption and investment in the global economy by something of the order \$14 trillion. That would be the *additional* value that would flow from the increased productivity to which Stiglitz referred in his Paris speech. That is the magnitude of the added value that people would generate as the barriers created by the Treadmill Taxes were dismantled. It is the sole strategy capable of pulling the indebted world back from the precipice. Part I of this volume explores the theoretical issues, and we lay out the empirical evidence in Part II. In Part III, we discuss the need for the prophetic voices that would mobilise people behind the democratic mandate that is needed to drive policy-makers in the direction of remedial action.

Box 1

The Ride to Nowhere

Mason Gaffney was exposed to the authorised version of economics at Harvard. His unwillingness to accept the conventional doctrines on taxation stemmed from an accident. As a 14-year old he was riding his bicycle when he was struck down by a car. His left leg was seriously damaged. The books brought to his bedside included Albert J. Nock's *Henry George: an Essay*. That was in 1937. Two years later he received a flyer from the Chicago branch of the Henry George School. A free class on economics was offered at his local 'Community House'. The teacher, John Lawrence Monroe, was persuasive. So Mason decided to study economics at Harvard. There, he was put under pressure to ignore Henry George. He recorded his professor's advice:

You see, my boy, this Henry George lived at a time when the country was growing rapidly, when land values were skyrocketing and great fortunes were being made from speculation. Not being a 'trained economist,' George attached disproportionate importance to this ... er ... er ... land question. Land is, of course, of minor importance in 'economics,' and speculation, well ... of trifling significance.

(Gaffney 1942)

But Mason had traversed the Road to Nowhere, the highway along the North Shore west of Chicago. For mile after mile, 'developers' had sunk capital into streets and sidewalks ... with not a house in sight. Farmers had sold their acres in the expectation of reaping windfall capital gains. The profits did not materialise. Instead, the fields remained barren, bereft of farms and families.

By applying common sense and the principles he had learnt at his Community House, young Gaffney was able to decode the source of behaviour that was economically anti-social, ecologically damaging and fiscally perverse. Governments, by the way they administer the public purse, encourage land speculation. Urban sprawl, it appeared to Mason, reduced the productivity of the economy and forestalled the creation of employment opportunities.

Burnished into his mind was the sign erected at a junction with Arlington Heights Road. This proclaimed: 'The Idle Rich of Today Bought Acres Yesterday'.

But he was sympathetic towards his Harvard professor. He wrote: 'His salary, after all, is paid in part from the proceeds of the foresight of certain friends of the institution who bought up much of the land on which the slums and business districts of Cambridge now stand.'

Mason was due to major in Economics. He tired of what he called 'the drive!' and switched to History.

The Perversion of Classical Economics

The thesis developed in this volume is based on a shocking proposition. The dismal failures of governance ultimately stem from one source: the intentional manipulation of classical economics. That distortion turned Mason Gaffney into a rebel with an honourable cause (Box 1). For what had originated as a method for diagnosing economic behaviour and prescribing effective government policies was perversely compromised for the private benefit of a self-serving minority. The outcome is the convergence, in the 21st century, of what the US intelligence community calls mega-trends. These are global problems (both social and ecological) that have reached such scale and intensity that they collide with, and fuse into, each other (National Intelligence Council 2012). This creates the kind of chaos that becomes an existential threat to humanity.

The western financial system began to implode when property prices peaked in 2007. It was rescued by politicians who shifted the costs of their negligence onto their citizens. People lost jobs by the millions. Homes were repossessed, and savings and pensions disappeared. The culture which created the disaster was put on a life support system, nursed so that it may return to wreak havoc on another day.

The Depression of the 2010s followed.

The most comprehensive interrogation of the intellectual crimes and policy failures which nourished this tragedy is to be found in the lifetime's work by Mason Gaffney. He was unrelenting in his investigations, for even in the darkest hours of his career as a non-conformist professor he remained resolute in his belief that economics as a scholarly discipline could – and *must* – be rehabilitated (Box 2).

