



Special Report

Statecraft: How the Economics of Civilisation Can Rescue the Global Economy

Fred Harrison

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Chapter 1

Systemic Breakdown

1.1. The Failure of Society

Our world is at a dangerous cross-roads. The post-World War Two settlement is dissolving. Governments are having to learn how to adjust to a multi-polar world. We need to avoid repetition of the autarky that existed in the nineteenth century, which fostered a plethora of nation-states vying for power and leading, ultimately, to a world at war. A new statecraft is needed, one that is structured to facilitate global commerce on sustainable terms, while enriching cultural diversity. To achieve these outcomes, the new relationships need to be based on inclusive peace and prosperity. And yet, on the strength of the record of political failure, a pessimistic prognosis for the future is warranted. Pessimism is justified if it provides the motivation for asking the fundamental questions.

We know that governance is replete with attempts to solve problems, using palliative policies. They have all, ultimately, failed to erase the problems to which they were addressed. The most important question to ask is this: Is the history of failure attributable to the mainstream models of the world? Are analysts failing to get to the source – the cause – of the crises that afflict societies? If so, the critics of capitalism are failing to offer convincing alternative social models capable of empowering people to build new forms of association.

This means that one of our central tasks is to untangle the obsolete paradigms which hinder clarity of thought, in the hope of identifying new pathways into the future.

The search for a ‘big idea’ which might accelerate the process of problem resolution is not made easier by one of the consensus views of the economics profession. The formulation of ‘solutions’ to issues like poverty, inequality, and unaffordable housing are framed around the belief that there is ‘no silver bullet’. By that, they mean there is no one policy capable of delivering a punch powerful enough to solve many problems within a short space of time, with the deployment of minimal resources (Harrison, 2008). This view is contested here. We identify and develop a Big Idea which, if correctly implemented, could empower people to solve most of the problems which now afflict their communities.

But the hypothesis which is explored in this study entails a fundamental reform of the financial system. Change on that scale is resisted, for reasons that will be discussed in Chapter 1.2. Therefore, we are under an obligation to first establish whether mainstream economic paradigms are responsible for nurturing problems such as poverty, and if so, whether they are flawed beyond redemption.

The starting point is the claim that the current order is unnatural, and in a strong sense anti-evolutionary. The contention is that people – or, more precisely, their ancestors – did not freely choose to live within the framework of the values and institutions known as the neo-liberal economic order (*capitalism* for short).

Humans are social creatures. They evolved out of ‘the state of nature’ to create something that is unique within the universe: a social galaxy. Survival through evolutionary timescales – a period of more than 300,000 years, according to recently revised estimates (Callaway, 2017) – was possible because the earliest humans worked together in groups to create the support systems which they needed to negotiate the world that was emerging in their evolving consciousness. By developing techniques which laid the foundations for social

resilience, it was possible for them to innovate increasingly more complex ways of living, adapting to new opportunities which they created for themselves.

It now appears that the resilience of our social systems is dissolving. To establish whether this is an existential crisis for humanity, or just a passing phase for western civilisation, we need to catalogue the appropriate kinds of evidence, assembled so that we may assess the impact on the three pillars of a social system.

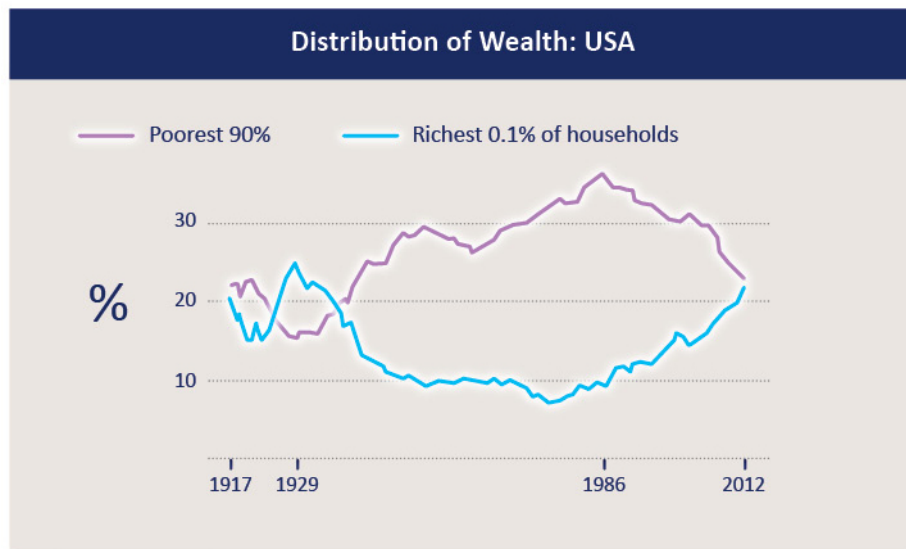
- *Society*: this is the organic framework within which a population secures the wellbeing of the family household as a reproductive unit (demography) that is self-sufficient (economy).
- *Culture*: sustainable lifestyles are secured by the rules-based checks and balances within which people operate: the institutions, values, and rituals which provide the reference points for behaviour.
- *Knowledge*: viable communities need specialists, the individuals who develop and preserve the information that guides people in the various realms of life, ranging from the spiritual and aesthetic to the scientific and technological.

These three dimensions are the central components of the life support system. When they are working properly, people are free to go about their daily business without having to be personally concerned about whether their interests are being safeguarded. In return, as beneficiaries, people are obliged to fund the provision of those services. We now need to understand whether this social contract has been broken; and if so, which of the clauses in the contract need to be rewritten.

The funding arrangement is at the interface between the individual and society. If the funding process is converted into an anti-social mechanism, society cannot be expected to fulfil its obligations. Under such conditions, vitality ebbs out of the social system to the point

where it is obsolete. That is when people may be driven to violence. Has our world reached such a point of crisis?

Figure 1.1
The Rich are Getting Richer



Source: Emmanuel Saez and Gabriel Zucman

The sense of sharing a common future is part of the synergy that glues together a population, especially when that population is composed of people from diverse cultures who occupy a common territorial space. On that measure, western societies appear to be in trouble. The data graphically represented in Figure 1.1 is based on how wealth is shared in the US. After decades in which people could aspire to join the middle class, the rising share of national income enjoyed by that class has gone into reverse. The expectation of a shared future has been eroding for 50 years. A small group, just 0.1% of the population (about 160,000 families), owns nearly as much as 90% of the population. The last time incomes conflicted in this way was in the run-up to the 1929 Wall Street Crash.

Similar inequalities in the distribution of income afflict other western countries. For wage-earners in the UK, the second decade of the twenty-first century would set a 200-year record according to Stephen Clarke, an economic analyst at the London-based Resolution

Foundation. He concludes: “Coming so soon after the big post-crisis pay squeeze, this new phase of falling pay means that this decade is set to be the worst in over 200 years for pay packets” (Clarke, 2017). Economists are puzzled by the drop in productivity in the western economies. Their inability to articulate the economic crisis in ways that give people hope that solutions are on the political agenda has become part of the crisis. Something is seriously awry, both in terms of the real-world economy and with the analytical models employed by economists.

Charting a new course for humanity is not possible in the absence of consensus about the status of the diagnostic tools. If humanity is now facing systemic failure, a robust analytical framework is needed. The most critical problem is with defects in the analytical tools employed by economists, which are not even capable of anticipating repetitive (which is why they are called cyclical) events like recessions. Why, for example, was there a general failure to anticipate the financial crisis of 2008? Andrew Haldane, the Bank of England’s chief economist, has an explanation. Their theories omitted *realism*: “Mainstream economic models have sacrificed too much realism at the altar of mathematical purity” (Haldane, 2017, xiv).

If Haldane is correct, we need to determine which bits of reality were omitted from the diagnostic tools. The blind spots prevented the experts from warning governments of the pending seizure in the West’s financial arteries. Unfortunately, there have been no formal public enquiries either into the failure of the economics profession or into the role of governments in relation to the disaster that erupted as banks crashed in 2008. Official enquiries were ordered into the role of banks and financiers. But if the models for forecasting the future, employed by institutions like the Bank of England, failed because they were in some fatal way unrealistic, might this not have warranted a thorough public enquiry? People were entitled to answers, because the costs have been enormous.

- Were the losses (such as those arising from mass unemployment) incurred because of the refusal of policy-makers to reform laws that were not fit for purpose?
- Were government advisers unable to provide reliable guidance because their diagnostic tools were perversely rigged to serve privileged interests?
- Were there defects in political institutions which could have been corrected in time to prevent the losses being inflicted on people (such as those whose homes were repossessed)?

Without authoritative answers to such questions, the distrust that now separates public from policy-maker can only deepen; and people will not mandate realistic forms of remedial action.

Past mistakes must not be repeated. But that raises the first practical problem: politicians are reluctant to introduce structural (as opposed to cosmetic) changes to the social system. What would it take to switch from palliatives to the fundamental reforms which are needed if the problems which blight all societies are to be erased?

1.2. Re-designing the System

If you were free to create a new social system, would you design it to look and operate like modern societies? The design of a social system determines the way people may live their lives. Outcomes, both good and bad, are logical consequences of the social architecture. If the consequential problems are of a significant magnitude, and if they persist, we need to acknowledge the need to re-design the system, rather than accommodate those problems with (at best) palliatives. Take, for example, the list of problems which defeat attempts at remedial action:

- Income inequality
- Abject poverty
- Housing unaffordability
- Social instability
- Environmental degradation

If we do not *intend* these to be features of our society, and if they are not the result of perverse individual preferences, we must face the need to redesign the system.

The transformation of social systems must not be undertaken lightly. Evidence to justify change has to be accumulated and evaluated on the basis of two considerations. First, the *repetitive syndrome*: has sufficient time passed to expose patterns which confirm that the problems are not transient; that they are not going away either of their own volition, or in response to policies deployed to mitigate their effects? Second, the *pathology of accumulation*: are the problems on a scale which suggests that there are serious barriers to reform, such that the system is being driven to the point where it will be overwhelmed? If so, change needs to be undertaken in time to forestall the prospect of collapse.

Box 1:1
Stephen Hawking urges: Evacuate Earth!

Our world has now moved beyond salvation, according to Professor Stephen Hawking, the astrophysicist. In his view, societies have so mismanaged the affairs of their populations that Earth is no longer a safe or viable ecosystem for humans.

I am convinced that humans need to leave. The Earth is becoming too small for us; our physical resources are being drained at an alarming rate. We have given our planet the disastrous gift of climate change, rising temperatures, the reducing of polar ice caps, deforestation and decimation of animal species. When we have reached similar crises in our history there has usually been somewhere else to colonise. Columbus did it in 1492. But now there is no new world. We are running out of space and the only places to go to are other worlds (Knapton, 2017).

Having run out of virgin land to colonise, and in the belief that new policies either do not exist, or cannot be implemented in time, Prof. Hawking advises that humanity will survive by planting colonies on the Moon or Mars. But such action, he warns, has to be undertaken within a matter of a few decades – aided, apparently, by Russian billionaire Yuri Milner's Breakthrough Starshot project.

If we consult the blueprints which display the architecture of the social system, we ought to be able to work out what needs to be done to remedy the defects. We achieve this by working backwards (analysing the empirical evidence) and forwards (extrapolating with the aid of theory). But governments repeatedly fail to achieve satisfactory outcomes from such exercises. We need to understand why they fail, if our world really is locked into the existential threats catalogued by astrophysicist Stephen Hawking (Box 1:1). The search for answers must focus on the theoretical models employed by economists. But before these can be evaluated, we need a clear view of how the capitalist economy actually operates. We can then relate the theoretical models to the reality, to gauge the capacity of the theories to assist in the governance of nations.

1.3. The Nature of Capitalism

There is no viable alternative to capitalism. That is the general assumption. It inspired the thesis in Francis Fukuyama's *The End of History and the Last Man* (1992). The post-Soviet world had achieved a kind of stasis, in which the benefits of the liberal order would trickle down to those who had yet to benefit from the model that had triumphed in the West. Two decades later, that complacency collapsed into the despair that followed the implosion of the western financial system. Fukuyama's *mea culpa* took this form:

The American political system has decayed over time because its traditional system of checks and balances has deepened and become increasingly rigid. With sharp political polarization, this decentralized system is less and less able to represent majority interests but gives excessive representation to the views of interest groups and activist organisations that collectively do not add up to a sovereign American people (Fukuyama, 2014, p. 25).

Why, when he was writing *The End of History*, did he fail to identify this flaw in American capitalism? Was the evidence concealed from him, or did his theoretical prism disconnect him from the realities that existed 'on the ground'? Many analysts now acknowledge that there are serious problems with the market economy, but they are not able to visualise the terms of a viable alternative. German sociologist Wolfgang Streeck is one of those puzzled analysts. He notes: "The problem is, while we see [capitalism] disintegrating before our eyes, we see no successor approaching" (Streeck, 2016, p. 35). The world's best thinkers have reflected on the global crises, which they associate with the capitalist economy; but they are unable to isolate the root causes to explain (rather than just describe) the damage inflicted on communities and the natural environment. How may we account for this failure?

The distortions begin with the word *capitalism* itself. The standard definition is recorded by Ha-Joon Chang. He teaches economics to students at the University of

Cambridge. Capitalism, he claims, is “an economy in which production is organized in pursuit of profit, rather than for own consumption” (Chang, 2014, p. 33). That crisp formulation represents the view of most analysts. They emphasise the creation of material goods and the services required by consumers. *That account of capitalism is designed to deceive each generation of students graduating through academia. They are not told that production is only half of the reality as experienced by people in the real world.*

Capitalism is not a homogeneous system of production motivated by the quest for profit. It is a binary system composed of distinct sets of values, laws, and institutions. On the whole, the diagnostic errors of economists may be traced to the failure to understand that capitalism consists of the pathological co-existence of those two distinct economic cultures; each with its own *mores* and social outcomes. That co-existence is schematically portrayed in Table 1:1, which identifies some of the qualitative differences and outcomes.

Table 1:1 Anatomy of the Capitalist Economy				
<i>Process</i>	A Wealth Creators		B Wealth Extractors	
<i>Income distribution</i>	Wages	Profits	Net Income (Rent)	
<i>Forms of expenditure</i>	Consumption	Capital formation	Conspicuous consumption	Investment in real estate
<i>Some outcomes</i>	Poverty; indebtedness	Sovereign debt	Excess savings	Colonial quest for rent-yielding assets

The creation of wealth (column A) is the motivating characteristic of the value-adding system. People work (and are rewarded with *wages*). They are assisted by capital equipment, which is manufactured to increase productivity (owners are rewarded with interest or *profit*). Alongside the wealth creators is the predatory culture. This is based on

the extraction of wealth produced by others (column B). This process relies on privileged power to appropriate the net income that surfaces in the economy. The classical economists called the net income *economic rent* (hereafter, “rent”). Rent is the residual part of value that remains after deducting wages and profits.

These two cultures are antithetical. They were forced to co-habit in the same political space by the nobility of the late feudal era. That feudal class appropriated the land that was held as the common asset of traditional communities. This gave them the power (exercised through the political system) to oblige peasant populations to pay rent if they wanted to produce food for their families. Those wealth extractors (in their role as pure rent seekers) did not add to the value that was produced in the economy. Their function was (and remains) passive. Their primary purpose in life, as rent consumers, is to find new ways to spend their incomes. Their lavish lifestyles were characterised as “conspicuous consumption” by American sociologist and economist Thorstein Veblen (1857-1929). As their rents accumulated, some of them did invest in productive enterprises; but they also realised that the easiest way to ‘get-rich-quick’ was to acquire yet more rent-yield assets. Territorial conquest was one of the primary drivers of European colonisation from the sixteenth century onwards.

Thus, there is overlap between the two cultures; but for analytical purposes they need to be distinguished. The real estate sector, for example, is composed of enterprises which both add value (by constructing and administering new buildings), but which also extract value (collecting the land rents, a stream of value not attributable to their initiatives). This was the model of property rights and fiscal policies which prevailed in Europe in the eighteenth century, at the dawn of the Industrial Revolution, and which now (as a result of colonialism and its later variants) dominates the global community of nations.

The binary model is not an outcome of ‘historical inevitability’. Its nature and consequences need to be elucidated, if we are to understand the systemic failure which

challenges all of us in the third millennium. We show in Table 1:1, for example, that poverty and debt emerge in the midst of the wealth-producing sectors. Such outcomes are not attributable to the process of production itself, but to the distortions in society inflicted by the culture of rent-seeking. We shall explain how poverty and indebtedness are the logical consequences of the privatisation of society's net income. This process is not unique to modern western civilisation: it emerged in the civilisations of antiquity (Chapter 4). Before exploring the roots of modern pathologies like poverty, inequality, and unaffordable housing, however, we need to review the theoretical models which were developed to help in understanding how the economy worked.

