Part IV
The New Financial Architecture

14

The Economics of Equality

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14.1 The Measure of Justice

JUSTICE does not come in half measures. Either we want it, or we don't. The same stricture applies to efficiency. Ordinarily, a rational person does not plan to be less than efficient. To under-perform is to waste energy wantonly and to deprive oneself of the full satisfaction from accomplishing the task in hand. We see this in sport. When we play, we strive to give of our best. If we shirk, we know that we are cheating ourselves, our team mates and the spectators.

This rule applies to public policy. Rational people who engage in the quest for justice do not deliberately settle for second best. We may have to compromise in the face of insuperable problems; but we work towards the removal of these obstacles in our attempt to achieve the best possible results. But there is one area of life which is the exception to this general behaviour. When attention is turned to the use of land, we compromise as a matter of policy. Time and again we deprive ourselves of the rewards that ought to be ours, by resolutely denying the norms of justice and efficiency. This is a bizarre situation which rational people would not condone if they had an understanding of the behaviour and its implications. The pathological consequences, we believe, would be removed if people insisted on the consistent application of the norms of justice and efficiency in economics, which would encompass decision-making in the land market.

In Chapter 12 we began to explain why tax policy should be at the cutting edge of action that leads to the renewal of communities. The philosophy guiding this agenda is not revolutionary. It is based on the doctrine of the sanctity of the individual as a social being who cannot exist in isolation. We cooperate through the community to improve the fabric of our neighbourhoods because what is good for others is also good for ourselves. The economics rules for achieving this may be summarised by two principles. (1) We should not use the coercive power of the state to appropriate what belongs to the individual. (2) What belongs to us as members of a community should be pooled and divided equally between all of us. How this latter rule is applied may vary, according to the circumstances of time and place; but the principle should not be abused by treating some of us as more equal than others (and therefore entitled to more of the surplus than others). If we adopt these two principles, we redefine the interface between individual and society, and we rescue the state from its disabling proclivities.

Broadly speaking, these were the rules enforced through anthropological timescales. Civilisations broke down when they abused the principles, causing the ruptures that rendered communities unsustainable. Today, we suffer the consequences of the breach of the two rules because, thanks to the resilience of the values that were inculcated into society by the feudal aristocracy, Ricardo's Law was allowed to operate to the detriment of society. We need to re-learn how to synchronise justice with efficiency. This would remove intrusive government from people's private lives. *The primary practical policy for achieving this is the integration of public and private prices into a single mechanism.*

Because we have been co-opted into abusing the rules of best behaviour, the implications of applying the corrective policy come as a shock. John Calverley, the chief economist at the American Express Bank, correctly identified one of them. "With a 100% land tax the modest cottage in Chelsea would be worth the same as its twin in Glasgow. Ouch!"[1] Are we sincere in our advocacy of justice? If so, we cannot shirk our responsibilities to the people of Glasgow, who are entitled to be treated as the equals of the residents of Chelsea. How this is achieved is the subject to which we now. We begin with an examination of exactly we mean by the value of that "modest cottage".

The bricks and mortar invested in a cottage in Chelsea cost no more than a comparable structure in Glasgow. The labour content, the plastics and metals are equal in value, and the buildings depreciate at similar rates. The difference in the value is in the locations. Taken together, the amenities that can be accessed at any location in Chelsea are superior to those enjoyed by the residents of a comparable property in Glasgow. If they paid their way, the fees for the benefits that they received would be equal to the rent of the land they occupy. Newcomers to the Chelsea property market are *willing* to pay for all the services they are about to receive. It is the vendors who do not comply with the rule. For they pocket the value of those services as capital gains from their land. The amount of the value which they currently pocket is the measure of their failure to comply with the principle that we apply in all the other spheres of our lives: the duty to pay for the benefits that we receive. And this delivers results that are neither efficient nor fair.

But notice that people are not seeking to avoid paying their way. In fact, as newcomers into the Chelsea property market, they *do* pay the full value of the amenities which they are about to receive. The problem, of course, is that they make that payment to the vendor of the property, not the providers of the services (such as the nearby Tube stations) which they want to use.