Ethics and Economics Classical economics originated with the French Physiocrats and thinkers of the Scottish Enlightenment, among whose ranks was the moral philosopher Adam Smith. They saw the Big Picture, and they became the architects of a system which holistically integrated people's private interests with the financial formula that would deliver honest governance. They understood that individual rights were inextricably bound up with social obligations. Not for them the linguistic contortions of medieval schoolmen. They cut to the chase. People should be free to get on with their lives (*laissez faire*); but they should also honour their responsibilities to society.

The organising mechanism for achieving this prospectus was based on

Box 2 • The Professor they Could Not Gag

Mason Gaffney's studies at Harvard were cut short when he was called for wartime service. He joined the US Army Air Corps and reported for duty at Fort Grant, in northern Illinois. He was shipped out to the Pacific, but on his return to the States he decided that Harvard was not the place to complete his studies. He earned his BA at Reed College, in Portland, Oregon, before moving to Berkeley for a PhD.

Mason's early years combined teaching and social activism. In the 1960s, he marched to support the Civil Rights of African Americans. In 1969 he joined Resources for the Future, Inc., a Washington, DC-based think tank that was commissioned to address the problem of resource scarcity. His relationship with colleagues was warm until he began to question their methodology. He was told to shut up or go away. In 1973 he was invited to head a new think-tank sponsored by the provincial government of British Columbia. The BC Institute for Economic Policy Analysis encouraged research into pollution control in the market economy. Again, Mason came under pressure from those who favoured the privatisation of natural resources as the best route to conservation.

In 1976 he moved to the University of California, where he engaged with environmentalists who were seeking policies which could protect natural habitats. As professor of economics at the university's Riverside campus, and Chair of Economics in 1978, his working relationship with authority was never going to be easy. The university favoured agribusiness over family farms. He found himself defending his department against the ideologues who were the mouthpieces for businesses built on the landed interest. The guardians of the IMF/Washington Consensus had a long reach, and they were gunning for the professor who objected, on scientific and ethical grounds, to what is now called rent-seeking. He refused to compromise, lecturing on, and publishing articles about the West coast rent-seekers who purloined public value through their legal rights to water, timber, oil or fisheries.

Public subsidies for 'bridges to nowhere' infrastructure were a *bête noire*. They enriched the owners of land in the catchment areas of the investments, causing the professor to comment adversely on the waste of public funds for proposals like the Peripheral Canal project in the arid lands east of Riverside. Why, he asked, reward corporate land owners for raping the earth?

When state-wide property taxes were further compromised by Proposition 13, to enrich residential land owners, Mason was dismayed to witness a deterioration in the educational attainment of students graduating from California's cash-starved schools (Gaffney 2011). In the year Professor Gaffney prepared to retire (2014), *Time* magazine used new White House metrics to rank his university as No.1 in the USA.*

* <http://time.com/71782/make-your-own-college-ranking/>

the rents which everyone helped to create. These *ought* to fund the services that were provided by public agencies. The classical economists understood that, when rents are privatised, the result is parasitism. Adam Smith was too polite to call his noble patrons *parasites*, but he left his readers in no doubt about the realities. He described landowners in these terms:

They are the only one of the three orders whose revenue costs them neither labour nor care, but comes to them, as it were, of its own accord, and independent of any plan or project of their own. That indolence, which is the natural effect of the ease and security of their situation, renders them too often, not only ignorant, but incapable of that application of mind which is necessary in order to foresee and understand the consequences of any public regulation.

(Smith 1776: Bk 1, Ch XI: 277)

Private claims on socially-created rent were not only unjust. They also damaged society when those who claimed to own the nation's rents controlled the reins of power. In what were then Europe's two leading nations – the monarchies of France and Britain – the landlords were counsellors to kings and administrators of the state. There was one peaceful way only to deconstruct that powerful edifice: synthesising the scientific approach to the production of wealth with an ethics-based public administration.