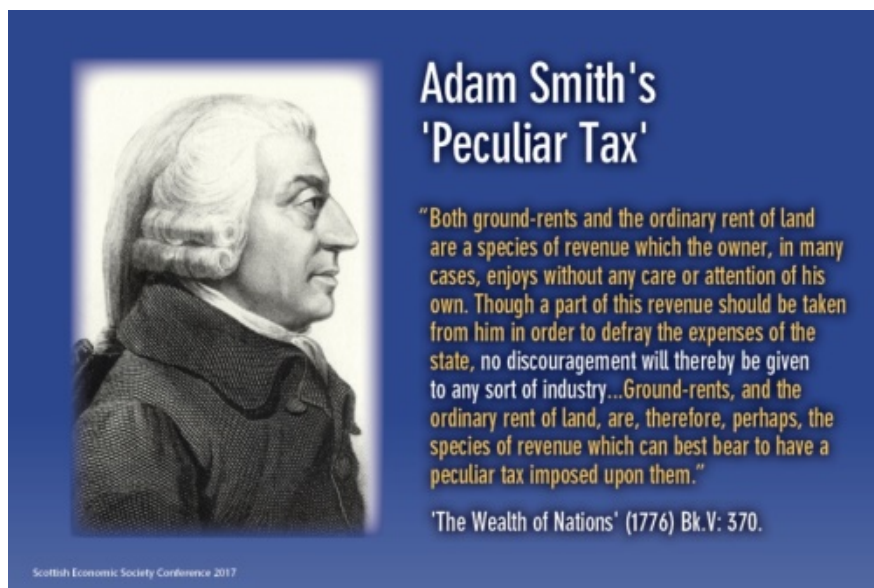
1.4. The Classical Model: The Science of Statecraft

The foundations of economics as a theoretical discipline were laid in the eighteenth century. The Physiocrats, a group of French philosophers, developed economics as the science of statecraft. They concluded that, for good governance to prevail, the monarch had to raise revenue from a single source: the rent of land. The Single Tax on rent would yield sufficient revenue to pay for the services provided by the state, without damaging the productive activities of those who worked to create the wealth of the nation.

The Physiocrats warned that taxes on wages were responsible for encouraging people to seek what we now call 'tax efficient' strategies. These forms of behaviour reduced private income and social welfare. Government had a duty to deliver the services that only the state could provide (known today as 'public goods'), but it should do so in the most efficient manner. Thus was the discipline of economics born, as a synthesis of both science and ethics, to create the statecraft on which policy-makers could rely if they wished to comply with the norms of good governance.

Adam Smith became a student of the Physiocratic theory. He was a professor of moral philosophy in Glasgow at the time when the first stirrings of industrialisation were

making themselves felt. He concluded that the Physiocratic model of governance was incomplete. It needed to be married to a theory of private markets. But he had no doubt about the virtues of the Single Tax on rent. He championed what he called the Annual Ground Rent. In *The Wealth of Nations* (1776) he explained that rent was owed in return for the services received from the state. So distinctive was this charge that he called it a “peculiar tax”.



Thus was the classical model of statecraft rounded off with the exposition of how labour and capital interacted in the markets. Adam Smith was not alone in highlighting the virtues of treating rent as the revenue for defraying the expenses of the state. Another Scottish theorist, William Ogilvie, was known as the rebel professor. He was a classicist and author of an influential treatise on land reform (his *Essay on the Right of Property in Land* was published anonymously in 1781).

The ethics and the economics of efficient resource allocation were at the heart of this model of statecraft. The unique contribution of the classical philosophers was the insight that, to maximise social welfare, it was necessary to fund public services out of the rent which people created by cooperative labours. This model was a robust approximation of the

financial arrangements which existed in the eighteenth century. It described the three factors of production – land, labour, and capital, and their respective streams of revenue – and it described the linkage between government and the economy: fiscal policy. In the UK, the Land Tax was one of the instruments for raising revenue; but the fiscal balance needed to be shifted in favour of raising more of the revenue from rent. The logic was simple: to achieve the best results, people should be empowered to produce without being burdened by taxes on their wages or by taxes on their investments in the formation of capital. This theory continues to be validated in modern textbooks. One account explains that, if rent is collected by government,

Land will not be forced out of use, because land that is very unprofitable will command little rent and so pay little tax. Thus there will be no change in the supply of goods that are produced with the aid of land, and, since there is no change in supply, there can be no change in prices. *The tax cannot be passed to the consumers* (Lipsey, 1979, p. 370; emphasis in original).

Such statements are repeated in the recent works of Nobel laureate Joseph Stiglitz, in his book on inequality, for example (2012, p. 213).

1.5. The Neo-(Post)-Classical Model

Revision of the classical model began towards the end of the nineteenth century. Economists (mainly American) initiated changes which were to have fundamental implications for the subject as the science of statecraft. Professors who included Frank Knight, J.B. Clark, and Richard T. Ely intervened in the fate not just of their discipline, but also the fate of nations (Gaffney, 1994). They decided that land and rent were neither ‘peculiar’ – to use Adam Smith’s term – nor of sufficient statistical weight to warrant separate analysis. Land was downgraded; it became a sub-species of capital. Rent was buried in the

concept of profits. Thus was born the neo-classical theory which (because it is so distinctively different from its classical roots) should more appropriately be called the post-classical school of economics.

Post-classical economists insisted that theirs was a science-based ('positive') methodology. Ethical ('normative') considerations were excluded from their equations. As a consequence, they needed a rule which offered the appearance of delivering fair outcomes. Wilfredo Pareto (1848–1923) came to their rescue. He was an Italian engineer and economist who had estimated that 80% of the land in Italy belonged to 20% of the population. From this, he deduced that inequality follows a natural law: the 80-20 rule. His claim to fame was the ethics-free rule for optimum outcomes in the distribution of income. Optimal efficiency was achieved when resources were allocated to the point where one individual could be made better off without making another individual worse off. This rule illustrates the kinetic power of words like *efficiency* and *optimality*, when they are employed more for ideological purposes than their heuristic value. Columbia University professor Mary Cleveland notes of the Pareto rule,

Sounds fair and reasonable, doesn't it? By this logic the US should have paid the slaveholders in full after the Civil War! By that logic, once having cut taxes on the rich, we cannot raise them again! *The status quo rules, no matter how cruel or illogical the route that got us there* (Cleveland, 2016, p. 71; emphasis in original).

On the issue of slavery, for example, Pareto optimality is achieved when all the income from a plantation is collected by the land-owning slave master *providing he does not render one slave worse off from his pre-existing condition*. The extent to which the kinetic power of concepts like *Pareto efficiency* has influenced the retention of perverse laws and institutions needs to be evaluated. Linguistic analysis offers a powerful route to evaluating the post-classical model.

1.6. The Keynesian Model

The post-classical professors failed to help governments steer their economies away from shocks like the stock market crash of 1929. The mainstream model, having abandoned the statecraft which focused on fiscal policy, lacked the tools for restarting growth on a sustainable basis. John Maynard Keynes came to their rescue.

Keynes was determined not to restore the classical model of statecraft. He had his answer to the issue of the Single Tax. In 1925, he pronounced “the land problem” had been solved by “a silent change of the facts” (cited in Harrison, 1983, p. 300). And so, in his *General Theory*, he relegated the negative impact of land speculation to earlier, agriculture-based social formations (Keynes, 1967, p. 241). And the rentier class, apparently (through something he called “euthanasia”), would one day disappear of its own accord.

Keynes recommended that, for economies that were trapped in a recession, governments should increase the supply of money being spent in the market. This would encourage new investment and employment opportunities, and restart growth. Unfortunately, it would also expose nations to the systematic increase in sovereign debt, which later generations of policy-makers decided was a price worth paying. It freed them to manage a fundamentally unstable system without having to restructure the foundations of the capitalist economy.

The unreality of the Keynesian model was pinpointed by Ronald Burgess in his *Public Revenue without Taxation* (1993, p. 7). He noted,

The development of Keynes' general theory of employment leads to the conclusion that an open trading economy is likely to be most competitive, and therefore most prosperous, only when all taxation is abolished.

But modern societies, open or not, need to fund investment in infrastructure and services such as the enforcement of law and order and the defence of the realm. Funding has to come from somewhere. If it is not drawn from rent, it must be levied as taxes on wages and/or profits. This rendered the twentieth century vulnerable to the financial pathologies that Keynesianism was supposed to mitigate.

1.7. A Discipline in Crisis

Despite more than a century of theorising, and a proliferation of ‘schools’ of economics, the legacy of the revisionist economists is not a happy one. Policy-makers are not able to sustain full employment with rising welfare, or social solidarity with responsible behaviour towards the natural environment. To understand the disconnection between government policies and the realities ‘on the ground’, do we need to recover the analytical framework of the classical philosophers? Their statecraft highlights the partnership between government and the economy. But that model is now disparaged. Two contentions against the classical model illustrate how bias is cultivated. They are taken from a text that is promoted by its publisher as *The User’s Guide to Economics*.

- The classical school “rejected any attempt by the government to restrict the free market” (Chang, 2014, p. 116). This is false. The classical doctrine elevated to a virtue government engagement with the economy. But the terms of that engagement were precisely delineated: the state should go about its business (especially in the way it collected revenue) on terms that supported, rather than prejudiced, people’s activities in the marketplace.

The economy in Adam Smith's time was mercantilist – a policy of state-managed economics.¹ Smith wrote *The Wealth of Nations* as a treatise against mercantilism. But he advocated reforms that would free the market, on the basis of a financial mechanism which disciplined governance to the mutual benefit of both the public and private sectors.

- Classical theories, “even if not wrong in the logical sense, have limited applicability today because they were designed for a world very different from ours” (Chang, 2014, p. 119). Theories become obsolete when competing hypotheses demonstrate a superior capacity to solve problems. Post-classical theories have not passed that scientific test.

We have noted the admission that post-classical theories have been applied in ways that lack ‘realism’. And we have identified the elements that are omitted from the post-classical models. The outcome is a discipline in crisis. But before its practitioners can be persuaded to accept remedial measures, we need to understand the motives that led their predecessors to abandon the classical model.

The Physiocrats responded to a world that needed to change. Early in the eighteenth century, Louis XIV bequeathed a bankrupted state to his successor. The royal debt amounted to almost two billion livres (which did not include another 600 million livres of short-term unfunded government paper (Fukuyama, 2011, p. 336). There was an imperative need for a new kind of statecraft, one that could haul France out of its financial crisis. The outcome was the problem-solving classical model of statecraft.

¹ Mercantilism was a constraint on international trade. Expressed as economic nationalism, the policy was intended to empower the nation-state by confining as much economic activity as possible within the nation's borders. Donald Trump championed this policy in his bid for the presidency of the US in 2016.

In contrast, the economists of the late nineteenth century responded to a world that was determined not to change. The decision-makers who dominated capitalism were the rent-seekers whose interests prevailed all the way through to the twenty-first century. The last thing they wanted was a statecraft which shifted the revenue system on to their streams of income. So professors of economics adapted the classical theory to accommodate the interests of those whose hands were on the levers of power. This formalised, under the guise of science, a way of thinking which rationalised the economics not of wealth creation, but of wealth destruction.

Chapter 2

The Dynamics of Wealth Destruction

2.1. The Pathology of Modernity

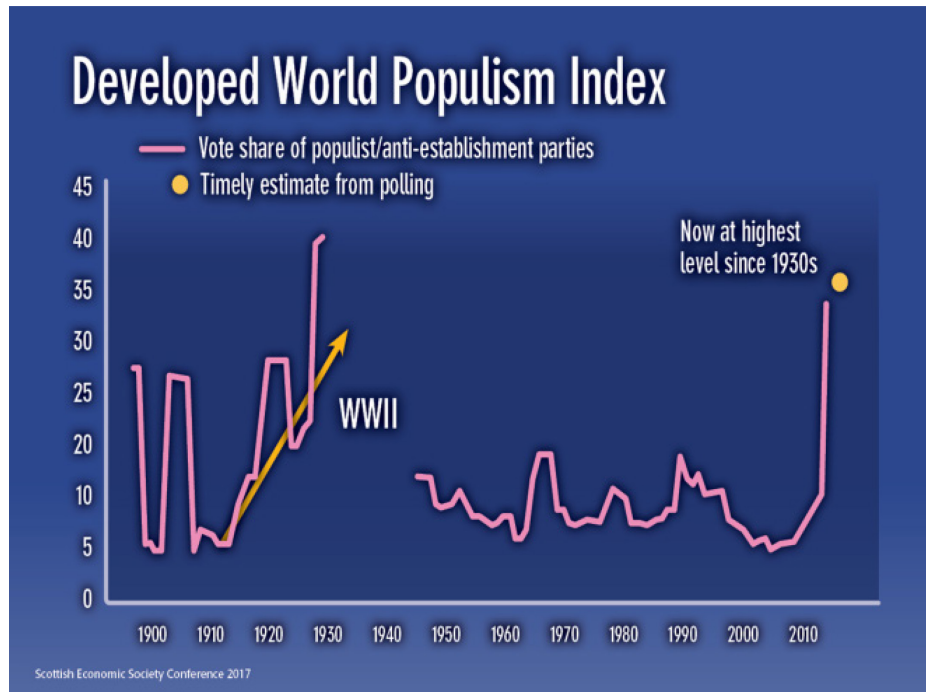
Neolithic peoples lived in clans and tribes. We learned from the anthropologists who fanned out across the remaining parts of the unexplored world in the nineteenth century that pre-civilised peoples enjoyed civilised lives. They devoted a small part of the day to harvesting the food they needed from nature. The rest of their time was devoted to leisure: to customs and practices, including the pursuit of the spiritual life and aesthetic explorations of arts and crafts. They conjoined with neighbours to evolve cultures which harmonised with the assets freely bestowed by nature. Unlike us, they did not work around the clock to make a living.

Most of us would not choose to return to that early way of life. Once our ancestors learnt how to nurture a net income out of the ground, there was no going back – except under duress. The capacity to avoid a retreat to less complex ancestral lifestyles depended on the ability to sustain civilisation, and that was contingent on recycling the rents which people produced to fund the services which glued populations together. That funding included the devotion of a lot of free personal time as well as material resources. As we shall note in Chapter 4, once that feedback loop was broken, civilisations were consigned to a death spiral from which there was no return. Is humanity today locked into such an implosion?

Western countries are dangerously close to repeating the outcomes of The Great Depression of the 1930s. Figure 2:1 warns us that large numbers of people in western societies are rejecting mainstream forms of political authority in a trend that is called ‘populism’. The Populism Index was constructed before the French elections of May 2017. If the elections in Italy and Germany over the following 12 months repeat the rejection of mainstream politicians with significant numbers, the index will have attained the level

achieved in the years running up to World War Two. Does this tell us that the vitality is ebbing away from western civilisation?

Figure 2.1



Source: Ray Dalio *et al* (2017, p. 1)

A review is needed of the essential building blocks of a viable society, before we can decide whether or not they are disintegrating, and whether the rate of depletion constitutes an existential threat. The hypothesis advanced here is that, if such depletion is now operating, its ultimate cause stems from the erasure of the distinction between value adding and value extracting activities. This is culturally sanctioned cheating, which has traumatised modern society (Harrison, 2012). I shall focus on two areas of critical importance in terms of evaluating the status and prospects of civilisation, with special reference to the West. The two areas are:

1. *in the economic sphere*: to explain how civilisations may be systematically damaged by their own processes; and

2. *in the political sphere*: to assess the ensuing social divisions, which cause the haemorrhage of the vitality on which a society depends for its survival.

Social stability is contingent, in part, on effective forms of governance. Today, many states are weakened to the point where political decision-making is in a state of paralysis. In the UK, for example, part of the responsibility for delivering a stable economy was transferred from direct political control to the Bank of England in the 1990s. The intent was to remove the risks of political opportunism. But the decision did not enhance stability in the economy. The lessons of what happened in 2008 have still not been learnt. The Bank of England is now no better equipped to prevent, let alone anticipate, future financial crises than it was before 2008. Britain's central bankers have the world's best archive of data buried in their vaults. That evidence chronicles the ups and downs of the economy over more than 300 years. So why does the bank now warn that "we are probably not going to forecast the next financial crisis, nor are we going to forecast the next recession – models are just not that good" (Wallace and Chan, 2017).

Is this lack of competence the result of personal failures, or is it an embedded feature of the architecture of the social system? What is beyond dispute is that prevailing social and economic problems continue to defeat the remedies employed by governments. Political promises are broken. This erodes public trust to the point where many people in Europe and the US are once again willing to countenance authoritarian forms of governance. Political paralysis is coupled with the failure of the specialists, whose level of discussion about the need for structural change is, at best, superficial. Where the proposals for financial reform are authoritatively explained (Stiglitz, 2016), such initiatives fail to animate policy-makers. Or where governments do propose to take anaemic steps in the direction of reform in the realm of their finances, their initiatives fail because politicians do not explain the need for a coherent restructuring of the tax system.

2.2. On Forecasting and Asset Stripping

The ultimate test of a theory is the accuracy with which it can predict future outcomes. Within the discipline of economics, whose practitioners are constantly offering forecasts, confessions of failure and dereliction of duty abound. Pier Carlo Padoan, who was the OECD's chief economist in the years before the financial crisis, explained their failure. Speaking at a Bloomberg conference in London, he confessed that their macro-economic models did not contain an equation monitoring the performance of the financial sector. But was the OECD misled by the absence of data on the money markets, or could the problem be traced to the prevailing economic paradigm? Padoan, who went on to become Italy's finance minister, did not explore such issues. He appeared to be resigned to accommodating the shortfalls in the performance of economists. After all, he noted: "[P]redictions are very difficult; especially if they are about the future...[I]t is particularly true with economic forecasts" (quoted in Harrison, 2015, p. 66-67).