The outcome is unjust. Is there a good reason why the Glasgow taxpayer who rents his home should help to subsidise the private pleasures and social amenities of the Chelsea set? For that is what he is doing, through the public spending which, in part, gives Chelsea its unique value. Either we are consistent in championing the principles of fairness and efficiency, or we abandon them in favour of a public creed of parasitism. No-one will (publicly) endorse the latter, so we need to adopt the policies that remove this virus from the body politic.

The cornerstones of the new fiscal philosophy are:

- *equality* of all citizens under the law of the land; and
- *market economics* as the institutional framework that makes it possible for people to optimise the accomplishment of personal and social goals.

This is a mixture that will bewilder people who have been weaned on the extreme philosophies of socialism or libertarianism. So we need to escape the doctrinal *cul-de-sacs* down which we have been led. Obstacles to comprehension are to be found in the prejudices that have been built into social psychology.

The first tenet with which we are concerned is not generally contested. People agree that we are entitled to own the products of our labour. We work, and we have a clear conscience about asserting our ownership of the fruits of our labours. We may dispose of that value in whatever way we see fit.

Vexatious problems arise when we turn to the property we share as a community. Communists believe that all the means of production – land and capital – should be owned by the state as the steward of the people. Libertarians believe that the state has no claim to property, and any control which it may exercise is grudgingly conceded as a necessary evil. How do we resolve this dispute?

Box 14:1 The Consumer's Surplus

COMPETITION levels unit prices down to marginal costs, which are the costs of delivering the last additional article coming off the conveyor belt in a factory, or the one additional seat provided on a passenger train. Efficient enterprises make a profit out of revenue from these prices after defraying operating costs.

But people are often willing to pay more for a labour service or a manufactured product than its market price. How does this happen? What happens to the additional value, the amount that a prospective customer is willing to pay over the price that he is charged? Economists say that value is "externalised".

If a consumer was willing to pay £2 when the price of the product is £1, he enjoys a "surplus" of £1. *Good luck to the consumer!* would be our response. When that effect is multiplied by the million, the economic implications are dramatic. We may trace the impact all the way down the pricing chain to the point where the "surplus" is transformed into the rent of land.

This outcome is the result of downward pressure on prices, which implies an increase in productivity, yielding gains that people can afford to pay as rent for the use of land. *

There are exceptions. One stems from the bargaining power of trades unions. Another relates to workers whose scarce skills command extraordinary remuneration (such as software programmers in the early years of the IT age). Sooner or later, however, these privileges are eroded, and land owners are ready to claim the net benefits generated by cost-cutting progress in the economy.

* Consumer surplus is treated at length in the standard economic textbooks. See, for example, Paul A. Samuelson and William D. Nordhaus, *Economics*, New York: McGraw Hill, 1985, pp.417-419.

Part of the value created in the community does not belong to any one individual. This becomes apparent, once we understand how this value is jointly created by the cooperative spirit in society. As individuals, we labour to create wealth for our own use. But by participating in the wealth-creating endeavour – that is, by accepting the competitive spirit of free people – we isolate part of our product as the rents that we are willing to pay for the use of nature's resources. No one individual makes a superior contribution – if he does, he is rewarded with higher labour remuneration. And no individual can be excluded from participating in this joint exercise in generating the rents of land. The mere presence of a person adds to the attractions of a community, for the larger the population, the greater the opportunities for profitable enterprise.

As populations cluster in communities, so the productivity of the economy increases. People seek to share in those benefits by paying rents to gain access to the location. The technical terms that describe this rent-generating activity are given in Box 14:1.

Thus, through the marketplace, as free individuals we compete to offer our services to employers and consumers. We deliver goods and services, the prices for which are subject to the choices of consumers. On a like for like basis this tends to equalise the wages of labour across the economy. The same principle applies to the products and services available in the retail outlets. As a result of the equalising process, part of the value that we generate is hived off. This value belongs to no one person. Or, put more precisely, since we collectively produce it, that value belongs to us all.