The starting point for this project was the rigorous definition of the agents of production: land, labour and capital. National income was divided into rent, wages and interest. To achieve optimal outcomes, the new economy had to synthesise

- *a free-market* that served the common good as well as the private benefit; with
- *governance* that was grounded in the norms of both efficiency and justice.

When correctly aligned, classical economics and the art of public administration would deliver material prosperity and social solidarity. In this vision of the world, there need be no poverty: people willing to work could not be prevented from doing so. There need be no unhealthy communities: society would grow organically, adjusting naturally to the opportunities that presented themselves during the Agricultural and Industrial Revolutions.

Classical economics was a revolutionary prospectus. It was a direct challenge to the vital interests of the landed aristocracy. This meant that, sooner or later, the classical model – and its promise of the Good Life for everyone – would have to be subverted. To achieve that outcome, the heavy lifting was performed by individuals who became known as ‘neoclassical economists’ (Gaffney 1994). The proximate cause that animated them was the emergence on the world scene of an American journalist.

Henry George published *Progress and Poverty* in 1879. He set the type himself in his printing works in San Francisco. The book became the first best-selling text on economics. Its message was lethal. There was nothing *natural* about poverty and mass unemployment, social division and the urban sprawl that blighted natural habitats. These were symptoms of a malevolent financial regime. The antidote was a financial formula.

- ✓ Abolish taxes on people’s earned incomes.
- ✓ Enable and require people to pay for the services they receive from nature and from society.

Henry George’s analysis laid the foundations for what became the first global reform movement in history. The time had come to embed justice in the public’s finances. The income at stake was the rent that flowed (in the main) through the land market. This was a direct threat to the material foundations of the class that monopolised power, and to its supporters (such as mortgage-granting financiers).

The social movement that mobilised behind *Progress and Poverty* could not be neutralised through physical coercion. The beneficiaries of the Land Grab of old had to take control of the narrative. The way to achieve that was by burying two concepts: land and rent. Professors of economics on both sides of the Atlantic stepped forward to oblige. The outcome was the sterilisation of economics as a problem-solving discipline. Students were inculcated with a doctrine which, conceptually speaking, cut the ground from beneath their feet. The political impact was devastating. Legislatures of the West devoted the 20th century to palliatives rather than structural reform. That is why the social and economic problems that Henry George catalogued in the 19th century remain with us in the 21st century.

The Inconvenient Truth A pathologically traumatised society needs to heal itself with appropriate therapies. Recovering healthy minds begins by excavating the closest approximation to truth. Archaeologists collaborate in one such exercise, by digging up the carcasses of ancient urban settlements with the aid of trowel and brush. They sweep away the sands of time to try and understand how humans collaborated to create the earliest civilisations. Mason Gaffney became one of his generation's foremost excavators in the realm of public policy. He de-constructed the linguistic contortions of the academicians who had mangled the tools of their trade, exposing the way in which they rationalised turbulence in the out-of-control economy. One of their excuses is 'market failure'. Because the experts cannot blame governance, they need a scapegoat. The failures were blithely attributed to the market. Gaffney would have none of it. And so, when economics as a science fell into general disrepute in 2008, he explained that blaming the market distracted attention from the inconvenient truth.

But people cannot be blamed for imbibing the *clichés* of their tutors or economic commentators. That is why Prof Gaffney patiently explained to his students that technical terms had to be rigorously analysed. In relation to rent, it was crucial to understand that net income was a composite value. It represented the services provided by

- *nature*: this stream of income emerged with the first agricultural revolution some 10,000 years ago. Nature's rent remained the largest portion of net income all the way through to the Industrial Revolution. Rent, which assumed different forms through the ages (from labour power to payments in kind, and then cash in the commercial society) made possible the innovations which crystallised as urban civilisation.