The record of failure to forecast is indelibly imprinted in the historical record. Governments failed to steer their countries away from the depression of the 1930s, and subsequent modifications (by people like Keynes) failed to steer the post-World War Two economy away from the cyclical booms and busts that culminated in the financial catastrophe of 2008. Despite the vast sums poured into model-building, the accumulation of data and the aid of computer power, mainstream economists are still struggling to blend their theories with the realities of people's lives. We attribute this failure to the fact that they persist in deploying the post-classical model, which yields false conclusions in relation to problems like the supply and price of housing (Box 2:1).

Box 2:1
The Surreal Perception of 'Bricks-and-Mortar'

The behaviour of entrepreneurs in the housing market does not conform to post-classical theory. Why? Because the extraordinarily high price of dwellings suggests that there is a serious shortfall of supply in that sector. If prices yield extraordinary profits, according to the theory, this will attract new competitors. They will increase supply so that it equates with demand, thereby levelling prices down to what people can afford to pay. Mainstream economists use this theory to argue that, to solve the housing crisis, the supply of dwellings must be increased. Policy-makers respond by creating incentives to encourage an increase in production.

This doctrine is then translated into popular language by commentators who encourage people to “invest in bricks and mortar”. If housing is rising in price, it makes sense to invest in that asset. But are the profits really attributable to ‘bricks and mortar’?

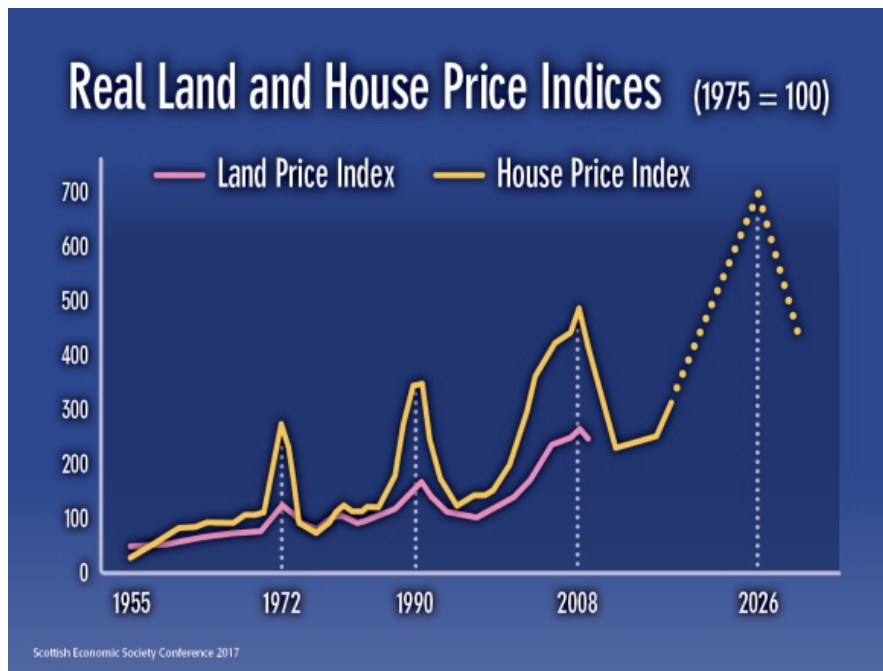
Buildings, like other manufactured products, are depreciating assets. They wear and tear with time. This results in a continuous decline in value. So why do the price of houses and apartments tend to increase at rates faster even than the increase in people’s incomes? Economists do not frame questions in those terms. Bricks-and-mortar, apparently, are airborne assets. There is no conscious appreciation of the significance of the land beneath the dwellings. Therefore, there is no discussion about the rate of increase in the value of land (or why it increases). Could this be because such a discourse leads back to solutions prescribed by the classical model of statecraft?

Would the classical model of the economy outperform its successor theories in the realm of the housing market? In the spirit of the scientific method, we must put it to a real-time test. Deploying the classical analytical framework, I forecast that the next major global financial crisis will begin when house prices peak in 2026.

The trend shown in Figure 2:2 is based on the present author’s analysis of UK data (Harrison, *The Great Depletion*: forthcoming). The UK is representative of the globalised market in real estate (much of which Britain created, during the colonial era). The world’s business cycles were integrated into a single global cycle as a result of World War Two. Economic activity converged into a single cycle, which was launched in the mid-1950s (Harrison, 1983; 2005). As a consequence, the scale of social disruption and asset destruction increased with every recession, culminating in the Big Bust of 2008. The

termination of the cycle that began in 2010 is 2028. If the classical theory's prediction is confirmed by events, this would demonstrate its superiority over the post-classical theory.

Figure 2.2
Towards the House Price Bust of 2026



We have noted that mainstream economists have difficulty anticipating with precision what will happen one year in the future, let alone being able to offer a ten-year forecast with confidence. The theory on which my 2028 prediction is based was applied in 1997, when I again offered a ten-year forecast which turned out to be accurate in all its vital respects (Harrison, 2010a).

2.3. The Losses of Nations

The losses attributable to the uncontrolled business cycle are enormous. As part of the process for raising the public consciousness, we need estimates of the tangible losses that flow from the failures of governance.

2.3.1. The Costs of Governance

Economists acknowledge that taxes on earned incomes impose a cost on people, in the form of value that would have been generated if neutral forms of revenue tools were used by their governments. Distortions to production occur because people are rational: if they can minimise the taxes they pay, that is to their advantage, even if it creates a loss to society at large. Corporations reduce their fiscal liabilities by relocating in tax havens; this may be to the disadvantage of the public purse in their home territories, but it means they can pay greater dividends to their investors.

The scale of the losses is not disclosed by governments when they publish their annual budgets. As a safe rule of thumb, however, we may say that taxation induces the loss of wealth and welfare equal to \$1 or €1 for every \$1 or €1 raised by fiscal authorities. For the UK, this means a loss of wealth and welfare equal to about £500 billion every year (Harrison, 2016).

The losses are continent-wide, as illustrated by the VAT which member states are obliged to enact when they join the European Union. Mason Gaffney, emeritus professor of economics at the University of California, assessed the impact of VAT on Europe, and concluded that the annual losses were at least of the order of €1 trillion (Gaffney, 2016).

2.3.2. EBCOR: Excess Burden Comes Out of Rent

Prof. Gaffney stresses that tax policy does not just undermine activity in private markets. It also constrains public policy. How? Because taxes, in reducing aggregate income, thereby reduce the quantum of rents that people can produce. The buoyant flow of rent is vital if governments are to match their services with the needs of their populations.

Gaffney has coined an acronym for this phenomenon: EBCOR. *Excess burden* comes out of rent. Excess burden is the technical term for the deadweight losses created

by taxes. And so, the lower the production possibilities in an economy, the lower the rents; which means there is less to spend on public services. As we shall see in Chapter 2.5, to understand the dynamics of this process of wealth destruction we need to revisit the classical theory of statecraft. But first, we need to consider how the post-classical theorists cope with the damage which is inflicted on people working within the capitalist economy.

2.4. The Ideology of Convergence

How do policy-makers deal with the losses which people incur – as when they lose their jobs in a recession? They promote the notion of ‘convergence’. This is a process that is supposed to override the bad outcomes that flow out of the system. Political intervention is said to create a convergence of interests between the people or sectors that benefit from current arrangements, with the groups that are disadvantaged. Two instruments are deployed to achieve this convergence: the regulatory system, and fiscal policies. We have seen how tax policies actually result in a net loss, helping to drive the *divergence* of interests, people, and sectors within a society. But regulation is also a fatally flawed technique.

Some regulations do serve the welfare of the public. Ruthless entrepreneurs (for example) may otherwise choose to put their consumers at risk, in the pursuit of higher profits. But most regulations are enacted to try and mitigate problems which are avoidable in the first place: *they are created by the failures of governance!* In seeking to mitigate those problems, regulations impose new costs which people have to bear. These costs fall on both government and those who are supposed to be beneficiaries. In the US alone, the annual cost of regulations introduced during the seven years of the Obama Administration is estimated to exceed \$100 billion (Gattuso and Katz, 2016).

The fake nature of the theory of convergence has been analysed elsewhere (Harrison, 2015, Chapter 7), and to account for the social divisions which are causing friction with the European Union (Harrison, 2016). The scale of losses is huge – the numbers are

almost beyond comprehension. To assist us, we need a pictorial representation of the process which we can hold in our minds. David Ricardo made this possible.

2.5. Ricardo's Law

To comprehend the economic process that underpins the culture which Stiglitz calls “rent-seeking” (Stiglitz, 2012), we need the theory of rent as elaborated by an English stock broker, David Ricardo (1772–1823).

Figure 2:1



Ricardo explained (in Chapter 2 of *Principles of Political Economy and Taxation* [1817]) how variations in net income occurred across an economic space. People first inhabited the best, most productive land before they occupied increasingly inferior, or disadvantaged, locations. That is why the earliest civilisations were located besides rivers (for water, and for ease of transportation) or on the most fertile land (which produced the best crops for the least inputs of labour and capital).

People are willing to pay higher rents to occupy these locations, because life is easier for them in the production of the food they need for subsistence, or for the excavation of

materials or the production of goods they need to trade with people in distant lands. Figure 2:1 illustrates the theory diagrammatically. Net income is highest at the centre of economic activity. It slopes away, as people occupy increasingly less productive locations. The upper line of the diagram defines the outer edges of the ‘production possibilities’ of the whole economy, when land is efficiently combined with labour and capital. Increasing increments of labour and capital on sites further away from the best locations generate lower levels of output until the point is reached beyond which production ceases. This was the point which Ricardo called “the margin”. This is where total output is just sufficient to reward people who invest their labour and capital in production; but not sufficient to generate a net income, or rent. Production does not take place beyond the margin, because that would mean having to live on less than subsistence incomes, which is not possible.

The horizontal line on the diagram indicates the division of incomes. Income below it represents the returns to labour and capital. To understand why that line is shown in a (more or less) horizontal profile, we have to take account of the role of competition. Because labour and capital are mobile, their returns – wages and profits – tend to be equalised across the economic space. Consider, for example, what happens if wages are exceptionally high in one location. People would migrate there to take advantage of higher wages. That influx would bear down on the wage rates, and would therefore equalise rates across the whole of the catchment area. The loss of workers out of one location helps to raise wages as shortages occur, whereas in the high-wage locations, wages would tend to moderate in response to the inflow of new employees. This rebalancing process also ensures that monopoly profits begin to diminish as capital gravitates to locations which are reaping exceptionally high returns. As a result of such forces of interaction, income above the levels collected by labour and capital is isolated in the form of rent.

Ricardo’s theory was subsequently enriched by the work of a German economist, Johann Heinrich von Thünen (1783-1850). He demonstrated that the costs of transportation

had a direct effect on rents. The further a farmer had to travel to sell his goods in the marketplace, the higher the costs of transportation, the less that was left to pay as rent on his farmland. Von Thünen's location thesis was consistent with Ricardo's theory, which he based on the fertility of land. But Ricardo did acknowledge its application to the urban economy where the fixed nature of the supply meant that the favoured locations would command higher rents than the less favoured locations. Thus, the theory also explains the variations in rents payable for urban locations.

2.6. Rent as an Analytical Tool

Understanding the dynamics of Ricardian rent in the marketplace is crucial for governments that wish to administer their economy on the principles of both efficiency and fairness. But most national statistical agencies do not assemble data on net income to reveal with clarity the sloping gradient of rents across their economic spaces. We can, however, infer the trend by using existing data. The price of housing is a good proxy for the variations in location values. If we plot house prices on a cross section of a geographical space, we achieve a clear perception of the Ricardian rent profile (Harrison, 2006). Armed with this theory, we can begin to decipher the impact of conventional taxes on wages and profits.

Ricardo stressed that "A tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of consumers". This contrasted with a tax on a landlord's "remuneration which the landlord receives for the use of his stock expended on the farm". That tax, through the increase in prices, falls "on the consumer of raw produce" (Ricardo, 1888, Chapter X).

- If marginal workers are relieved of the tax burden, and if they can work on rent-free land, they can generate sufficient income to sustain their household economies. In consequence, their welfare is not a problem for the public purse.
- If taxes push the costs of earning a living above the levels of productivity that can be achieved at the economic margin, people are rendered redundant. In consequence, they have to seek welfare support from the state, which has to fund those services either by raising taxes or going deeper into debt.

The negative consequences trigger ripple effects. People who are displaced from marginal locations are forced to migrate to intra-marginal locations in search of a living. Relocation is induced entirely because of the costs imposed by governance, *not* by market failure. That failure, we can now see, must ultimately be traced to the way the system is designed. The stress points are visible in the realms of:

- *property rights*: land owners are free to insist on receiving rents even for land in locations where people are unable to generate a net income. Because workers cannot afford to pay rent, owners choose to keep land idle rather than allow people to work rent-free. And,
- *fiscal policy*: taxes raise the cost of living above what many people can cover out of their wages. This, consequently, causes unemployment (which economists then mythologise as “market failure”).

Working within the Ricardian framework, we can trace the shifts in relationships, the distribution of resources and the internal operation of the power structure. By exposing the structural weaknesses, it becomes possible to extrapolate back to the forces that shaped

the origins of civilisation. With the formation and distribution of rent, we have the analytical tool which helps us to make sense of issues like:

- the discovery of a new natural resource: when oil was discovered beneath the North Sea, the countries bordering that resource were bestowed with a bonanza;
- the invention of a new technique of production: when costs are cut on a sufficient scale (as with digital technology), the net gains are captured as rent; and
- an increase in the birth rate: this demographic shift implies the prospect of a moderation in wage rates (as the supply of labour is increased), to the advantage of the owners of rent-generating assets.

The upward shifts in rent result from the dynamic interaction between land, labour, and capital, but the outcomes are either benign or bad, depending on the status of a government's fiscal policy.

- *If rent is treated as the public's revenue*, it is cycled back into the value-adding economy so that it may be reinvested for the benefit of everyone. This means that government can cut taxes on wages or profits, so the economy may operate at optimum levels.
- *If rent is treated as private revenue*, it flows away from those who work to add value to the wealth of the nation and into the pockets of rent-seekers. This, consequently, obliges government to impose taxes on wages and profits.

There is no escaping the conundrum of why governments tax people in ways which impoverish the nation. This outcome is not the result of eccentric individual preferences. It

is designed into the system. To evaluate the full impact on the economy, and the broader social and environmental effects, we need a system of full-cost accounting.

2.7. Full-cost Accounting

If a problem is the result of a flaw in the architecture of the social system, its negative influences must be visible in ramifications that reach all corners of society; and that includes the natural habitats within which settlements are built. A grievous example is the failure to collect rents from those who pollute the environment. The crisis-by-design thesis may be tested by going back to the dawn of the Industrial Revolution.

Britain's engineers were not influenced by the tax system into inventing clean technology. Why go to the trouble of developing more sophisticated technologies when cheap dirty technologies enable owners to pocket higher rents from the coal seams beneath their rural acres? Rents flowing from the private right-to-pollute provide a material measure of nature's capacity to absorb waste. If government had charged the polluters for emitting their carbon waste onto the population and neighbouring communities, the outcome would have been different. Adam Smith's annual ground rent, if payable into the public purse, would have been the incentive to eliminate that cost by inventing clean technologies.

The moral of this historical case is relevant for today's environmental crisis. It inspires hope. It points towards the financial reform that is consistent with the behaviour that made civilisation possible. But why, then, are some environmental campaigners now pessimistic? The answer is revealing. The right to pollute was designed into the system; therefore, discussion about the architectural defect is not authorised. It is a taboo subject. This ensures that people remain ignorant about the causal connection between the damage endured by their habitats and the laws of the land. This, in turn, made it possible for the so-called remedial policies to be calibrated to suit the privileged rent seekers.

One outcome is the pessimism expressed by environmental campaigners like Paul Kingsnorth, a former deputy editor of *The Ecologist*. He blames technology for the world's ecological woes. In reality, the fault lies with the fiscal system. If government had charged a rent equal to the cost of using the heavens as a rubbish dump, the engineering skills of the great inventors would have been directed at the search for clean technology, and the Industrial Revolution would have taken an entirely different course.

This insight did not inform the 'green' campaign that emerged in the 1970s. Two centuries earlier, however, the owners of rent-generating assets were quick to spot the implications. They moved swiftly to consolidate their influence over the formation of fiscal policies. The outcome of that history is that pollution permits acquired a tradeable value. Why? Because the full value of heaven's rents was not payable by polluters. So the permits were purchased by financial institutions and hoarded until prices rose and a profit could be made on the international bourses.

The reaction of some activists to the failure of 'green' policies has been despair. Paul Kingsnorth responded with what he calls his Eight Principles of Uncivilisation (Kingsnorth, 2017, p. 283). For him, trying to improve a collapsing civilisation is "a waste of time". Instead, people should get ready to "fall back down to a lower level of civilizational complexity". That fall could end up in Dystopia.

Chapter 3

Despair in Dystopia

3.1. A World Called Dystopia

Either by default or design, a new global order needs to be forged. A power vacuum is emerging in international politics. Under President Donald Trump's "America First" doctrine, the US appears to be abandoning the role of 'leader of the free world'. The terms of a new settlement need to be established. Until they are formulated in ways that secure a balanced order, our world has to be characterised as dangerous (Wright, 2017). In the interim, the community of nations is conjoined by overlapping interests, which tend to advance the cause of fragmentation.