But while that value attaches to land, we have seen that it does not do so as equal amounts on each plot across the country. The land market (meaning, people in free association) is a sophisticated mechanism for distinguishing the attractions of one site relative to another. This does not happen according to some magical formula. People determine the outcome by negotiating the relative values through the deals they strike with each other. They bid for the right to monopolise particular plots. Those with the highest preferences bid the most and earn the right of exclusive possession. The outcome is an elegant distribution of the rental surplus across the economy according to the attributes which give each location its unique qualities. Rents, in other words, are a symmetrical measure of all the benefits and disadvantages associated with each site. They are the price we are willing to pay to access the benefits, after subtracting the sum equal to the perceived disadvantages.

There are no losers in this competitive market – if, as citizens, we exercise our right to a share in the rents. We may be out-bid for the right to occupy a house in Chelsea, where we wanted to live, but the higher price paid by the winner for the right to is pooled for the benefit of all of us. As citizens, we share the public goods that are funded out of the rents of land.

When we combine the three factor markets – for land, labour and capital – we end up with an efficient mechanism for producing wealth. But we achieve our goals, of optimum efficiency and of justice, only when we treat rent as a joint income. The particular institutional arrangements may vary from one community to another, but whatever the details, they should not deliver an unfair advantage to any one person or group. If we compromise on this principle, we dislocate the economy and community (see Box 14:2).

Box 14:2 The Economics of Law & Order

TO REDEFINE people's rights and obligations, we need a comprehensive description of the way rents are formed – and who, or what, is responsible. There are three categories which have claims on this flow of income.

(1) The state. It adds to the sum total of surplus income through the provision of (i) law and order, and (ii) infrastructure.

(2) Individuals-in-community. The agglomeration of people in urban settlements is the beginning of the critical mass of economic activity that yields enormous gains in productivity.

(3) Nature. She does not demand a payment in cash, but someone has to intercede on her behalf if society is to operate efficiently and fairly.

Enforcing these claims is the reason why we need a social contract. Government must be authorised to collect the rents which, as individuals, we would not be able to do on behalf of others.

This leads us to an understanding of public prices. Take the case of the state. It is a primarily rent-creating institution. Its legitimate activities are those that deliver value in the form of rents. Law and order enforced at the borders and within the state's territorial domain are benefits that people desire. These military and civil functions enable people to increase their economic productivity. They are prepared to pay rent for the benefit of living and working within the secure confines of the state's territory. Even the state's non-rental charges are for services which are adjuncts, in the main, to its rent-generating activities. Fees for passports facilitate cross-border movements. Licences and charges regulate mobility within the territory.

If the state confined itself to its business, fewer bureaucratically-administered regulations would be needed, and damaging taxes could be

For conventional economists, this is a disturbing conclusion. According to the textbooks, most of the problems in society stem from "market failure". The market, apparently, is not up to the job. It obstructs people's aspirations in some fundamental ways. If this is correct, the market is too fragile a mechanism on which to rely for the attainment of justice and prosperity. Is this correct? Or could the doctrine of market failure be a camouflage for the failure of governance?

14.2 Blame it on the Market

SO INGRAINED is the doctrine of market failure that people take it for granted. We need to question the doctrine, which is pernicious in its effects on governance.

If ours is the age of abundance – we can manufacture as many cars as we want, from the cheapest run-around to the extravagantly luxurious – why do we persistently fail to equate demand with supply for those products and services that are attached to land? To blame "market failure" is peculiar, since we can change the rules that determine the nature of markets. But we fail to do so. Instead, we subordinate ourselves to the corrosive effect of this doctrine. One consequence is echoed on the news bulletins almost daily. When confronted with personal problems, people now tend to seek solutions by asking: "Why doesn't the government do something about it?" So deep is our state of dependency that we now automatically expect salvation from the paternalism of the state. The state, consequently, expands its functions to the point where it is not able to discharge the functions for which it is responsible, such as the enforcement of law within its territory and order on its borders. The state is now suffering from bureaucratic overload. Laws are multiplied faster than people can understand them, let alone its agents' capacity to enforce them.