And then there was a shift to rents generated by

- *society*: from the 18th century, rents increased in absolute terms, and as a proportion of total income, through investment in the infrastructure associated with industrialisation. New water and sewerage systems improved the health of the population, education funded by governments, and other public investments, resulted in the exponential increase in the flow of rents generated by the collective efforts of people working through their public agencies.

But those streams of rents had been shorn of their social status by the feudal patricians. People were socialised into accepting the legitimacy of rent as private income.

Beyond the Kafkaesque Conversation There is a worldwide awareness that our globalised civilisation is defective in some profound way. What is now fast being reduced to a mono-culture appears helpless in the face of mounting crises. The world's financial arteries have been corroded. Gains are eclipsed by painful losses to the wealth and welfare of every society on earth. Conversations that purport to diagnose the problems are distorted at all levels.

- ❖ Policy-makers wrestle with shortfalls in revenue from taxes on wages and consumption; when (as Gaffney continues to insist) that revenue ultimately comes out of rent (ATCOR).¹
- ❖ Economists agonise over their forecasts, using tools like 'inflation'; when the comprehensive indicator of the state of health of the economy is the net income that people produce.
- ❖ Media commentators celebrate the rise in 'house' prices; when the increases are in the price of land (bricks-and-mortar depreciate), a fact which they continue to ignore for diagnostic purposes.

The first step in releasing ourselves from this Kafkaesque nightmare is the unmasking of the role played by rent in our lives. Rehabilitation of that one concept would empower people to rethink the state of our biological, social and cultural condition. For *there is no shortage of resources to invest in everyone's welfare*.

People are willing to work to pay for decent personal lifestyles and congenial communities; to fund state institutions and neighbourhood law enforcement; to enjoy recreation and the fulfilment of education. But, collectively, they realise that their labour alone is not sufficient. They need the partnership of public agencies. The inability to fully

¹ In addressing the claim that rent did not generate sufficient revenue to become the Single Tax advocated by Henry George, Mason Gaffney revisited the writings of the earliest commentators. People like John Locke had explained how a tax on the wages of peasants reduced the net income that they could pay to their landlords as rent. In other words: there was no escaping economic reality, no matter how the noble lawmakers tortured fiscal policy to diminish the amount collected *directly* from rent through the Land Tax. In addressing this issue (1970: 157-212), Gaffney coined the acronym ATCOR - All Taxes Come Out of Rent. He reviewed the international evidence to assure governments that restructuring the tax system would deliver revenue that was 'enough and to spare' (2009: 328-411).

Box 3 • The Resilience of Truth

When Mason Gaffney retired from teaching in 2014, at the age of 89, he was in the company of a small but impressively qualified network of people who refused to be deterred by the guardians of the rent-seeking society. This group included

- **in academia: Joseph Stiglitz** The Nobel Prize economist who had served as Senior Vice President of the World Bank coined the term ‘Henry George Theorem’ in 1977. His advocacy of rent as public revenue continued in speeches, articles and in his books (most recently in *The Price of Inequality* [2012]). His academic peers, for the most part, remained aloof.

As professor of economics at Columbia University, Joseph Stiglitz was enlisted as adviser to two political parties in Europe that challenged the austerity policies imposed by the IMF: Syriza, which formed the Greek government in 2015, and Podemos, which made a bid for power in Spain in 2016. But their leaders failed to adopt the Henry George Theorem.

- **in the mass media: Martin Wolf** As the chief economics commentator of the *Financial Times*, he explained to the House of Lords economic affairs committee that there were three reasons why the housing crisis would benefit from ‘the Henry George type argument’. He noted, for the benefit of their lordships: ‘I have been arguing this for 15 years completely unsuccessfully’ (Wolf 2015).

For his ‘services to financial journalism’ Martin Wolf was made a Commander of the British Empire in 2000. He was enlisted as a member of the UK government’s Independent Commission on Banking in 2010. But the commission’s report failed to explain the link between fiscal policy and the funding of land-led property boom/busts by banks.