- Terrorism is mobilising nations around a common cause, but this stream of activity does not animate the values and emotions which bring out the best in human beings.
- Mass migration is challenging Europe and the United States. According to press reports, more than six million migrants are waiting to cross the Mediterranean into the European Union, including 2.5 million from war-torn North Africa (Ledwith, 2017).
- World trade is supposed to unite nations for mutual benefits. The prognosis is disappointing. Commerce is maintained largely because of the enormous infusions of "money" injected into the system by central bankers.

The alchemy called quantitative easing saw something like \$200 billion per month pumped into the global economy in 2016 alone. This fictitious value was composed of contributions from the Bank of England, the European Central Bank and the Bank of Japan (exceeding the 2009 peak of \$150 billion per month). This inflation of debt does not include China's stimulus measures or US government borrowing. Combined, it amounts to the greatest ever

money printing exercise in history. That is why activity registered in stock markets is not based on realistic appraisals of the profitability of commerce; rather, it is heavily driven by rent-seeking forms of interventions to capture the financial adrenalin created by central banks. Not surprisingly, the OECD is pessimistic about the recovery from the financial crisis of 2008.

After five years of weak growth...The modest cyclical expansion underway will not [...] be sufficient to sustain strong gains in standards of living across OECD countries. Deeper, sustained and collective commitment to coherent policy *packages that support inclusiveness and productivity growth are urgently needed. We need a more inclusive, rules-based globalisation that works for all, centred on people's well-being* (Gurría, 2017; emphasis added).

But if globalisation continues to rest on the policies prescribed by the post-classical doctrine, an “inclusive, rules-based globalisation” *cannot* emerge to benefit everyone. The prudent posture is to prepare, defensively, for a world of Dystopia.

Dystopia is an imaginary country formulated by the authors of the annual World Happiness Report. But their theoretical construct understates the worst-case scenario. Why does this matter? Without a realistic appraisal of the facts ‘on the ground’, policy-makers may not devise effective antidotes to the pathologies of Dystopia (Box 3:1).

Box 3:1 Dystopia in the Real World

In the UN-backed *World Happiness Report 2017*, countries are ranked and compared to “a hypothetical country called Dystopia, so named because it has values equal to the world’s lowest national averages for 2014-2016 for each of...six key variables” (Helliwell *et al*, 2017, p. 18). The six variables are GDP, life expectancy, generosity, perceptions of corruption, freedom to make life choices, and social support.

These indicators fail to convey the immensity of the challenges faced not just by the lagging countries, but *also the challenges that continue to defy those countries that are at the top of the rankings*. In particular, they fail to adequately measure the depth of the losses – the ‘sunk costs’ – endured by all countries, from the top to the bottom of the happiness index.

Dystopia is the real world around us. It is the world characterised both by the visible current conditions, *but also by the scale of the painful losses incurred because of the failure to comply with the norms of statecraft defined by the classical philosophers*.

Why does this omission matter? As was explained in Chapter 2, the further a civilisation gravitates away from its optimum path of growth, the harder it becomes to climb out of the downward spiral into a Dark Age. Today, the proliferation of nuclear weapons implies that the ultimate price to be paid for the failures of governance may be something existentially worse than a Dark Age.

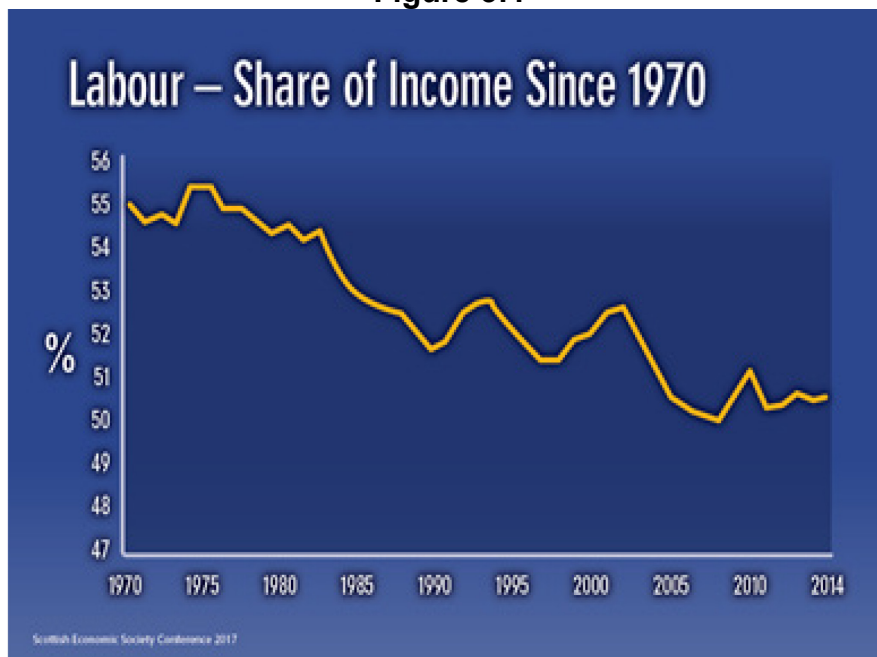
3.2. Death for Despair

The pathologies that disturb economic activity need to be interrogated with new tools. These need to include insights from social psychology, if we are to understand the epidemiology of despair that is afflicting the global community of nations. The statistics reveal the collapse of millions of people into the state of collective pessimism. When people are forced to endure a depletion of their resources, they become too preoccupied with survival to care about repairing the current social systems, let alone enriching the future.

Figure 3:1 illustrates the trend in the share of income received by employees since 1970, a trend also visible in most western countries. Under certain conditions (such as a military threat to one’s country from an external aggressor) people willingly endure deprivation. They are bound by the need to resist a common foe. Today, however, there is

no clearly visible foe to account for deep-seated deprivation. This makes it necessary to invent scapegoats. But, intuitively, a consensus has emerged around the belief that governments are not able to solve the problems which reduce the quality of people's lives. This renders nations vulnerable to unpredictable social movements, such as those that have emerged in the United States.

Figure 3:1



In the richest of nations, the US, one class of people has registered its despair in the most tragic of ways. White middle-class workers are in the only ethnic group to endure a rise in death rates since the 1980s. They live in the rust-belt towns: the formerly thriving industrial centres whose factories are now decaying monuments to once prosperous communities. The discovery of the mortal condition of this class was made by Nobel laureate Sir Angus Deaton and his wife Anne Case, a professor at Princeton University. They characterised the alarming phenomenon as “death by despair”. But what was the cause of this despair? Sir Angus and Anne Case were not sure. They wrote,

What our data show is that the patterns of mortality and morbidity for white non-Hispanics without a college degree move together over lifetimes and birth cohorts, and that they move in tandem with other social dysfunctions, including the decline of marriage, social isolation, and detachment from the labour force. [T]here may be two underlying factors, not one, but they are not very different, and we do not press that conclusion. Whether these factors (or factor) are “the cause” is more a matter of semantics than statistics. *The factor could certainly represent some force that we have not identified*, or we could try to make a case that declining real wages is more fundamental than other forces. Better, we can see globalization and automation as the underlying deep causes. Ultimately, we see our story as about the collapse of the white, high school educated, working class after its heyday in the early 1970s, and the pathologies that accompany that decline (Case and Deaton, 2017, p. 38; emphasis added).

This group of people sought psychological relief in 2016 by applauding Donald Trump at his election meetings. By the thousand, they filled aircraft hangers to hear the presidential nominee promise that he would “Make America Great Again” by bringing jobs back to their communities.

Were Mexican workers really to blame for the degrading quality of people’s lives in Pennsylvania? Or was the problem closer to home, in dysfunctional fiscal policies administered by town halls, state congresses and on Capitol Hill in Washington, DC? Did domestic tax policies distort investment opportunities and disfigure the economy to the disadvantage of white middle-class employees, creating the despair that is concentrated in this class? One thing is beyond doubt: this class is killing itself – literally.

According to an analysis of smoking habits, most people in the US have managed to quit the habit. This has saved millions of lives as cancer rates have declined. The exception is to be found among poor or rural people. For while the national smoking rate has fallen to historic lows, with just 15% of adults still smoking, the socioeconomic gap has never been bigger. *The Washington Post* reported:

Among the nation's less-educated people — those with a high-school-equivalency diploma — the smoking rate remains more than 40 percent, according to the Centers for Disease Control and Prevention. Today, rural residents are diagnosed with lung cancer at rates 18 to 20 percent above those of city dwellers. By nearly every statistical measure, researchers say, America's lower class now smokes more and dies more from cigarettes than other Americans (Wan, 2017).

The primary victims of tobacco were once dependent on the factory towns of America. With the closure of the factories, their incomes disappeared; and they sought consolation in activities which inflicted harm on themselves, including tobacco and narcotics. Understanding the causes is not merely a matter of *semantics*, as Case and Deaton put it. The conditions that propel the fatal trends are anchored in policies that foster the state of Dystopia. In the 1980s, those policies – collectively known as The Washington Consensus – were vigorously seeded in the social soil of countries around the world by western financial agencies and professors from the United States. One outcome, now, is the danger of retrenchment in global trade.

3.3. Inequality

Inequality is acknowledged as a socially serious problem by national governments and the UN-related international institutions. Even the International Monetary Fund has been obliged to conclude that inequality is an endemic outcome of the neo-liberal, post-classical economic model (Ostry et al, 2016). The puzzle, then, is why the IMF continues to advocate the 'austerity' policies that inflict further damage on traumatised countries like Greece, whose economy has shrunk by 27% below the pre-2008 level. Half of all young people cannot find employment, and the depletion of Greek resources in the pursuit of a balanced budget has

not reawakened growth. The answer to my question is provided by Nicholas Macpherson, who served as the top civil servant in the UK's Treasury and is now visiting professor at Kings College London. In analysing the financial situation in Britain since the general election of June 2017, he explained,

The truth is we cannot wish our public finance problems away. If public spending is to rise, we need a proper debate about how to pay for it. *Higher taxes have a role to play*. But some realism is necessary...[E]ven if the age of austerity is dead, there will still need to be tough decisions around spending priorities (Macpherson, 2017; emphasis added).

The Macpherson doctrine sounds diplomatic, but it is framed within the post-classical theory of economics. This directs the diagnosis and tax-and-spend priorities in favour of creating yet more inequality. Either taxes are raised (imposing the greatest burdens on those living on the lowest incomes) or public services are cut (imposing the greatest losses on the most vulnerable sections of society). This way of thinking is consistent with a history which originated some five centuries ago. Countries like England sponsored the enclosure of land by aristocratic elites and the removal of people's traditional right of access to the means of their self-employment. People en masse were cut loose, to wander the highways and byways until they were either herded into workhouses or put onto sailing ships and despatched to the colonies.

The outcome is a discourse on inequality which camouflages as much as it clarifies. Merely comparing numbers – such as levels of current incomes – does not help to diagnose with precision the causes of problems that result in disparities of material wealth. Not surprisingly, therefore, the UN's Millennium Development Goals have not been achieved. That is because inequality and its associated evils are programmed into the policies (unwittingly) endorsed by the United Nations and its member governments.

The flaws in those policies are thrown into sharp relief by Africa, the continent acknowledged as the unhappiest on Earth. Despite decades of strenuous efforts related to development, 54% of the population in 46 African countries are still trapped in poverty. The desire for improved employment opportunities underpinned a third of all public protest demonstrations between 2014 and 2016. Social tensions can only get worse, because the workforce is predicted to increase by 910 million in the decades to 2050. And yet, African ruling elites and their international advisors are framing the future around policies that can only increase the prospects of civil unrest.

Consider, for example, the case of two neighbours in southern Africa. According to the UN's rankings of happiness (data for 2014-2016), Zimbabwe is ranked higher than Botswana in the world: 138th compared to 142nd (Helliwell et al, 2017, p. 22, Fig. 2.2). Should the people of Botswana be worried? The data also reveals that they enjoy higher life expectancy and freedom to make life choices than the citizens of Zimbabwe. Their GDP per capita of \$17,042, furthermore, eclipses Zimbabwe's \$1,970 (IMF, 2017). To compound the confusion by numbers, when we turn to the UN's inequality-adjusted Human Development Index, the rankings are reversed: Botswana is ranked at 108, far ahead of Zimbabwe (154th in the world ranking; UNDP, 2016).

What would we learn about welfare in those countries if we took net income as the key indicator? Both countries are rent-rich. Botswana has diamond mines, and Zimbabwe is rich in fertile agricultural land, gold, nickel, platinum, and diamonds. Unfortunately, the statistics compiled by national governments and collated by global institutions like the World Bank and International Monetary Fund do not disaggregate national income on the basis of the classical model. We are, therefore, left to infer how the quality of life would be enhanced if governments employed the statecraft prescribed by the classical philosophers in the administration of their natural endowments.

Botswana and Zimbabwe are two post-colonial countries that chose radically different approaches to their rent-generating assets.

- Botswana signed a contract with de Beers, the South African mining company, on terms which ensured that the diamond rents would flow into the public purse (Mines and Minerals Act [1967]).

The rents were invested in the modernisation of what was until then a tragically impoverished territory. The social and physical infrastructure was upgraded in a process that has achieved international acclaim (Harrison, 2008, p. 50-51).

- Zimbabwe under President Robert Mugabe embroiled itself in a destructive civil conflict over the ownership of farmland. White farmers were violently dispossessed in the name of redistributing land to black farmers.

Fertile farmland fell into disuse as a result of the Mugabe “land reform”. In many cases, the land was appropriated by cronies of the president. Productivity slumped, inflation reached levels reminiscent of the hyperinflation of Weimar Germany in the 1920s, and civil society was dislocated beyond endurance for many people, who fled across the border to South Africa.

It is in the context of such episodes that international consultants are invited to propose development models for African countries. Recognising the need to encourage economic diversification away from dependence on resource rents, to create jobs for the millions of new workers entering the labour market, we might have expected agencies like the African Development Bank to identify strategies that would deliver the highest returns for the lowest costs. That is not the case. Instead, they frame their proposals in terms of the

fiscal paradigm commended by the neo-liberal model of economics – the one that is acknowledged as causing inequality and the dislocations associated with that social pathology.

Africa is rich in natural resources, but the drop in demand for commodities as a result of the 2008 financial crisis consequently drained sovereign budgets. What to do? The African Development Bank blames the “narrow tax base in resource-rich countries” (African Development Bank, 2017, p. 65). Revenue from other sources failed to replace the loss of resource rents. Conclusion? African governments “must broaden the tax base” (African Development Bank, 2017, p. 67). In plain language, this means taxing people’s earned incomes – their wages, savings, and the profits from investing in new enterprises – instead of *narrowing* the fiscal base, by concentrating the collection of more of the rents of natural resources.

The consortium that produced this advice – the African Development Bank worked with the OECD and the UN Development Programme – believes that this fiscal approach is the best route to achieving the UN’s Sustainable Development Goals. Their logic is simple. Tax evasion is encouraged by the size of the “informal” sector (which, in sub-Saharan Africa, is estimated at 42% of gross national income). And so, governments are encouraged to assume the powers to search out those who avoid taxes such as VAT.

Taxes on the revenue streams generated by employment and consumption fit the neo-liberal paradigm, but they are neither efficient nor ethical. Advocates of these taxes assume that the damage can be minimised if many taxes are levied at relatively low rates. There are two serious difficulties with this strategy:

1. Broad-based taxes flout the principle of accountability.

The broad-based tax doctrine is intended to enable governments to conceal the impact of their fiscal choices from citizens. Always assuming that people are, indeed, duped into not realising that they are being taxed, the outcome is a form of governance based on deception. If policy-makers are able to avoid being held accountable, the scope for corruption becomes a structurally embedded phenomenon.

2. If public policies conceal the deadweight losses which flow from conventional taxes, the principle of transparency is dishonoured. One outcome is the erosion of trust between policy-makers and the people whom they are supposed to represent.

These considerations are relevant whether we are comparing individual behaviour or the actions of nations. But to identify the causes, we need more sophisticated metrics. Some jurisdictions (such as Hong Kong and Singapore) are poor in natural resources, but they generate very high *per capita incomes*. Others are rich in resources but their citizens live in poverty. The relevant consideration is not a comparison of GDP or *per capita incomes*, or indices on inequality, but a forensic examination and comparison of institutions and financial processes. The aim would be to determine what empowers resource-poor populations to enjoy high living standards compared to resource-rich nations that suppress the living standards of their populations. Again, this dichotomy may be considered in relation to the realities of Africa today.

African nations need to diversify their economies away from reliance on natural commodities and resource rents. But in saying that, we are not diminishing the importance of the classical model's Single Tax. Taxes advocated by the consortium that produced *African Economic Outlook 2017* assume that, by diversifying into urban-based forms of enterprise and employment, new tools to raise money are required other than those that draw revenue from rent. But what happens when governments develop employment

opportunities in urban environments? Those locations become more prosperous. Productivity is increased, which is reflected in the net incomes as measured in the land market. By collecting those rents to fund public services, those services become self-funding. Because they are self-funding, the tax burden on private enterprise is reduced, creating more jobs and higher wages. This is the financial synergy at the interface between good governance and an efficient market. And yet, today, the free market is blamed for people's misfortunes.