This is the logical outcome of official economic practises which are preserved because the role of markets is methodically misrepresented. Scholars and politicians alike condone the vulgarisation of the concept of competition, allowing it to be detached from its twin, co-operation. Yet the market is no more than a rules-based procedure for mediating the competing claims of two or more individuals. But instead of investigating deeper into the causes of discontent (by questioning the rules), we resort to a straw man. We invoke shorthand terms like *laissez faire* to vilify something that is not of us, as individuals, and then ascribing the defects in the caricature to *the market*. We have allowed ourselves to be persuaded that this dysfunctional entity subverts the welfare of the individual, operating on logic of its own, disengaged from the common good. Adam Smith is subtly vilified, his writings trawled for terms like "the invisible hand" which are taken out of context and ridiculed. The outcome is resignation to the notion of "market failure". This is how the authors of a best-selling textbook on economics put it:

> We know that the market sometimes lets us down, that there are "market failures." Two of the most important market failures, running as themes through this book, are the *absence of perfect competition* and the presence of *externalities*.[2]

But while we can understand why the enemies of the market should adopt this device, we have to accept that the market is also sold short by its friends. This is a puzzle. We are obliged to ask: who gains from the tactic of smearing the market? If we dig deep, might we find that this exercise preserves the monopolistic arrangements associated with land ownership? To test this conjecture, we shall examine the views of a philosopher who is one of the gurus of the free market fraternity.

Friedrich von Hayek (1899-1992) made a dramatic appearance in political philosophy with *The Road to Serfdom* (1944). He was to earn a Nobel Prize for his economics in 1974. Today, he is cited for the stress that he placed on the market pricing mechanism as an information gathering system. In a world of imperfect knowledge, pricing signals enable people to transmit their preferences as efficiently as humanly possible. One of Hayek's starting propositions was that, in an ideal world, each of us would be rewarded for all the benefits that we create; and we would accept personal responsibility for the costs of the damage we inflict on others.

The problem with Hayek's idealisation, however, is that it is *impossible* for the private pricing system to deliver the full value direct to those who create it. Competition, by equalising prices between people and places, denies individuals of some of the value which they create. This value is *externalised* out of the labour and capital markets, *and deposited in the land market*. The same problem applies to some of the costs created by an individual or enterprise: the pricing mechanism in competitive markets cannot *internalise* all of these, to impose the ... rovides the ... do so, in ... itcomes. To ... labour and ... ocess. But ... ire transfer ... k's ideal is ... the market

Box 14:3 Whose Failure is it Anyway?

A CURIOUS feature of the doctrinal war of the 20th century – between capitalism and socialism – was the consensus that the market was intrinsically disposed to "failures". This was an assumption in the work of F.A. Hayek, a champion of the libertarian Right.

Hayek would make no concession to socialist planning. For him, the private market provided the optimum approach to allocating resources. But, conceded Hayek, there were cases in which the legal arrangements could not ensure efficient outcomes. *Ideal* outcomes were achieved only when "the owner benefits from all the useful services rendered by his property and suffers from all the damages caused to others by its use".*

When it was not possible to make the enjoyment of certain services dependent on the payment of a price, competition and the pricing system are ineffective. Hayek cites the case of damage caused to others by certain uses of property that cannot be effectively charged to the owner of that property.

Resolving such problems was "a wide and unquestioned field for state activity. In no system that could be rationally defended would the state just do nothing. An effective competitive system needs an intelligently designed and continuously adjusted legal framework as much as any other".

Hayek acknowledged that there was still much to be done to create "a suitable ...

landed privileges of the nobility belonged to a bygone age, and "to call private property as such, which all can acquire under the same rules, a privilege, because only some succeed in acquiring it, is depriving the word privilege of its meaning".

The one area where reform was necessary to enhance the pricing system and to enforce his rule on personal responsibility was off-limits as far as Hayek was concerned.

* F.A. Hayek, *The Road to Serfdom* (1944), London: Routledge & Kegan Paul, 1962, pp.28-29, 60.

We are led by this analysis to formulate two moral imperatives. (1) People who own the property rights to labour and capital have a shared stake in the rents which, by their cooperation, they help to create. (2) People who own the title deeds to land do not have an equivalent claim to the rent that is created by others. Insofar as the owner retains any part of rent, he is undermining Hayek's ideal that "the owner benefits from all the useful services rendered by his property". The landowner's gain is the labourer's unjust loss.