Authoritative confirmations of the wisdom of rent-as-public-revenue continue to surface. These include the report by the commission headed by Nobel Prize economist Robert Mirrlees (2011). The inability of policy-makers to respond to such advice reveals the existential nature of the threat facing society. When the lines of communication are polluted by misinformation, we should not be surprised when terrible accidents explode in our midst.

Politicians continue with their charade – of claiming to serve the common good – by deploying false doctrines. One example is the ‘efficient market hypothesis’. The world was assured that rational individuals and spontaneous market-clearing activity would deliver macro-economic stability. The era of disruptive booms and busts was consigned to the past. By such techniques of self-deception, specialist advisers to governments have lost the capacity to understand and communicate the significance of what they see and hear around them. Everyone else pays the price.

consummate this partnership stems from the damage inflicted on the information membrane which knits us all together. That membrane is fragile, and its future is wholly dependent on the goodwill of people who refuse to be disheartened (Box 3).

Mason Gaffney, by his persistence in sharpening the discipline of economics, has empowered future generations with the means to rip off the mask that conceals reality. By learning to deploy the key tools associated with the concept of rent, we can all participate in the ultimate adventure: the elevation of humanity onto a higher evolutionary pathway.

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PART I

Last Man Standing

A rapacious financial process was conceived by Europe's aristocracies in the late Middle Ages. It mutated to the point where its practitioners could capture the nation-state, giving the lords of the land the power to create a self-serving model of property rights and taxation. That model could be sustained for as long as it was possible to appropriate other people's territories. Colonisation assuaged their rent-seeking appetite and at the same time provided a refuge for people who were violently displaced from their homelands in Europe.

The global depression of the 1870s signalled that the ignoble social experiment had exhausted itself. The limits of territorial aggrandisement were reached with the closing of the western frontier and the annexation of vast territories in the southern hemisphere. The tenure-and-tax nexus generated a systemic disorder that was no longer controllable. One man, Henry George, valiantly fought to mobilise a global reform movement behind a social paradigm that would restore justice and social stability. But despite his achievements, his model of ethical economics was rejected by Europe's leading nations. The outcome was two world wars, a Cold War and the experiments in Marxism.

The world has changed since Henry George traversed the seven seas. Nevertheless, the core financial principles on which classical economics had been established remain at the heart of a paradigm fit to guide humanity through the next phase of social evolution. In Part I, the authors rehabilitate a model of property rights and public finance which, in important respects, was revised and enriched by Mason Gaffney. That model's twin planks of personal freedom and honest governance evoke a new way of living in the 21st century.

The emerging alternatives are horrendous to contemplate.

1

Beyond Socialism: Science and the Culture of Society

FRED HARRISON

THE WESTERN frontier was closed in 1890. According to the US Census, all the land had apparently been settled by migrants coming from Europe, to the east, and from China, to the west. And yet, just a buggy ride out of San Francisco, vast tracts of land lay unused. That puzzled Henry George. How could poverty afflict people who were willing to work? The frontier journalist investigated and analysed the facts in *Our Land and Land Policy* (Peddle and Peirce 2016). In what would become known as the Gilded Age, the crisis of inequality was exposing the ligaments of a flawed social system. Henry George decided to do something about it by advocating what would become known as the geoclassical model of property rights and taxation (O'Donnell 2015).

The problems that were embedded in society in the 19th century remained fossilised throughout the 20th century, and they threaten existential consequences in the 21st century. And yet, the means exist to solve the problems baffling policy-makers. All they need is an honest re-appraisal of the metrics of rent, the net income produced by societies that evolved above the level of subsistence.

What prevented people in the past from re-ordering their communities to the benefit of everyone, releasing the creative potential that would drive cultural evolution to ever more satisfying heights of accomplishment?