3.4. Role of the Market

The neo-liberal model is constantly seeped into people's minds by the use of toxic words or ideas. An example surfaced in a speech by Abdoulaye Mar Dieye, Regional Director for Africa at the United Nations Development Programme. In welcoming the 2017 edition of the African Economic Outlook at the African Development Bank Group's 52nd Annual Meeting on 22 May, 2017, he declared:

The key to successful development in Africa is to nurture the emerging culture of entrepreneurship, to use the famous words of Hernando De Soto, *el otro sendero* (the other path) for development; a path that can unleash high-octane creativity and transform opportunities into phenomenal realisations (Mbele, 2017).

That is half the story. The other half makes grim reading, and is not discussed in High Finance conferences.

De Soto is the author of *The Mystery of Capital* (2000). In this, he argued the case for privatising the land occupied by low-income families in the slums of the cities in the global South. If people owned the land, they could offer the deeds as collateral to banks. Loans could then be invested in new enterprises. On the face of it, that proposal sounds reasonable. The collateral value of many locations near thriving urban centres would be

unlocked. New enterprises would be started, and incomes would rise. But to whose advantage? Through the market process the net benefits – the rents of the locations – would be sifted out of the neighbourhoods and into the pockets of financiers. The people who mortgaged themselves to the hilt would discover that they were no better off (Harrison, 2008, p. 70-73). The debtors end up losing their land to their creditors. But this outcome cannot be attributed to the ‘free market’! De Soto’s proposal (as we shall see in Chapter 4) perpetuates the financial process that caused the first Dark Age in Mesopotamia, *circa* 1,200-750 BC.

3.5. Programmed to Fail

Neo-liberalism is a doctrine of despair, because it is underpinned by an economic model which is programmed to fail. No matter how honest the policy-makers, and no matter how large the resources at their command, attempts to achieve optimal social development must result in disappointment. Dialogue is a prerequisite for reversing the trend towards the deep-seated despair which now afflicts populations across the globe. At stake is more than people’s material welfare. Moral sensibilities are compromised by forces that surface in the form of problems like inequality. If the global-scale crises of the twenty-first century are to be resolved to everyone’s mutual benefit, those challenges must be met through honest diagnosis. Understanding how the market economy *really* works, the processes that foredoom the capitalist economy to failure, is a pre-requisite for good governance. We may examine these processes in the context of a contemporary problem: the advent of artificial intelligence.

The primary function of statecraft is to maintain the correct balance between the public and private sectors. Success is achieved when people are able to produce the value that funds their needs. Governments succeed when they can provide the public goods at costs which people can afford. Now, if we assume an economy in which these goals are being met, what happens when artificial intelligence (AI) is invented? This innovation

exercises a socially-significant impact: *it reduces the costs of production across the economy*. This can have one of two consequences, depending on the character of the public's finances.

1. *The rent-seeking outcome*: The cut in production costs results in increased productivity. Net gains are captured by those who own rent-generating assets (like urban land). Many employees lose their jobs to robots or computer-aided substitutes, and government is obliged to raise taxes to fund the welfare needs of those whose incomes are eroded.
2. *The value-adding outcome*: Net income is channelled into the public purse and invested in retraining the victims of AI. If the uplift in productivity is large enough, government can even cut the taxes on earned incomes. This reduces the deadweight losses inflicted on society, making possible a new surge in creative activity to enhance the quality of people's lives.

Innovations like artificial intelligence need not explode as shocks with potentially terrible consequences. And if the net gains are channelled into the public purse, this does not prejudice the rewards earned by the inventors or users of AI. At present, however, commentators who shape public opinion are not discussing this policy option (an example is McAfee and Brynjolfsson, 2017). The result is the cycles of failure of governments to meet the needs of their constituents. History is replete with warnings of how civil society can pay a heavy price when those in authority fail to heed good advice.

Violent revolution can be forestalled. This was attempted in the periods running up to the revolutions in France and Russia.

- France: finance minister Anne-Robert Turgot sensed the revolutionary stirrings in the air. He tried to persuade Louis XVI to reform the nation's finances by adopting the Land Value Tax. He was sacked. Louis and Marie Antoinette were guillotined.
- Russia: Count Leo Tolstoy, the author of *War and Peace*, tried to persuade Czar Nicholas to adopt the Land Value Tax and, in so doing, pre-empt the revolution which threatened the Romanov dynasty. He was ignored. Nicholas and his family were taken into a basement by Lenin's revolutionaries and were shot.

Why did Britain avoid a revolution? Thomas Paine commuted between Paris and Washington DC as he canvassed the need to restructure state finances, and he explained why the Parliament in Westminster ought to radically revise its tax policies. The right of land ownership, he pointed out, came with a duty: "[E]very proprietor...of cultivated land, owes to the community a ground rent" (Paine, 1797, p. 12). He and the other advocates of the classical fiscal system, were ignored. But the British state was more resilient than the dynasties of France and Russia. The old regime survived in the UK for two reasons. First, a revolution was already in the making, but of a different kind: industrialisation. This made it possible to absorb a significant part of the discontented landless labourers in factories. Second, having taken command of the high seas with the Royal Navy, Britain was able to force into migration many of the dispossessed peasants: they were despatched to find land and build homes in the New World and the antipodes.²

The spatial safety valves – the colonial territories on other continents appropriated between the seventeenth and nineteenth centuries, which provided the space that could be occupied by the dispossessed populations of Europe – have now been closed. A new

² Between 1947 and 1967 up to 10,000 children were shipped to Australia, where the cost of supporting them was cheaper than in the UK. According to a BBC report, the children "were told they were orphans going on holiday to a place where the sun always shines". The scandal was uncovered by Nottingham social worker Margaret Humphreys in the 1980s ("British children deported", 2014).

approach to securing stability is needed. The time has come to test the problem-solving characteristics of the classical model against The Economics of Civilisation.

Chapter 4

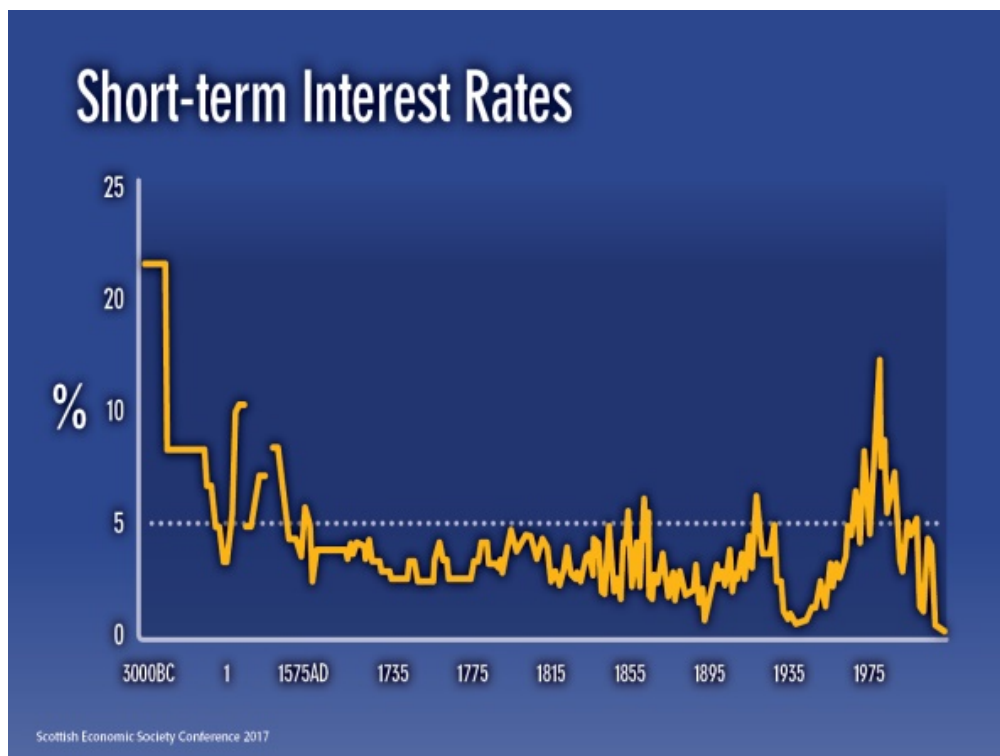
The Economics of Civilisation

4.1. The Hypothesis

Starting with a blank sheet, would we design for ourselves a social system which replicated what we have today? That was the question posed in Chapter 1. With the benefit of what we have now learnt about the flaws in the structure of modern social systems, we may now re-state the question by asking: *Could civilisation have emerged if Neolithic people had applied the values and rules that are central to the post-classical model of economics?* “No!”

The social and economic crises, which undermine the vitality of our communities, may now be threatening the viability of our civilisations. Policies which are presented as solutions to deep-seated issues like poverty, civil instability, and the degradation of our natural habitats are promoted as “evidence-based”, but they have not proved fit for purpose.

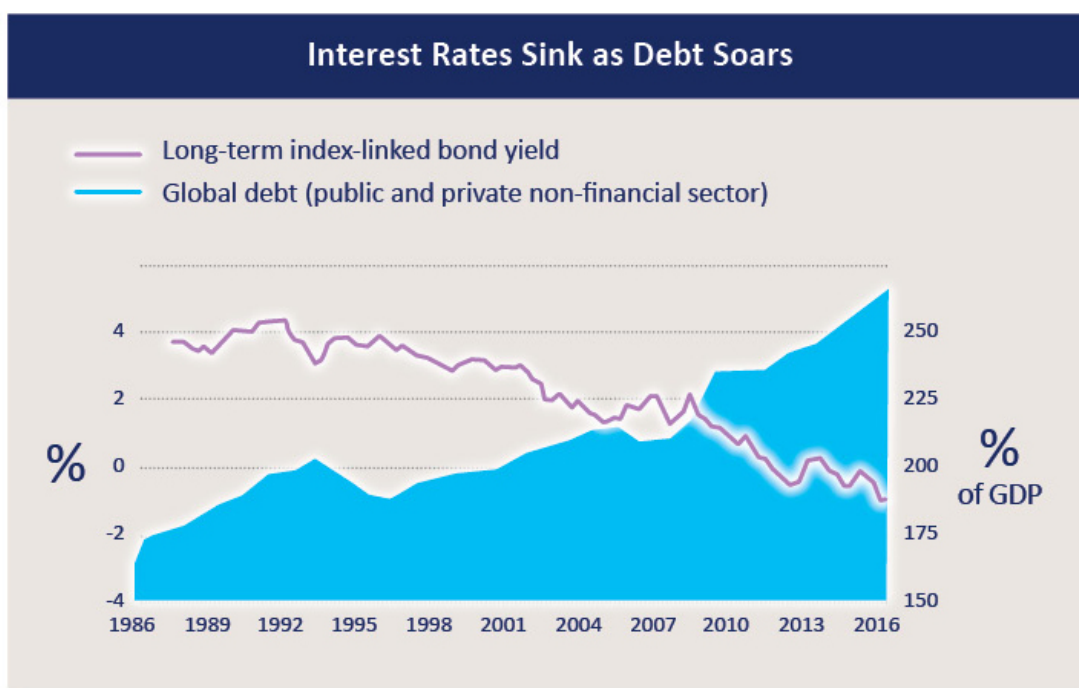
Figure 4:1



Source: Haldane (2015, p. 19).

Adopting the civilisation model as an analytical tool is commended for two reasons. First, our civilisations may be facing a foe whose power exceeds anything experienced since the Bronze Age. Andrew Haldane of the Bank of England has drawn attention to one of the symptoms. For the first time since the onset of the first civilisations 5,000 years ago, interest rates have fallen to zero or negative levels (Figure 4:1). The emergency slashing of interest rates has contributed to the paralysis which now pervades the productive value-adding half of capitalism. The cumulative losses inflicted by the rent-seeking culture – the other half of the binary system called capitalism (see Table 1:1) – have drained the power out of the global market economy. Without that power to sustain growth, it will not be possible to accommodate the needs of ageing populations, handle the scale of in-migration from Africa, or fund the welfare services that mitigate the condition of the millions of people who are the unemployed outcasts from mainstream society.

Figure 4.2



Sources: BIS (2017)

Time is not on our side. The Bank for International Settlements (BIS) warns that the burden of debt has reached crisis point (Figure 4.2). If interest rates are raised – as is the intention of the US Federal Reserve – a worldwide liquidity crisis will be triggered. Coupled with the declining share of income received by working populations (which reduces consumption) and the burden of sovereign debt, the next financial collapse will confront governments with an insoluble problem. For they now lack tools with which to cope with the next financial implosion.

Under current economic policies, that financial crisis will strike, sooner or later. The BIS has revealed that it cannot forecast when the crisis will occur. But the data in its annual report for 2017 shows that the Asian banking system is now as vulnerable as the West's financial sector was in the run up to 2008. Aggregate debt ratios are almost 40 percentage points of GDP higher than they were when the West's banks seized up. Using the BIS measure, China has led the way, with its debt up 191%, followed by Canada – up 70% on the back of a boom in property prices (BIS 2017). In Britain, the public sector net debt is projected to rise from 90% of GDP in 2017-18 to 234% of GDP in 2066-67 (Office of Budget Responsibility, 2017, p. 9).

The best that the BIS can propose is the need to raise productivity. But that is what governments have been trying to do for a decade, without success. So the prospect is the repeat of another crash in the global economy. Next time, however, central bankers will not be able to seek solace in lower interest rates (unless it was to drive them further into negative territory). Nor will they achieve stability by pumping yet more liquidity into the global economy – the financial adrenalin which was tried and tested in the form of 'quantitative easing', and which has failed to deliver the conditions for a sustainable recovery.

But are we really totally defenceless? Must we remain disarmed by the follies of the post-classical model of economics? It need not be so. The second reason for assessing our

global problems within the context of the model of civilisations is that we may uncover the root causes of our problems, and therefore the solutions.

The value of the *civilisation* perspective is that it obliges us to reach beyond the confines of parochial structures and doctrinal prejudices. We are confronted by the fundamentals of human existence. We are driven to reflect on the infrastructure and values on which the earliest urban settlements were constructed. By understanding how and why they came into existence, a new awareness emerges of the fatal defects in our institutional structures, social processes, and values.

It may be, of course, that this review reveals nothing new. It may confirm that we are already aware of the causes and the corresponding solutions. For on the basis of our comparative study of models employed in economics over the past two centuries, it is evident that the problems which governments seek to erase are logical features of our societies. *They must remain ever present!* Intentionally or otherwise, they were designed into the architecture of capitalism as I have defined that system (Chapter 1). This challenges us with disturbing questions. Why, for example, do we continue to apply palliatives – rather than structural reforms – to problems that are reproduced systematically by our social systems? Three of those embedded symptoms are inequality, mass unemployment, and unaffordable housing. These pathologies need to be acknowledged as permanent features of the way we lead our lives. If we wish to abolish them as a disgrace, we are obliged to contemplate changes to the architecture of the economy. That is why we need to stand back from the vast detail of 5,000 years of history and focus on the core issues.

To guide research and reflection, I offer this hypothesis:

Neolithic people consented to pool the net incomes they produced, to elevate their systems of subsistence into complex urban communities.

The earliest civilisations were constructed by people who intuitively evolved the personal commitments and social processes which were to be formalised in the eighteenth century by the classical theorists. Ancient activists and modern philosophers, between them, articulated the statecraft which passed the tests of ethics and of efficiency.

4.2. The Rise and Fall of Civilisations

We must not idealise the earliest civilisations. History is replete with episodes of barbaric behaviour. But we are concerned with the formative phases of civilisation, to understand why the creative conditions which then prevailed were not sustained. Why, for example, did the prosperous and peaceful Republic of Rome capitulate to the destructive system of power practised by Caesar and his successors? When we interrogate the episodes of violent social transformation, it becomes apparent that such events are usually driven by people who claimed the right to appropriate the stream of income on which their civilisations rested. They privatised the population's net income – the rents of land. Inevitably, this triggered the process of decay.

The financial mechanism which incubates the malaise which leads to the fall of a civilisation tends to be subordinated, in the history books, to accounts of the personalities engaged in episodes of violence. Narratives of the elites vying for power are more exciting than the forensic examination of the finances on which a civilisation depends for its existence. And yet, revenue is the life-force of civilisation. When it is disturbed, the system begins to collapse. This is one account of the end of ancient Egypt in the time of Ramesses VI:

By now, the situation at Thebes was deteriorating fast. Soaring grain prices reflected the weakness of the economy and the failure of the government to guarantee wages. Contemporary accounts hint at hunger, even starvation, as the

peasantry bore the full brunt of the hard times. Hyenas were spotted in the Theban hills, scenting death in the villages below. With tax revenues falling and the court unable to pay for new royal monuments, Ramesses VI (1145-1137) took direct steps to economise...Now, with the organs of the state atrophying and the government machine unable to defend Egypt's borders, the Libyan incursions increased in frequency...So ended the Egyptian empire, not with a bang but with a whimper. The land of the pharaohs had been reduced from the greatest power in the eastern Mediterranean to a weak and beleaguered nation in just four generations (Wilkinson, 2011, pp. 370-371).

The collapse was a long time coming. The malaise was rooted in the shift in statecraft, from one that created vitality to one that devoured the vitality of the population.