The land market is the *social collection agency* that assesses the value of land. It facilitates the distribution of rent to those who create it. As it happens, the land market was compromised by the corrupted aristocracy of the late feudal era, whose rent-privatising project was enthusiastically supported by the gentry.[3] But although privatised, rents remain a socially constituted value in the way that wages and the returns to capital are not. Privatisation was not, and cannot be, a process for de-socialisation of value that is collectively generated. Unfortunately, through the failures of social science and the success of propaganda, people like Hayek failed to perceive the social function of the land market. Hayek resorted to a simplistic argument, in which the formal right of everyone to acquire land meant that there was no privilege associated with its ownership. This was an astonishingly naïve treatment of the power that is exercised by those who accumulate land. The right to receive lottery-like windfalls on a regular basis - by virtue of one's name on title deeds – looks like a privilege to most rational people. Likewise, the ability to sidestep the full costs of services delivered to the occupant of a location is also an awesome privilege. These opportunities are not shared by the propertyless. They *are* required to pay the full market price of the locational benefits which they rent.

The privilege of ownership runs deep. An owner can quarantine his assets and deprive people of a finite resource that cannot be replaced by importing land from (say) Outer Mongolia, where it is in surplus supply, to make up the deficit in Central London or downtown New York. If people decline to work, they are replaced by migrants. If the owner of capital destroys his assets on a bonfire, new capital is manufactured or transported from places where it is underused. But the owner whose land is located in places where people need to live and work exercises enormous destructive influence by withdrawing his sites from use, and the loss in that location cannot be replaced. That is privilege with power to the n^{th} degree. An illustration is provided by Britain's Big Four supermarkets which have cornered the retail grocery trade and driven thousands of retailers out of their high street stores (see Box 14.4).

The "market failure" doctrine is damaging to public welfare, for it shifts attention from ro … gulations, su … hat would w

Box 14:4 Supermarkets Bank on Land

THE FORMAL right to buy land does not compensate for the privileges that flow from its private ownership under the current tax regime. This is illustrated by the UK's retail sector. In May 2006 the Office of Fair Trading (OFT) called in the Competition Commission to conduct an inquiry into the dominance of the four big supermarket chains. Evidence had surfaced that the land banks held by Tesco, Sainsbury, Asda and William Morrison could be a constraint on competition. The OFT's Chief Executive, John Fingleton, said that his

Supermarkets steadily increased their share of the market at the expense of 39,000 independent retailers. The corner shops on the nation's high streets were constantly shrinking in number as customers switched to out-of-town superstores with their accommodatingly large car parks.

- The OFT had discovered that 75 sites acquired by one of the big four had been re-sold with a covenant which prevented the buyer using the land for retailing food.
- The big four had purchased, or had options to buy, 468 strategically located sites across the country "which can be used to restrict entry by potential competitors".*

Some sites had been held vacant for up to eight years. This added to urban sprawl and the cost of funding infrastructure which was underused – thereby depriving investment within towns where it was needed.

In the five years up to 2005, 5% of small shopkeepers had gone out of business. It was little comfort for them to know that, legally, they could compete with the Tesco giant to purchase land. They lacked the financial power to compete in the land market, and once covenants had been written into the title deeds, those sites were beyond their reach forever.

* Julia Finch, "Small shops set up to fight back", *The Guardian*, March 10, 2006.

14.3 Conflating Land with Capital

IF THE information-gathering technique of the market – the role played by prices - is imperfect, as Hayek affirms, why should we expect a more informed performance from government? This conundrum has led political discourse into the endless dialogue of the deaf between the Left and the Right.

The view from the Right is expressed by Philip Booth, the Professor of Insurance and Risk Management at London's City University.