Was it malice aforethought or ignorance? Or were the outcomes – visible in the violent ruptures in the social fabric of our world today – accidental? Governments, and people of goodwill, need a realistic appreciation of what it would take to scope out the blueprint for a new future. One starting point is to examine the errors made by those who, in the past, sought a fresh start. What lessons may be learnt so that the mistakes are not repeated?

The opportunity to observe and influence epochal change at close quarters is exceptional. Ordinarily, we have to rely on understanding such events through the prisms and prejudices of historians. But in our lifetime we have twice been privileged with that opportunity. Both transformational episodes resulted from the capitulation of the communist model of society. There occurred in Russia and in China the unique opportunity to test the doctrines that might replace the communism which had failed as the antidote to capitalism. This would be an engagement in as close to laboratory-like circumstances as it is possible to get when dealing with human beings.

The two communist societies were inspired by Karl Marx's theory of history. His methodology was based on what he called materialism, which was supposed to set his vision apart from the utopian versions of socialism. His model was given a fair chance to prove itself. Joseph Stalin in Russia and Chairman Mao in China were determined to give Marxism a clear, unimpeded run at transforming the course of history, even at the cost of depriving tens of millions of people of their lives. Those two architects of communism could not claim that their endeavours were subverted by hostile external forces: they operated in isolated spaces, behind Iron and Bamboo Curtains. Flaws in the theory negated their experiments.

With the collapse of communism, there was a clear choice between two competing models of society. One was the reversion to capitalism, the defects in which had originally provoked Marx into developing his economic doctrines. Alternatively, Henry George's model could be adopted. His was an ethics-based resolution of the physical with the moral worlds, an integration of the private and public sectors on the back of a financial mechanism that respected the core human values of individualism and socialism, each sector fulfilling their functions to secure the stable growth of culture in the direction favoured (on democratic principles) by the people themselves. The testing ground for each of these models was to be found in the realm of property rights and the consequential distribution of income.

- ❖ The property rights championed by what was then called The Washington Consensus were based on the claim that the market economy worked best when land and man-made capital were privately owned, with government revenue raised by taxing wages and entrepreneurial profits. Privatisation, therefore, became the mantra for the relaunch of Russia as far as the governments in Washington, DC, London and Brussels were concerned.
- ❖ The geoclassical theory stressed that capital was best treated as private property, but that land should remain in public ownership. This was a nuanced approach to privatisation led by fiscal policy: it entails exclusive occupation of public land combined with the payment of rent into the public purse – the model that had prevailed in the British colony of Hong Kong for more than a century – would combine with the de-taxation of wages and profits (Purves 2015).

The 1990s was the ideological battleground for the contest that would seal the fate of the peoples who had venerated Karl Marx. In the event, Moscow was captured by the Washington Consensus. China was not subjected to similar external influence. The failure of the Politburo in Beijing turned on the inability to grasp the difference between the ownership of an asset (land, which was retained in the public domain), and how the revenue streams from that asset could be sliced-and-diced by non-owners with political connections.

Disappointment with the transformation in Russia and in China is based on outcomes ranging from the eruption of the billionaire oligarch class to the extensive poverty in both countries, and the undemocratic power exercised by authoritarian governments. All the socially significant symptoms may be traced back to the misappropriation of socially-created rents. That record provides the guidelines for the policy reforms that would empower Western democracies to fulfil the goals that are formalised in their social contracts.

Russia: The Clean Sheet

In 1985, after he was elected as General Secretary of the Central Committee of the Communist Party, Mikhail Gorbachev began to signal that something was wrong with the Soviet experiment that had been launched by Lenin in 1917. Reform was needed. His catchword was *glasnost*

(openness). This afforded western economists and political philosophers with a golden opportunity. They could commend optimal policies for elevating wealth and welfare within the territories of the Soviet Union. Here was the chance for a fresh start without bloody upheavals. Not since the Clean Sheet proclamations of the civilisations of antiquity had any society experienced the opportunity to effect social renewal in a non-violent way. Restoring social equilibrium could be by taking into account the 'facts on the ground', with policies that could stimulate the economy without having to alter the legal status of land. The best of brains in the West knew how a market economy could be grafted onto the back of land held in the public domain – *they had to look no further than Hong Kong!* The people of Russia were ready to listen and learn.