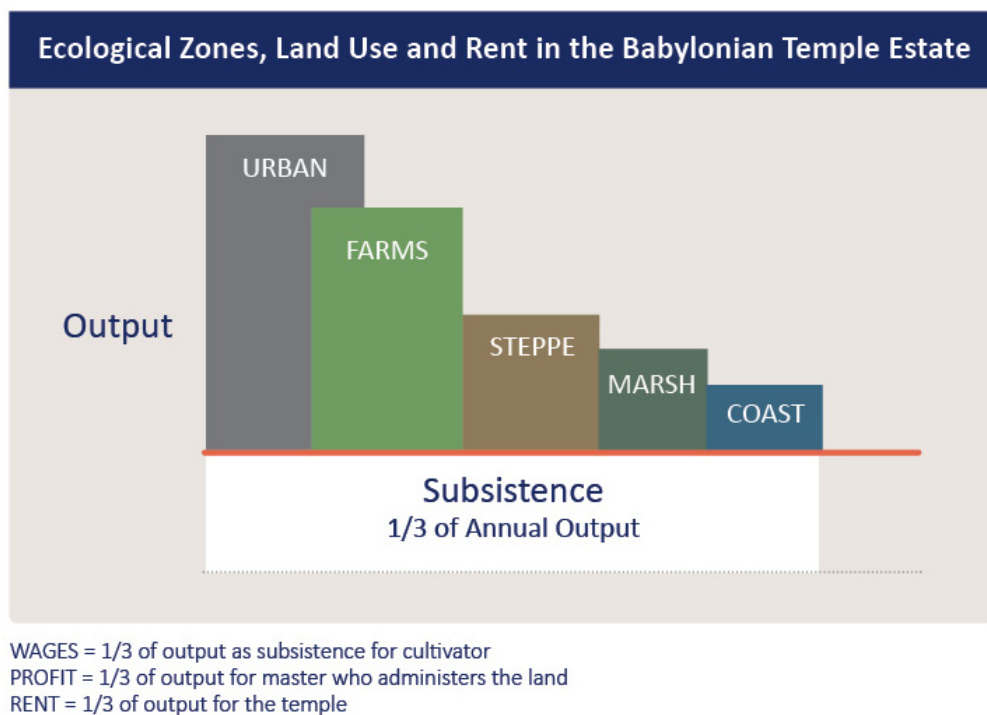
To evaluate what was important for the formation and fall of civilisations, we need to stand back from the chaos to abstract two templates. The first represents the authentic nature of humanity. The second represents the matching blueprint for the social system. To that end, we need to sketch the parameters of what constitutes the good life, to elicit a sense of the propensities, common to people in all places and times, which signal both the strengths and weaknesses of complex social systems.

Analytically, the economics of civilisation enable us to isolate the structural strengths, and the weaknesses which animated the highs and lows, from antiquity to the present time. We are aided by the insights of archaeologists who had the wisdom to integrate the classical 3-factor model into their analyses. Grahame Clark (1907-1995), the British archaeologist who specialised in the study of Mesolithic Europe and paleo-economics, explained:

It is only when excavated material is considered in relation to the resources of the territory utilized [land], the nature of the technology [capital] and the size of the community [labour], that a meaningful picture is likely to emerge of the manner in which economic needs were met (Clark, 1972, ix).

Neolithic people did not leave a written record of what they had in their minds when they laid the foundations for civilisation. Fortunately, we can now draw on a vast body of literature based on the fieldwork of archaeologists and Assyriologists. Some of them created the International Scholars Conference on Ancient Near Eastern Economies. Of special significance is the literature which was to flow from a symposium at The Hermitage, St Petersburg, in May 1997. The theme of that gathering in Russia was Economic Aspects of Urbanization and Land Use in the Ancient Near East and Neighbouring Countries. Of special significance is the synoptic work of scholars like Michael Hudson, the Distinguished Research Professor of Economics at the University of Missouri, Kansas City. Based on this voluminous literature, we can abstract the contours of life in the formative phase of the first civilisations.

That the dynamics of the early civilisations coalesced around the economics of what we now call Ricardo's Law, and were graphically highlighted by Piotr Steinkeller, now the Professor of Assyriology at the Department of Near Eastern Languages and Civilisations at Harvard University. At the St Petersburg symposium, he presented evidence of how income was shared in Babylon (Figure 4:3). The productivity of land is shown as sloping from its height in the urban settlement, downwards through land that was farmed to the outer margins of the territory where output was insufficient to produce rent. Steinkeller estimated that cultivators retained one-third of the output as subsistence (wages); one-third of the product was claimed as 'profit' on the capital invested in the land; and the remaining one-third was transferred as rent to sustain the temple.

Figure 4:3

Source: Steinkeller (1997)

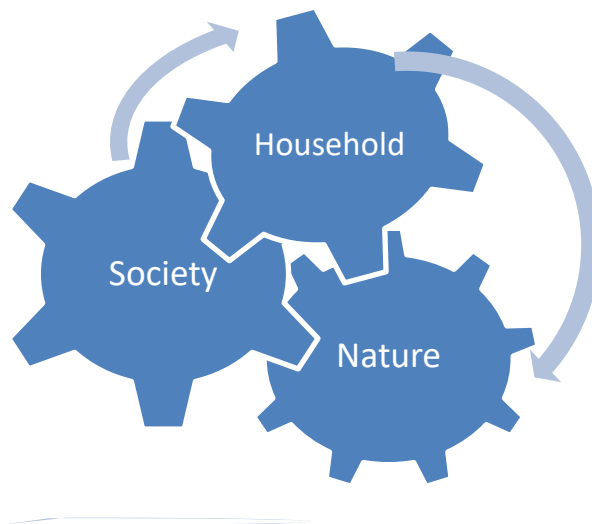
The economic formula which prevailed in Babylon in 2,500 BCE would be familiar to a French peasant farmer in the medieval era; and to a capitalist farmer in Scotland in the twenty-first century. But to understand why the cultivators consented to yield the net produce to fund their civilisation's infrastructure, we need an overview of what made it possible for humans to co-exist in pre-civilised societies.

4.3. The Synergy of Pre-Civilised Communities

My claim that people consented to pool the rents they produced is achieved by combining the insights from several disciplines. In the nineteenth century, anthropologists studied the clans and tribes which had survived in their pre-contact forms. This evidence, when combined with logic and the insights of evolutionary biology, enables us to reconstruct how early humans created the possibilities of a social galaxy on planet Earth.

Within the realms of very small groups, humans evolved customs and practices that were tailored to supplement the laws of nature. To minimise the vagaries of the seasons, people fashioned a new kind of habitat. This social environment secured the wellbeing of everyone who was willing to work to establish the culture that prevented hunger, which provided insurance against droughts and security against the other uncertainties of nature. It would not make sense to create a social system which merely replaced one set of (natural) dangers with an alternative set of man-made dangers.

Evolution out of nature rested on a triadic relationship between the individual household, the customs and practices which welded individuals into communities, and the riches of nature. The melding of these three elements into a dynamic, reinforcing partnership made it possible for people to visualise endless possibilities for the development of their branch of the primate species.



- Households could flourish by reproducing the population and producing the net income to create and sustain the cultural resources they needed to share in common.
- Communities could expand their vitality: creating the assets and providing the services which empowered individual households to enrich their lives.

- Nature could continue to fructify. What had originally been a lifeless planet was transformed into life-bearing Earth through the continuous cooperation of all forms of organic life.

The interactive relationship between these three components enabled early humans to apply their spiritual and aesthetic sensibilities to visualise a boundless existence. Working with nature, they participated in the process of co-evolution. Humans were late-comers, but they were to play their part in the evolution of the planet. Then, 10,000 years ago, *homo sapiens* began to leave a distinctive mark on Earth. This was achieved through the incremental inventions that finally erupted in the form of urban settlements and new forms of economic activity. But something was to go seriously wrong. Our age, called the Anthropocene, is notorious for the fact that humans mobilised vast power to degrade the state of nature. How, and why, did this happen?

4.4. Decay of the Spirit of Civilisation

People would consent to pool the net income they nurtured out of the soil when they were free to conform to patterns of behaviour which secured harmony within all realms of their existence. But what happens when one or other of the three components of life become disconnected? Regression sets in, with the symptoms of atrophy feeding through to all levels of existence.

- *For the individual*, a deterioration in psychological and biological health.
- *For the community*, vitality dissolves, impoverishing moral and aesthetic sensibilities.
- *For nature*, resources are depleted (deforestation turns rich soil into barren land).

History is pitted with episodes that illustrate the consequences of ruptures in the triadic relationship (Diamond, 2005). The psychological and biological health of a population is prejudiced in ways that may be fatal. In feudal England, for example, when the aristocracy separated whole communities from their traditional common rights to land, people were consigned to wandering the highways as vagabonds. As placeless beings they lost their identities. In our globalised world, the abuse of nature, as with over-fishing and the dumping of vast amounts of plastic waste in the oceans, reduces resource stocks and jeopardises the future of other species as well as humans.

Could such breaches in the triadic relationship explain why ancient civilisations failed to sustain themselves indefinitely? If so, were the changes to behaviour the result of accidents, or were they orchestrated by alterations to the structure of civilisation itself? Such questions ought to preoccupy us today. For if the bonds that tie the triadic relationship have been ruptured on a global scale, might the survival of humanity itself now be at stake? Should strategies be devised to restore health to human systems? If the process of recovery cannot be achieved with the aid of policies prescribed by the mainstream social and economic paradigms, should we step out of the sphere of their influence to search for viable solutions? To help us answer those questions we need to consult the people of the Neolithic age.

4.5. The Neolithic Project

Around 10,000 years ago, people in the geological period known as the Holocene who lived by hunting and gathering became farmers. They initiated the Agricultural Revolution. Resources were accumulated and invested for the future. This pushed relationships into new realms of intellectual and aesthetic experiences. As populations grew, experiments led to the domestication of plants and the further expansion of production. How and why did these people pool their net incomes to benefit others, as well as themselves?

The primal choice was between consuming those resources or investing them to enrich the lifestyles of future generations. People chose to invest for the future. Money as tokens of value had not been invented to facilitate the sharing of resources. Instead, what we now call rent, back then took two forms: (1) the allocation of a portion of the product of the land to facilitate the services that were emerging in the urban settlements; and (2) labour power (*corvée*) which people contributed towards the construction of the infrastructure which they needed to accommodate the new ways of living. The new needs included:

- *new technologies* (especially hydrological networks in arid regions);
- *law and land tenure protocols*: rules and rituals to secure the rights of farmers who needed security of tenure, so that they could invest their labour and capital;
- *the spiritual life*: personal contact to enforce good behaviour had to be replaced by rules backed by authority, to secure stability in large settlements;
- *specialists* who could enhance knowledge, especially in relation to the growing seasons (as with the shift from astrology to astronomy); and
- *state formation*: the complexities of civilisation required new tools of governance with which to collect resources and communicate information.

But why would the producers of net incomes have pooled these resources on a voluntary basis? There was no alternative to the consensual approach. There are two primary reasons why consent formed the basis of the new social contract.

1. At the outset of the Agricultural Revolution, the state did not exist. The tools that were needed to coerce resources out of people had not been invented.

2. In the early stages of complex urban society, the authority structure was of the predominantly spiritual kind. Land was endowed to temples to support their work on behalf of the population. The spiritual life was inclusive: people reciprocated either with donations from the products of their farms, or by giving some of their labour to support the needs of the temples.

The earliest civilisations were culturally diverse (the result of adapting to the unique features of history and habitat), but they conformed to a universally valid set of core values. Religious practices varied from one civilisation to another, but the spiritual sensibility, as the mechanism for disciplining behaviour, was a universal characteristic of all human groups wherever they were located.

In time, the cumulative outcome of all these forces was the emergence of an ethics-based form of statecraft. The primary dynamic was the consensual approach to pooling the rents for the common benefit of the population. Without this ethos, civilisation would not have emerged out of the Holocene.

4.6. Debt and Disruption

Some civilisations died for reasons that were not related to what Marxists would call “internal contradictions”. They were stable systems which fell victim to shocks that were beyond their control. One of them was the Indus civilisation. It lasted for a thousand years, and then went into slow decline because of the changes in the course of rivers. In most cases, however, civilisations ended because they were embroiled in violence that emerged from within. Historians tend to treat these episodes of violence as if they were the cause of collapse. In reality, a closer reading reveals that they were in the state of decadence spanning a long period of time; and it was only a matter of time before someone, or something, administered the fatal blow (Harrison, *The Great Depletion*, forthcoming).

For our purposes, we must distil this history by tracing one fault-line in the structure of authority, and one weakness in the financial system. When combined, these two features ensured that once powerful civilisations would suffer a humiliating end.

4.6.1. The Struggle over Power

Everything turned on the status and allocation of rent. In the early phase of civilisation, people devoted a share of their produce, or freely gave the equivalent value in the form of their labour power, to construct the pillars of civilisation. The time would come, however, when the model based on the consenting individual would have to be embodied in institutional form. New structures would be needed, to cope with the increasingly complex arrangements of urbanisation. Demographic pressure, for example, necessitated an increase in production to support rising populations. And then there was the potential to be derived from the scale of operations. Larger scale would reduce costs. Lower costs translated into increased productivity. And this meant that the flow of rent would increase. Those rents were then available for investment in the civil and spiritual institutions. This was a dynamic which needed to be integrated through a social membrane which preserved the coherence of communities.

The increasing flow of rents meant that people could expand the knowledge base and develop the technologies which, under the correct form of statecraft, would sustain a virtuous circle of growth. New ways of thinking about the world did emerge. The initial advances in cosmology were as much earth-bound – the search for tools that were critical to establishing an efficient statecraft – as searching the stars for messages from the heavens. Writing had to be invented. As Hudson (1994, p. 43) notes, “Cuneiformists have traced how the inception of writing was developed in response to the need for account-keeping as a check on the behaviour of bureaucratic administrators”. The standardisation of

techniques for weighing and measuring output from the fields was imperative, to facilitate both private commerce and to ensure the correct division of the product between the state and citizen.

These innovations contributed to the creation of a sophisticated statecraft, one that was fair to the people who toiled to generate the rent. The stable flow of rents into the public purse would be associated with rising living standards, and there would be no artificial ceiling on what the ingenuity of humans could achieve. It would only be a matter of time before yet more virtuous inventions elevated civilisation to ever higher plateaus of accomplishments. But it was too early in this phase of social evolution for people to anticipate the nature of the malevolence that would one day intrude. They were not equipped to put in place the defensive measures needed to forestall the intervention of evil forces which, if allowed to mutate to the point where they controlled the economy, would end up destroying everything that people had created.

Sooner or later the fallibility of human nature would assert itself. Some individuals within the power structure would seek to gain privileges for themselves. And there was one way only for them to succeed: they had to capture the mechanisms which produced, allocated and consumed the one stream of income which underpinned the power structure: rent.

4.6.2 The Temples

The transition from proto-civilisation to the fully formed urban organisation was guided by communities which reposed trust in their religious leaders. The temples became the centre of organisation for economic and social activity. To support them, land was allocated whose output would fund the spiritual life of the population. In Sumeria, in the third millennium BCE, temples emerged as 'history's first business corporations'. They administered to both the earthly and spiritual needs of the working population.

It is in them that one finds the first organization of dependent ration (proto-wage) labour, professional administrators and their account-keeping, land-rent to support these personnel, standardized prices, weights and measures, annual reports, and even yearend annual meetings with their grand banquets, replete with the presentation of audited accounts (Hudson and Harrison, 1994, p. 15).

It would take centuries to occur, but in both Egypt and across the Red Sea in the city states of Mesopotamia the priestly ministrations were corrupted by the temptations of earthly appetites. This tragedy would be bound up with the emergence of princes and palaces.

4.6.3. The Palaces

The arrival of princes at the apex of power was facilitated by vesting spiritual authority in the palace. This did not necessarily mean the corruption of power. Providing the principles of good governance were adhered to, the qualitative shift in the nature of society would not diminish people's freedoms. But: the palace assumed the role of administering the rent-collection system to fund the infrastructure of society, and that placed the princes in the position to renegotiate the status of rent. One device was the devolution of the revenue-collecting power to local officials. Public offices were privatised as power was transferred from temple and palace servants to local administrators, chieftains, and headmen.

Another technique which led to the corruption of statecraft occurred when princes found themselves challenged by warlords who threatened to intrude into their domains. Elizabeth Caecilia Stone has traced the way warlords were turned into landlords. They were incorporated into the social structure by providing them "with a large area of urban real estate...gifts of real estate and temple offices" (Stone, 1987, pp. 72ff, 124).

Through a long period of time and complex manoeuvrings, the social function of rent was polluted. The spiritual function of the temple was corrupted, and the authority of the

palace was degraded. Princes retained their positions in the hierarchy, but at a terrible price: authentic power – the power vested in the people by virtue of their role as producers of rent – was betrayed.

4.6.4. Autocratic Power

It was only a matter of time before the servants who administered the palace were tempted by the prospects of appropriating part of the stream of rental revenue. But other opportunities arose outside the palace.

When peasants found themselves in trouble – as when drought destroyed next season's crops – credit was needed to tide themselves through the difficult times. Merchants became money-lenders. Land was turned into collateral. This became the route to landlessness for peasants, and for the accumulation of land into grand private estates.