> Government cannot correct market failure because it is itself imperfect. Governments fail. Governments have imperfect information. Governments impose social costs…as a result of this, it is rare to find intelligent graduates who believe in free markets who do not then go on to say, 'But we need the government to intervene to correct market failures.'[4]

If we cannot rely on the free market to apportion all the risks and the rewards of our labours correctly, and if we cannot secure full compensation by government intervention – because it, too, suffers from imperfect information – politics and economics are left in a shambles. And that, indeed, is the state of economics and public policy today. Politicians will not admit this, of course, but they have perfected the art of self-deception. That is the lesson of history, as Joel Hurstfield noted:

> Politicians are the last people to learn from history, if indeed anyone can. But they understand the processes at work in contemporary politics and they erect elaborate machinery of public relations,

> supplying the new, vast media of communication and dedicated to burying reality under new illusions of power and virtue.[5]

The irony is that it is the champions of the market economy who have contributed most grievously to the perception that the market keeps failing. Again Hayek illustrates our point, as illustrated by his failure to differentiate between land and capital.[6] By treating land as capital, the unique characteristics of rent as public value are obliterated, and that opens the way to theorising that favours the "market failure" thesis.

One important difference concerns the long-run trends in the distribution of income. Because land is finite in supply, over time – as populations grow and communities expand on a fixed territorial base - it receives a rising share of the nation's income. Marshall confirmed what the classical economists had written a century earlier. Capital goods can be multiplied without limit, so their share of national income declines over time. In the land market, however, economic growth "tends on the whole to raise the value of land".[7]

Another distinguishing characteristic is that the earnings of land "is a surplus in a sense in which the earnings from other agents are not a surplus…there is this difference between land and other agents of production, that from a social point of view land yields a permanent surplus, while perishable things made by man do not".[8] By erasing these differences, Hayek could treat land as if its impact on the economy and society was similar to a reproducible commodity like a car or computer. One result is that Hayekian advocates of the free market fail to champion private enterprise in ways that are convincing to people who are excluded from the riches that do, undoubtedly, flow from the capitalist order. And that, in turn, enables government to sidestep its responsibilities and continue with policies that damage the nation's wealth and welfare.

14.4 The failures of Governance

ECONOMISTS and politicians assume that private and public prices must necessarily work as separate categories, wholly distinct like oil and water, rather than combining as a single operating mechanism.

Conceptually, the separation divides society in a literal sense, with profound personal consequences. The psychological effect is to divide us as personalities. Somehow, we are supposed to be both a private individual and, as a separate entity, a socially-engaged person. This separation disintegrates the human personality. In the process, we end up with a system for producing and distributing wealth that works against the grain of human welfare.

The flaws are not with prices in private markets. Cartels have rigged prices in the past, and they would do so again if people dropped their guard. But price-rigging is not the legitimised outcome of an institutional process; rather, it results from the abuse of people's freedom to compete in the offer of goods and services without being constrained by monopolists.

The problem with public prices - the taxes that governments charge - is of a wholly different character. Taxes are crude tools which have nothing to do with matching supply and demand (which includes considerations of social welfare). There is no symmetry between the services provided by public agencies and the payments for the benefits that are distributed, the principal beneficiaries of which are the rich. This failure of governance is the cause of stresses that surface in the economy, but we shall turn, first, to the sociological implications.

The glue that holds a community together is the composite of inherited customs and the formal rules that are enacted from time to time. Conventions and laws support the individual and ensure the integration of everyone in a functional system that facilitates people's needs and aspirations. We see this at work in traditional societies, where outcasts were people who seriously transgressed their community's conventions. They lost the right to protection and the other benefits associated with membership of, and residence in, the clan's territory. They were literally cast out of the land. This status of the outcast is a key indicator of the difference between our contemporary and pre-modern societies. Today, a person does not have to offend the rules for him or her to be cast out from the mainstream of society. Innocent people are routinely excluded by a process that is sanctioned by law. But in this age of democracy, governments will not acknowledge that our outcasts are the by-product of their laws, let alone the victims of a dysfunctional pricing mechanism. Consequently, exclusion has to be treated as a personal failing that requires corrective action with the aid of paternalistic intervention by the state.

The result is resource-sapping experiments in compensatory action. But the outcasts cannot be rescued, because they are the victims of the state's primary laws. Sticking plaster "remedies" are necessarily weaker than the fundamental causes of the exclusion. Effective remedies would constitute a direct challenge to the power of the state itself. This cannot be countenanced, and the state is aided by the myths created by social scientists. Among these is Marx. He attributed what is now called "social exclusion" to the private ownership of capital.