The first initiative on behalf of the geoclassical model took place in August 1990 at the University Club of New York, on the corner of 5th Avenue and West 54th Street. The conference was sponsored by the New York-based Robert Schalkenbach Foundation. A delegation from the Soviet Union listened to presentations from speakers that included Professor William Vickrey of Columbia University. He had studied New York's mass transit system and had concluded that the network could be fully funded out of the rents generated by the residents of the city. That empirical evidence convinced him of the wisdom of paying for social services with the rents generated by public agencies (Vickrey 1999).

In his presentation to the Soviet delegates, Mason Gaffney explained that the Soviet Union could have both common land and private markets. He coupled this economic insight with a warning: trouble came with anything less.

Privatizing property and freeing markets in Soviet nations should not be imitative but integrative, synthesizing a new economy from the best of capitalism and socialism. The centerpiece of policy proposed here is social collection of land rent to finance government. Selling land quickly without reserving tax power is rejected as being financially disastrous and politically abject and submissive to alien buyers. The policy of taxing land in perpetuity is shown to make land markets work better.

(Gaffney 1990: 22-23)

This doctrine resonated with the people of Russia. They were wedded to one primordial sentiment: their land was something special, which belonged to them all. This was the key to understanding how they could remain true to that almost spiritual ethos, while liberating themselves

within a new market economy that would protect the social fabric which they had sacrificed so much to create.