In short, instead of rents being ploughed into social infrastructure, such as expanding the irrigation networks or advancing civic needs (education and health), the new class of rent-seekers channelled the public's revenue into self-glorifying edifices. These included the magnificent villas which attested to private wealth and influence, a phenomenon chronicled by archaeologists who specialise in the ancient civilisations of Egypt and Sumeria, and as attested in the written texts that survive from the classical civilisations of Athens and Rome.

4.7. The Clean Slate

Ancient civilisations would not have survived for two millennia if the lives of the working populations were spent in a state of perpetual chaos. It was not in the interest of those who administered urban settlements to take responsibility for social systems that were in turmoil. And so, they devised a mechanism for overcoming the risk that their societies might collapse. Periodically, they proclaimed the Clean Slate.

The priests and princes knew that everything depended on the capacity of households to remain economically viable. If people did not work the fields to produce the net income, the grand institutions of state – the magnificent temples and palaces – could not be sustained. Canals would fall into decay, so crops would not be irrigated. Armies would lose their manpower, rendering the home territory vulnerable to intrusion by barbarians. And so, to secure stability, Clean Slate Proclamations would order the return of land to families which had lost their fields to money-lenders; and debts were cancelled.

The need to borrow money in difficult times not only put the household's land at risk. Sometimes, members of a family were transferred to creditors. Thus did the financial tragedy assume the human form of debt bondage. Landlords needed labour to work their fields, and debt was one device for maximising the rents they could squeeze from their assets.

The Clean Slate initiatives restored not only land; they also made it possible for people to return to their families. History is replete with such initiatives, from the famous proclamation by Hammurapi in the Bronze Age to the initiatives of Solon and Cleisthenes in the golden age of classical Greece. The memory of these proclamations is preserved in the Bible, where it is enshrined in the form of the Jubilee (Leviticus, Chapter 25).

The rent-seekers found ways to undermine the spirit of the Clean Slate. One technique was the false adoption procedure. Debtors were forced to adopt their creditors as their heirs (to the exclusion of their children). This ensured that a Clean Slate proclamation would fail, for the land had remained within the debtor's control! The creditor would reap the rents in perpetuity. And in the course of time, the ascendancy of the aristocratic class ensured that the Clean Slate device would be permanently abandoned.

4.8. The Clean Slate for the Twenty-First Century

The Clean Slate doctrine exposed the key weakness in the institutions of ancient statecraft. People were not protected from the mercy of rich merchants who did not have society's

welfare at heart. The financial system had not evolved to the point where a state-based credit mechanism could operate for the public benefit. If the state had developed the means to issue credit, the outcome would have been different. The state would have no interest in dispossessing the tenants, for it was already collecting the rent. But by allowing people to fall prey to money-lenders, the social status of rent was challenged. As money-lenders began to privatise rent, so they wanted more...and that would lead them into conflict with the state. Thus began the remorseless growth of the class which accumulated land into large estates; and who consequently set themselves apart from others – they were the ‘noble’ families who did not have to work for their living.

We have seen that, to create civilisation, rent *had* to be socialised. People *had* to consent to sharing that stream of income for the common good. The collateral consequence was that the subsistence needs of the population *had* to remain untaxed. But once the ancient rent-seekers began to erode the fiscal base of the state, the princes had no choice but to resort to methods of taxation which undercut the productivity of their economies. From then on, it was downhill all the way...

Today, this thesis confronts us with stark insights into the character of modern governance. The public purse is overwhelmingly reliant on the taxation of wages and profits. This sheds new light on modern practices and problems.

- **In antiquity**, the loss of land rights deprived households of economic self-sufficiency. *The loss of common rights to land explains unemployment as an embedded feature of modern constitutions.*
- **In antiquity**, distressed households were victimised by debt-exploiting money-lenders. *Poverty feeds the malpractices of modern finance, as with the sub-prime mortgage scam which caused the collapse of banks in 2008.*

- **In antiquity**, debt-bondage and slavery reinforced the power of the elites who clustered around the palace. *Slavery, whether in its classic form or in its ‘free’ landless labourer guise, corrupted the values and institutions from which emerged the West’s parliament-based governance.*

We need a new evaluation of the modern political institutions which were constructed to consolidate the power of people who appropriated the rents generated by slaves (Box 4:1).

Box 4:1
The Rents of Slavery

Western democracies claim they abide by the ‘rule of law’. But those laws were crafted by aristocracies which ring-fenced their property rights and rents from the rule of law.

- In the eighteenth century, the people of America created the United States on the foundations of a constitution which accommodated slavery. Slaves produced the net incomes on the plantations of Virginia and Carolina which were captured by land owners who occupied the seats of power in Washington. In the original constitution, for fiscal purposes the slaves were formally counted as of less value than free people.
- In the nineteenth century, the British Empire – which was governed by the ‘mother of Parliaments’ in Westminster – was heavily funded by the net incomes that were extracted from slave plantations in the West Indies, as well as rents that were appropriated from the Indian sub-continent (Tharoor, 2017, p. 16-27).

Does this legacy have consequences for those societies in the twenty-first century? The slaves who produced the rents did not consent to their fate. Furthermore, the ancestors of the citizens of western democracies did not consent to the loss of their common rights to land. Do such insights reveal anything significant about the power over the public purse today? For example: does this begin to explain why rent-generating assets are treated favourably by fiscal authorities? Might this, in turn, begin to account for the fiscal deficits that have landed governments with unsustainable sovereign debts?

But besides the need to address defects in existing civilisations, there is a further reason for adopting the civilisation model as an analytical tool. Civilisations of the third millennium are under pressure to transcend the template which framed the original model. Previous civilisations adapted themselves to specific ecological niches. In this, they conformed to the

territorial behaviour of peoples who lived in clans and tribes. But a new consciousness is now emerging which may supplant the primordial culture of territoriality. New layers of resources from nature (most importantly, the electro-magnetic spectrum on which digital technology depends) are expanding people's horizons. This may not usurp the territorial model of social organisation in the short term. But discrete spatial borders are being subjected to forces which include the following:

- In response to past territorial wars, Europe embarked on state-building on a continental scale. This experiment did flourish for several decades, but the viability of the European Union is now being questioned. Further progress depends on the emergence of a statecraft that is capable of serving all member countries on equitable terms.
- The retreat of the US as sole superpower is creating a multi-polar world. The emerging order could remain trapped within the framework dictated by reliance on coercive military force. Alternatively, it could be supported by humane values, leading to the innovation of new forms of trans-national cooperation and institutions.
- Science and technology are creating new economic possibilities. Artificial intelligence (AI) is not emotionally attached to place, to specific habitats. One day, as the scale of AI expands to threaten existing institutions, it will be necessary to adapt to a politics that is not confined by borders.

In essence, new social contracts are required, framed according to the core values that made human evolution possible and which invented the model of civilisation.

Our review of antiquity alerts us to the priorities for action in the third millennium. Today, net income is all but privatised, while people labour under the burden of taxation. As a consequence, the debts of nation-states will impose intolerable strains on future

generations. A modern version of the Clean Slate Proclamation is needed. But, this time, it needs to be framed in ways that strengthen the social system. Safeguards need to be incorporated which prevent the onset of the nexus which has been with us since ancient times: the loss of land, and the indebtedness which could be exploited to divert the course of social evolution. The modern Clean Slate is none other than the statecraft prescribed by the classical philosophers of the eighteenth century, which enshrines in law the Single Tax on rent.

The direct collection of rent as public revenue already operates at the level of municipal and state government in countries like Australia, New Zealand, and Denmark.³ But the proportion of rent collected is insufficient to bequeath the benefits that would accrue if the tax burden on wages and profits was abolished. This is the corrective action which the world now needs, but it is the one strategy which the Bank for International Settlements does not identify. Without it, our indebted world cannot boost productivity to climb out of the financial crisis.

What will happen to the global economy if current policies remain in place is reviewed in Chapter 5.

³ Surveys of the history of rent as public revenue, in the form of country case studies, appear in Andelson (2000).

Chapter 5

Decoding Capitalism

5.1. The Lessons of Civilisation

We are now equipped to offer a realistic assessment of the nature of the capitalist economy. The portrait that emerges will disturb cherished views about the way the world works, but realism is imperative if we are to forestall the threats to modern civilisations. We now have the tools to guide social regeneration. By comparing the conditions which made it possible for people in antiquity to create the urban social formation with the science of statecraft developed by classical philosophers, we are left in no doubt about the nature of the reforms that now need to be implemented. The net incomes that people generate as they go about their daily business must be re-socialised, and their earned incomes must be re-privatised.

There will be resistance to this proposal. It challenges vested interests at both the material and psychological levels. How we overcome this resistance – without resorting to violence – will determine the future of humanity. Dialogue is the mechanism for deepening our understanding of the nature of the barriers to social evolution. Without that understanding it will not be possible to arrive at a popular mandate for renewing the public's finances. To that end, research into the status of current civilisations is needed, based on our understanding that capitalism is a binary system which rests on two distinct cultures. Without that appraisal, millions of people will continue to be misled about the conditions which prejudice their life-chances. Given the crude definition of capitalism that prevails even among the circles of intellectuals, they cannot be blamed for believing that their problems stem from the global trading system. Donald Trump exploited this view in the American presidential election of 2016. It is a false explanation for the persistent decline in people's living standards, but it is now affecting geopolitical relationships as the US insists on renegotiating its trading agreements.

The mechanics of how inequality and instability in the capitalist economy is perpetuated by the post-classical theories of income distribution were explained by Joseph Stiglitz in *Making Globalization Work*. His analysis begins by recalling how Keynes explained the way governments could overcome recessions. Increased spending and lowered taxes and interest rates would stimulate consumption, increase capital formation and enable the economy to embark on the road to recovery. But since the Thatcher/Reagan era,

The IMF rejected these Keynesian policies, adopting instead pre-Keynesian policies focusing on government deficits: these entail raising taxes and cutting expenditure in recessions, just the opposite of what Keynes recommended (Stiglitz, 2006, p. 235).

The IMF strategy aggravated the downturn, argues Stiglitz. The chaos in the realm of economic policy-making is directly attributable to the simplistic misrepresentation of the nature of capitalism. Only by decoding that system will it become possible for governments to shift their strategies towards the world of reality. Our analysis begins with the description offered by Stiglitz into how the post-classical tax system is deployed to intimidate people into acquiescing in their exploitation.

With capital markets liberalized, countries have to fight to keep capital by lowering taxes on corporations. Because labour - especially unskilled labour - is not as mobile, [countries] don't have to fight as hard to keep it. Hence asymmetric liberalization leads to shifting the burden of taxes on to workers - leading to reduced progressivity in the tax system. The same thing happens in wage bargaining: workers are told that if they do not accept lower wages and reduced protection, the capital (with its jobs) will move overseas (Stiglitz, 2006, p. 90).

This concept of mobility is at the heart of power-plays within the private sector. It is absent from discussions in the circles that shape public policy. The reason why this flaw in economic discourse matters emerges when we consider how the distribution of power – and income – is transformed, if the mobility of land (and its rental income) had been part of the Keynesian analysis. This is how classical economists describe the bargaining process which ought to determine the distribution of income in the marketplace:

- Land is immobile. Collecting its rent as public revenue removes the need to tax corporations or labour.
- Corporations, free of the tax burden, would not need to flee to tax havens.
- In wage negotiations, labour would not be induced to accept low wages under the threat of fleeing capital.

Stiglitz (2006, p. 90) explains the interactions of labour, capital, and land in terms that flow directly from Ricardian rent theory.

- If wages or profits rise above competitive levels, people or capital migrate to take advantage of those economic opportunities. This results in the equalisation of the rates of return to labour and capital across the economic space.
- Land is inelastic. Its supply, in any given location, is fixed. Land, for example, cannot be imported into the City of London to take advantage of sky-high rents. So if services currently provided by people are rendered (for example) by lower-cost robots, the gains from the decline in production costs are captured by the owners of rent generating assets.

By understanding the dynamics that would prevail if markets were shaped by classical statecraft, we might reasonably conclude that sensible people would reach agreements to everyone's mutual benefit. That mutuality is contingent on a fiscal system that does not create asymmetry in the distribution of power between the factors of production. But governments are not briefed on how to achieve optimum outcomes by their expert advisers, so the global economy continues to be depleted by the policies of austerity prescribed by the post-classical model.

This outcome has not been mitigated by the many 'schools' of economic thought that proliferated in the twentieth century. They were all united by one common denominator: they ignored or downgraded land and rent as distinctive elements in their models. Nobel laureate James Buchanan (1919–2013), who achieved fame as a spokesman for the school known as public choice, justified this disengagement on the grounds that "in centuries past, 'land,' as such, was far more important, relatively, than it is today" (Buchanan, 1960, p. 440). Consequently, neither in theory nor in policy-making was adequate provision made for the role of nature, or for the contribution made by people acting in concert in the formation of rent as a stream of income with unique characteristics.

The ethical component stressed by Adam Smith failed to influence political decision-making in the UK. Smith emphasised that rent, once privatised, assumed the form of unearned income. He was scathing about the way rent gravitated to a landlord "without any care or attention of his own" (Smith, 1776, Book 5, Chapter 2, Part 1, Article.1). And yet, post-classical economists did not contest the integrity of the claim by Smith and the other classical theorists that the payment of rent into the public purse differed in a unique way from taxes on wages and profits. This is how Martin Feldstein of Harvard put it:

One of the reasons that economists have long been interested in the tax on pure rental income is that it is a tax without excess burden. Because the owners of

land cannot alter the supply of land, the tax induces no distortions and therefore no welfare loss (Feldstein, 1977, p. 357).

This insight did not shape the increasingly mathematised model building (econometrics) of post-classical economists. Governments, consequently, were deprived of the strategies that could prevent the booms and busts that were driven by the pathological characteristics of the land market. Those pathologies were allowed to emerge and run riot because rent was not anchored in the pricing disciplines that would have been imposed by the classical model of statecraft. The outcomes ranged from

- *downgrading* the role of governments in the protection of people's welfare;
- *degrading* the scientific and ethical content in policy-making;
- *debilitating* the role of trusteeship in the care of natural habitats; and
- *demoralising* people, causing them to tolerate some forms of anti-social behaviour.

One result: western governments are trapped in policy paralysis. Retreating from trade in the global markets, for example, is an excuse for not addressing their home-grown problems.

5.2. The Cost of No Clean Slates

Modern societies would be starkly different from what now exists, if governments had employed the Clean Slate mechanism for restoring self-sufficiency to people's household economies. To re-channel the distress that now pervades whole nations, people need a robust account of the distance their civilisations have travelled away from what might otherwise have been achieved, if their creative potential had not been curtailed.

5.2.1. The Legacy Issues

A comprehensive audit is needed. Socially significant problems need to be catalogued and appraised, to determine the scale of the challenges before us today. That audit is needed so that a hard-headed (or hard-hearted) choice can be made: resolve those problems today, or bequeath them to future generations.

Take, for example, as a key metric, the problem of housing. We know that the availability and cost of shelter has been an abiding problem within civilisations going back to what was recorded by Isaiah 5: 8-9:

Woe to those who add house to house and join field to field, Until there is no more room, So that you have to live alone in the midst of the land! In my ears the Lord of hosts has sworn, 'Surely, many houses shall become desolate, Even great and fine ones, without occupants.'

Despite the phenomenal modern capacity to manufacture the materials needed to construct dwellings, the supply and price of housing remains one of the most profound problems facing all communities in the twenty-first century. Why? And should we allow it to continue to damage the lives of future generations?

5.2.2. Loss of Memory

Early humans had to develop mechanisms for cooperation; otherwise, they would not have engaged in the projects of mutual benefit which, when combined, resulted in social evolution. Have we now lost our understanding of the true meaning of cooperation? Take the case of dialogue: have we forgotten how to talk *with*, rather than *at*, each other? Have we eroded those public spaces where people can engage with each other in safety? If so, how were those spaces degraded?

- *In the West:* the democracies are divided not so much by ideology, as by the erosion of trust among populations in which the dividing lines are determined by whether or governments serve their interests. Could the polarisation created by 'populism' lead back to fascism?
- *In the East:* the Muslim world is torn by differences in sectarian beliefs to the point where whole populations are being decimated by the resort to violence. Has the spiritual life been impoverished? If so, how might it be renewed, so that the sacred may once again come to humanity's rescue?

Box 5:1 Re-visualising Civilisation

A single-year's assessment of deadweight losses attributable to the tax regime's drain on wealth creation delivers misleadingly low numbers. They fail to take into account the 'sunk costs' lost in the past, which also represent lost future gains.

- ✚ In the twenty-first century, what is the cost of 50% youth unemployment and 20% total unemployment in countries like Spain and Greece?
- ✚ In the twentieth century, what is the cost of the world wars and of the genocide of six million Jews? What would have been the impact on collective wealth creation if they and their unborn children had not been killed?
- ✚ In the nineteenth century, what is the cost of the displacement of people from the core European countries to the outer fringes of empire and other people's lands; which,
 - drained synergy from the cultural centre, and
 - wrecked the cultures of the indigenous peoples who suffered the intrusions.