Again, ironically, we find the Left in league with the Right in fostering this diagnostic confusion. Hayek, for example, added to the disarray with his analysis of what, in the late 19th century, became known as the Single Tax.

In *Progress and Poverty*, Henry George traced the poverty amidst nature's plenty to the private appropriation of rent. Working with both common sense observation and theory, he concluded that rent was society's natural source of income. But, he stressed, this did not mean the land *per se* should be nationalised. Government need not control the land. Wise fiscal policy could be made to work *with* people, harnessing the power of the marketplace for everyone's benefit. As people revealed their preferences – through the rents they were willing to pay for the exclusive use of particular plots - so the public revenue base of the community was voluntarily declared; all that remained was for the community to collect those rents to defray public expenses.

Hayek reviewed this sophisticated model of governance in *The Constitution of Liberty*. He conceded that, if the factual assumptions on which the policy was based were correct, "the argument for its adoption would be very strong". But he perceived fatal practical difficulties, so "we will find in it no solution to any of the problems with which we are concerned".[9] His pessimism stemmed from a false representation of George's model of property rights and public finance.

Hayek claimed that Henry George's pricing model entailed the transfer of ownership of land to the state. In fact, Henry George stressed that this was not necessary: possessory rights under existing title deeds need not be disturbed. This is how he stated his position:

> I do not propose either to purchase or to confiscate private property in land. The first would be unjust; the second, needless. Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call *their* land.[10]

Hayek also claimed that it was difficult to break commercial rents down into its components parts, separating that element that was due to the enterprise of the individual owner from the value that arose from communal influences. No such practical problem exists. Most people would recognise how this separation occurs in relation to their own homes. They pay insurance on the value of the bricks and mortar. The premium is for a value that excludes land (which will never be stolen by a thief or burnt down by an arsonist). And in countries like

Denmark, Australia and New Zealand, which employ direct charges on land, fiscal authorities have no difficulty in agreeing with owners about the value that is liable to taxation.

The objections raised by Hayek were nebulous. They were calculated to deter the advocates of the free market from examining George's fiscal solution to systemic failures. This helps to explain why libertarians turn their hostility on government without understanding the primary cause of the friction in the economic junction boxes that are the interface between the individual and society.

Once correctly analysed, we are led to a formulation of the pricing system which would unite the Left and the Right in a common understanding of the obstacles that prevent people from realising their dreams. I assert that the state's prices can be integrated with the prices that people use to facilitate their private transactions. This public finance is not hostile to private property. In tracing what this means, in practical terms, we will discover that there need be no conflict between the spirit of competition and people's natural desire to cooperate with others to fulfil their aspirations. If public and private prices were synchronised, the psychological obstacles to political consensus for constructive change evaporate. How this would happen, through the shift in people's behaviour, needs to be carefully articulated. It leads to a new view of the relationship between the individual and society.

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3 Alan G.R. Smith, *The Emergence of a Nation State: The commonwealth of England 1529-1660*, London: Longman, 1984; see, especially, pp.30, 54, 77, 80, 91, 225 and 260, and our discussion in Judgement (below, pp.=====).

4 Philip Booth, "364 economists and economics without prices", in Philip Booth (ed.), *Were 364 Economists All Wrong?* London: Institute of Economic Affairs, 2006, p. 101.

5 Joel Hurstfield, *The Illusion of Power in Tudor Politics*, London: Athlone Press, 1979, pp. 29-30.

6 Marshall (in the 1898 edition of *Principles of Economics*, p. 609, n.1) discusses this problem in relation to the Austrian school of economics, of which Hayek was a member.

7 *Ibid.*, p. 767. See, also, note 2 on p.766.

8 *Ibid*, pp.626-627.

9 F.A. Hayek, *The Constitution of Liberty*, London: Routledge & Kegan Paul, 1960, p.353.

10 Henry George, *Progress and Poverty* (1879); New York: Robert Schalkenbach Foundation, 1979, p.405. See also p.367