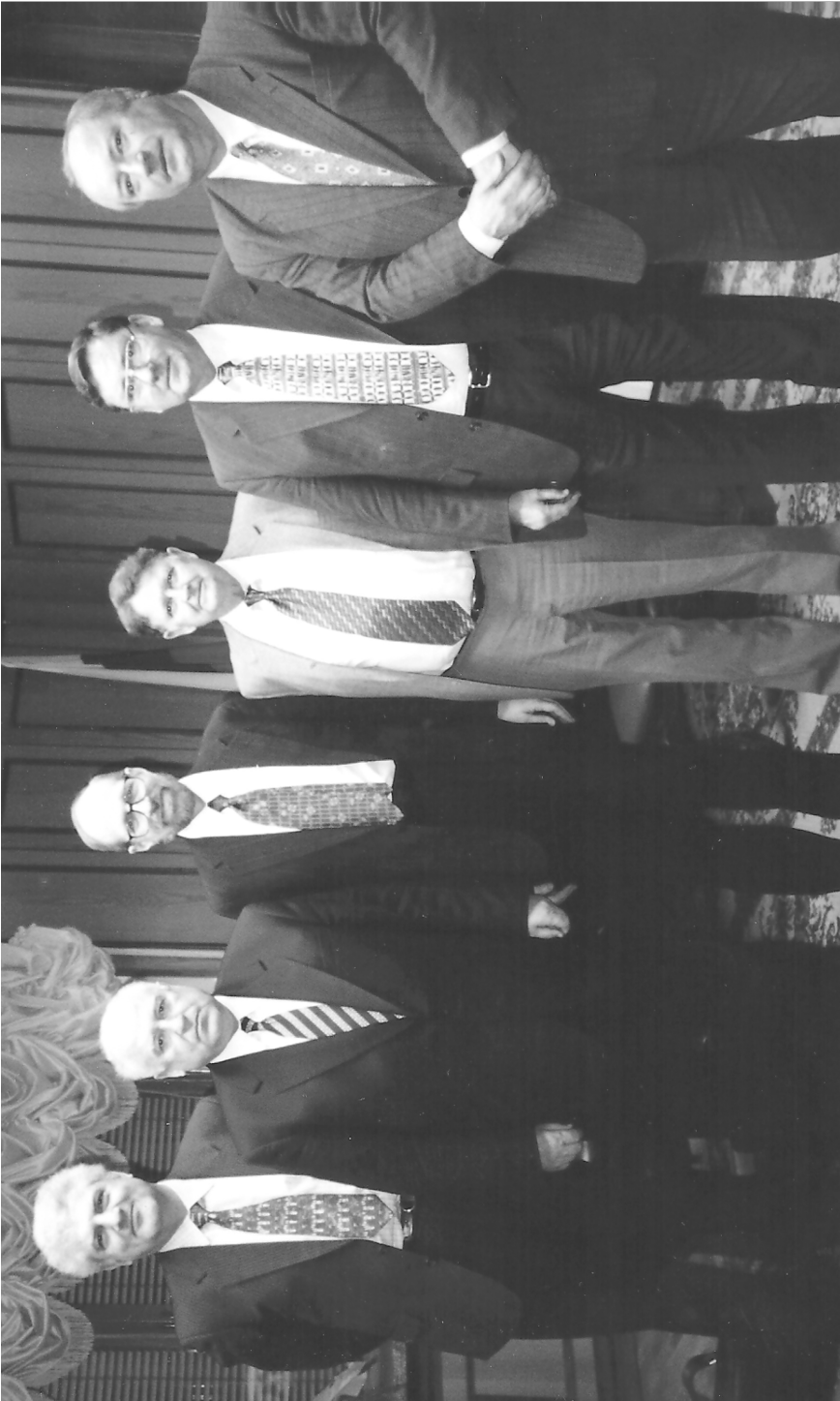
And so, beginning in 1991, teams of geoclassical activists criss-crossed Russia to explain how the transition to a new kind of market economy could remain faithful to the people's social aspirations. Personal energies could be liberated within a vibrant market-based system for producing wealth and distributing income. Here was a golden chance to transform the economy in an orderly way. The formula: combine the freedom of labour to work without the burden of taxation; allocate tax-free capital to rehabilitate the shattered state of industry; and use land and natural resources to generate rents to fund infrastructure and the costs of running what would metamorphose into a liberal democratic form of governance. Russia's federal politicians and municipal administrators were provided with the conceptual tools for

- ✓ *preserving their hard-won social solidarity while creating the cultural space for the emergence of individualism; and*
- ✓ *embedding the market in an ethics-based commercial economy that was fit to compete with all-comers in global markets.*

That this model was credible was attested by the prestigious signatories to an Open Letter addressed to Mikhail Gorbachev, who had become President of the USSR. Among them were three Nobel Prize economists: Franco Modigliani, Robert Solow and James Tobin (Tideman *et al.* 1991: 225-230). William Vickrey also signed the Open Letter: he was awarded the 1996 Nobel Memorial Prize in Economic Sciences with James Mirrlees, the emeritus professor of economics at Cambridge University who was subsequently to endorse the virtues of a public charge on land values (Mirrlees 2011).

Throughout the 1990s, the channels of political influence were kept informed both within the federal Duma and directly to the population through such organisations as the Union of Russian Cities.

It was a race against time. Evidence of what was happening to the population's net income rippled through the streets. 'Mafia' organisations emerged to demand 'protection money' from kiosk traders who began to trade in goods imported from the West (making jeans available for the first time!). They set up their stalls outside the metro stations of Moscow and St Petersburg. The most valuable locations were at the entrances to the busiest stations where the footfalls were highest. But the municipal



Federal Duma Hearings on Land Policy, January 1999: L to R: Fred Harrison, Victor Chernomyrdin (Prime Minister of Russia 1992-1998), Professor Nicolaus Tideman, Mason Gaffney, Ted Gwartney, Vyashislav Zvolinsky