Einstein is quoted as stating that mankind's greatest invention was "compound interest". Nicholas Dennys, chair of the trustees of the Land Research Trust, stresses that negative compound interest needs to be calculated if we wish to understand the losses incurred over the history of the human race since the time when rents were not pooled to fund civilisation, with taxes raised, instead, on people's earned incomes. "It is the loss of the wealth that could have been compounded on the back of lost wealth for generations to come but never will be. The loss of this means that the losses *now* permanently lessen all *future* wealth creation from what it might have been for every day or year from now on to eternity. *We don't catch up*. For hundreds of years we move like an ant with a burden on a slope, always slipping back almost to the start again and again. Without this falling back we would be a thousand feet up the mountain."

- ✚ Think of the wastelands of the Middle East, now, compared to when their civilisations were flourishing....and extrapolate forwards to what they would be, if the net incomes had remained in the public domain...

Economists, to develop a snapshot calculation of deadweight loss, do so by imagining the removal of a tax from within the context of the existing regime. Taxes on earned incomes are left in place while calculating the difference if (say) VAT is terminated. But, argues Nicholas Dennys, "this is like asking how fast will a cheetah run, whose all four legs are hobbled, if we hobbled one leg. Answer: not much difference. The only comparison that makes sense is to imagine a cheetah that has not been hobbled, and ask: 'How much slower would it run if we hobbled one leg by introducing just VAT?' In other words, imagine the world without a single bad tax, and then introduce VAT or the income tax on wages. That would reveal the tax's excess burden."

The problem with this thought experiment is that we cannot imagine mathematically a single tax world. Why not? Because the myriad spurs to wealth creation are incalculable. But we can begin to gain insights if we extrapolate backwards, interrogating the evidence from cases like Hong Kong, where all the land is held on leases, to imagine what would have happened if land was sold as freehold (Harrison, 2016, pp. 64-65).

5.2.3. Institutionalised Scleroticism

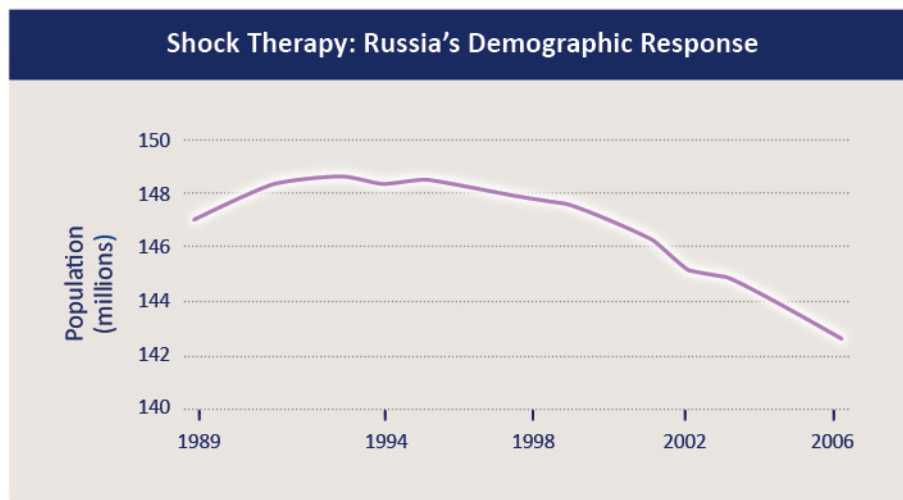
Civil institutions are supposed to serve the common good. Ours have been compromised by rent-seeking interests. This is not a crisis just for the consciences of individuals, who are torn between doing what they know is right, and what they are obliged to do according to the norms of the institutions which they administer. Many institutions in civil society have now reached the point where they lack the resilience required to adapt to the survival needs of their societies. Assessing the losses of the form of governance that was synchronised to suit the rent-seeking culture, it has inflicted losses which are now beyond the imagination (Box 5:1).

5.3. The Quest for Fresh Starts

History is replete with attempts to re-base societies on new foundations. Their successes and failures provide important insights into how a blueprint might be schematically created to guide future statesmen.

5.3.1. Post-Soviet Russia

In the 1990s, Russia adopted the economic model favoured by the West. Incomes shrank by significant margins. There was a correspondingly sharp rise in mortality rates (Harrison, 2008, pp. 21-26). The death rate drove the population into a downward spiral: the trend is shown in Figure 5:1.

Figure 5.1

Source: Harrison (2008, p. 25).

The late Dmitry Lvov, the then Academician-Secretary of the Russian Academy of Sciences, argued that the model to guide the transition from communism to capitalism was designed in Washington, DC. He presented an alternative model in which the free market would be combined with governance funded by the rents of Russia's rich endowments of natural resources. In 1999 he presented data showing the distribution of income that was the legacy of The Washington Consensus. Labour's share of national income had dropped from 15% to 5% between 1991 and 1997. The share received by capital dropped from 25% to 20%. The share received in the form of rent from natural resources rose from 60% to 75%.

The level of the wages in Russia had suffered a catastrophic collapse, Lvov argued; but he was also convinced that this was a global phenomenon, in which "The global economic climate is pushing the planet to a catastrophe" (Lvov, 1999a). Lvov edited a book which scoped out the alternative model for social development (Lvov, 1999b). Looking to the future, does Lvov's thesis account for the gap in unequal life chances in Russia in the third millennium?

5.3.2. Meiji Japan: The Transition to Modernity

Box 5:1 Japan's response to the US trade deal

When Commodore Matthew Perry's gunboats dropped anchor off the coast of Japan in 1853, to demand access of American goods to the Japanese market, the Emperor realised that a fair trading arrangement was not possible. Japan's economy was still in its agricultural state. A way had to be found to initiate industrialisation while preserving social stability and cultural integrity. The turning point was 1867. I reviewed the process of modernisation in *The Power in the Land*, summarising the transition in these terms:

Rent which had formerly been levied upon the rural peasants to support the warrior class and its conspicuous consumption was switched into the coffers of the nation's exchequer and used to finance an industrial revolution. Two hundred and fifty *daimyo* (feudal lords) were rendered redundant, and Japan embarked on the path of industrial growth until, finally, she attained supremacy in the field of modern economic enterprise. This was achieved, at the outset, on a foundation of land value taxation (Harrison, 1983, p. 153).

The Meiji revolution was to be betrayed, before the end of the century, when the samurai managed to manipulate the Duma into re-privatising the nation's rents. The important point for the present discussion, however, is that there *was* a model of action which *could* facilitate social transformation on terms that were inclusive, restoring communal vitality in the countryside while empowering people to work in the new factories (on fair terms) if they chose to make the transition to urban life.

In contrast to what happened to post-Soviet Russia, the transition to the modern market in Japan occurred on terms that preserved social stability and the bargaining power of the working population (Box 5:1). This case confirms that the shift to commercial, factory-based production does not have to conform to the model that evolved in the nineteenth century and which Britain, in particular, incubated in much of the rest of the world. Japan's transformation to modernity is a case study which historians and economists ignore when they prescribe development strategies for the global South.

5.3.3. Oil Rents and the Middle East

Drawing on lessons such as those provided by Russia and Japan, countries today could evolve plans for redesigning their societies in ways that would deliver sustainable development. This is of particular significance to the oil-rich kingdoms of the Gulf, which are heavily dependent on oil rents. Because of the global trend towards 'green' forms of energy (such as power from wind and sun), the price of oil is predicted to collapse within a few decades.

Oil-dependent nations need a balanced transition to value-adding forms of activities which provide jobs for their indigenous populations. Unfortunately, sovereign wealth funds of the oil sheikhdoms are biased in favour of investing in foreign assets (infrastructure, real estate) which generate rental income. This favours the power of the rent-seeking classes in their societies, and does nothing to close the gap between rich and poor. It also deepens people's dependency on the rent-funded benefits that can be extracted from the state.

5.3.4. March of the Robots

Future economic crises will be aggravated by the advent of robotic power. Negative effects in the labour market would be mitigated by reforms to the fiscal system. But the corporate world is reluctant to support political initiatives that entail the redesign of taxation. Silicon Valley, for example, is deemed to exercise too much power in America (Foroohar, 2017). But by understanding why IT corporations enjoy enormous power based on their stock market valuations it becomes possible to mobilise a democratic mandate for change.

None of the monster corporations like Google and Amazon would be valued at tens of billions of dollars if they paid the competitive rents for the use of the electro-magnetic spectrum on which their business models are based. For practical purposes, the radio spectrum is now a privately-owned asset. Spectrum rents are – by default – pocketed by investors through stock markets. Legally, however, the spectrum remains in the public

domain. If governments acted responsibly and collected those rents, power would be returned to the people, and robotic power would work to the advantage of everyone in society.

5.4. The Sacred Solution: Renewing the Covenant

The Bible records events of long ago, but its wisdoms remain relevant for policy-making in the third millennium.

The Bible was originally known as *The Covenant*, because the faith that originated in the lands of Palestine was based on a land deal. God offered land to Moses in return for a commitment to honour the Ten Commandments. Understanding the nature of this sacred contract disappeared when the name of the holy text was changed from the Hebrew *berith* to the Latin, *vetus testamentum*. The Covenant became the Old and the New Testaments (Jupp, 2002, p. 37). Occasionally, however, the sacred teachings of the Bible are retrieved in the search for solutions to contemporary problems. Malcolm Torry, the Director of the Citizen's Income Trust in the UK, is one Christian who sought to use the Bible to support the proposal for a Citizen's Basic Income.

The Basic Income is an unconditional sum paid to everyone. Advocates argue that this payment would somehow mitigate the defects in capitalism. In support of this variation on state-funded income redistribution, Torry cites the Bible's treatment of land. To fund the Basic Income, "A land value tax might be a method more appropriate to the situation than a tax on earned income' (Torry, 2016, p. 21).

The connection between land rent and biblical teachings is explored by Torry to illuminate the principles of fairness and efficiency. Taxes on "bads" (such as smoking and emitting carbon) are fair, but taxing earned income prejudices people's employment prospects. Furthermore, writes Torry, the land value tax conforms to the covenant with God. The Jubilee Proclamation which is described in Leviticus, Chapter 25 – debt cancellation,

and the restoration of land to families who had been separated from their holdings – upholds the principle that land is a God-given inheritance and should belong to us all.

By such reasoning, Torry concludes that a tax on land value is not inconsistent with private property in land. But he raises an objection which, if valid, nullifies the justice-based policy: “Determining the value that accrues to those who occupy land is no easy matter, so it would not be easy to calculate the amount of tax that each occupant of land should pay” (Torry, 2016, p. 135). If rent cannot be calculated, it cannot be collected as public revenue. Torry retreats, in the end, to advocating the income tax. He does not offer an estimate of the deadweight losses associated with the tax which he commends in place of the biblically-sanctioned rent-as-public-revenue.

Torry’s claim about the difficulties of measure rent can be empirically checked. A charge is levied directly on rent in countries as far apart in size and geography as Denmark, Australia, and New Zealand. The public administrations in these countries routinely calculate the land-related income which they tax, which explains much of the economic success of those countries.⁴

5.5. The Scientific Solution: Restoring Human Values

Governments cannot enshrine love in law, but they can deploy financial tools which would favour behaviour that nurtures the loving sensibilities. As we saw in Chapter 1, the Single Tax doctrine of statecraft translates values like respect and solidarity into hard economic outcomes. Analysis begins by understanding the role of rent in securing respect. But recall, first, the formation of rent as the composite measure of what is good, but also what is bad, about the totality of human experience.

⁴ In *As Evil Does* (2016; pp. 138–40), the present author proposed that a Basic Income might appropriately be named the Social Rent Dividend, if the revenue source was, indeed, the rents produced by the community. Malcolm Torry’s review of the biblical texts suggests that it could be called the Sacred Rent Dividend.

- Net income increases as people work in harmony with each other. When peace prevails, personal liberty is maximised, and governance is benign when the state agrees not to impose arbitrary taxes on earned incomes.
- Net income falls when communities are disturbed. Who will pay to live in a neighbourhood that is rife with crime? Civil conflict causes people to flee in search of safe refuges, taking with them the potential to produce the resources needed to build the infrastructure of a viable society.

Given that all these issues converge on a single value, rent becomes the most comprehensive metric of the wealth and welfare of a society.

Now, consider the distribution of rent. We respect the social character of that value by sharing it for the common good.

- As private individuals, we respect each other when we agree to pay rent into the public purse, in return for the benefits we receive from our communities.
- As social citizens, we are entitled to expect governments to respect us by conforming to the disciplines that flow from the treatment of rent as value generated in the public domain.

This philosophy establishes a human-scale network of interlocking rights and responsibilities. Social solidarity flows from the ethical behaviour of both individual citizens and their social institutions. Households become both materially self-sufficient but also engaged – psychically, spiritually, and aesthetically – with others in a process of creative engagement.

5.6. Renewal: Imagination and Moral Sensibilities

Calculations of the costs of the present tax regime seriously misrepresent reality, as we saw in Chapter 2.6. They *understate* the losses which have been endured by civilisations whose forms of governance are funded by taxes levied on the incomes of labour and capital. Those taxes render societies vulnerable to cyclical failures. The continuous under-performance of value-adding activity drains away creative vitality. Nonetheless, we must try to visualise what civilisations would look like today, and might look like tomorrow, if they were not damaged by the financial arrangements which deprived the majority of people of their share of net income.

These speculative exercises are what historians call counterfactual history. Take, for example, the case of classical Greece. How might that classical civilisation have sustained itself if the Athenians had not enslaved 10-20,000 people to work down their silver mines in Laurium? The mines were one of the chief sources of rental revenue of the Athenian State. Might the high culture of Athens have been elevated even higher, and its life expectancy protracted, if the city state's wealth had flowed from a humane ethos? Such an exploration of the imagination would include attempts to assess the way in which culture and the collective consciousness are influenced by the prevailing system of land tenure and rent distribution. Scholars tend to emphasise the 'high culture' of the aristocracy, with almost nothing said about the state of the people who lost their right to self-sufficiency. But we do need to understand how the rent-seeking culture influences the fabric of society; in the Athenian case, influences that include the treatment of people as slaves.

By posing such questions, we can reassess the character of our societies by applying the insights from the past. How, for example, was culture in eighteenth century England influenced by the interaction between land ownership in Jamaica, and the practise of buying slaves to work the plantations? Slaves, according to the contemporary records, were afflicted by suicidal depression (Delbourgo, 2017). What was the reciprocal impact on the

aristocratic land owners? Did they adopt psycho-social techniques for immunising themselves from the pain endured by their slaves? Were these techniques adapted so that the nobility could bear the pain displayed by the landless peasants who populated the countryside back in England? How did such pathologies disturb the capacity of Britain to sustain itself as an evolutionary enterprise?

Such exercises in reappraising the past – so that we can begin to visualise a better future – necessarily involve reflections that are likely to be controversial. But what is beyond challenge is the proposition that, when a civilisation's rents are privatised, the quality of people's lives is corroded, and the fabric of their communities is stripped of vital cultural and spiritual assets. Under these conditions, past civilisations were misdirected along trajectories that were well below what they might have achieved.

To undertake such counterfactual exercises, historians need the tools that emerge out of conceptual framework provided by David Ricardo (see Chapter 2.5). But academic research is impoverished because social scientists no longer employ Ricardian rent as a major tool in their analytical frameworks. One consequence is the misrepresentation of the early phases of civilisation. A case in point is provided by Francis Fukuyama.

In *The Origins of Political Order*, Fukuyama explores the conditions prevailing during the Eastern Zhou Dynasty (770-256 BC). That was when China's earliest states began to coalesce. In the case of the kingdom of Qin, he writes that it "embarked on a remarkable modernising project whose direct target was the kinship-based, patrimonial social order of the early Zhou". The kingdom,

democratized the army by bypassing the warrior aristocrats and directly conscripting masses of peasants, it engaged in large-scale land reform by dispossessing patrimonial landowners and giving land directly to peasant families, and it promoted social mobility by undermining the power and prestige of the hereditary nobility (Fukuyama, 2011, p. 110).

There are two possible interpretations of this sequence of reforms. One is that those who administered the dynasty were enlightened. They wished to emancipate the population and enhance the vitality of their communities. That conclusion flows from an understanding of the consequences of land restoration. Sharing the net income, by eliminating the power of the hereditary nobility to live off the rents produced by others, improves the quality of life in general. This is not Fukuyama's interpretation. He concludes:

As 'democratic' as these reforms sound, their *only* purpose was to increase the power of the Qin state and thus create a remorseless dictatorship [which] allowed Qin to defeat all of the other contending states and unify China [emphasis added].

Fukuyama is not a reliable interpreter of civilisation. *The End of History* was a sensational exercise in rewriting history. *Within two decades of the publication of his celebration of the neo-liberal order, the number of democracies in the world began to contract as more nations switched to authoritarianism.*⁵ Fukuyama's analysis was flawed because his analytical framework excluded consideration of how social trends are influenced by the fate of a nation's net income.

Fukuyama's description of the kingdom of Qin may be tested against more recent episodes of social and economic transformation in Asia. In China, for example, Sun Yat-sen, the first President of the new Republic in 1911, created the Kuomintang party (KMT) to champion the restoration of land to the tillers of the soil and to raise revenue through a public charge on rent. This was a classic Clean Slate initiative of the kind that originated in antiquity. Dr Sun's intention was to secure self-sufficiency for households and financial viability for the

⁵ In the 1990s, democracy appeared to flourish. Between 2000 and 2016, however, the democratic process went into reverse in 27 countries, as authoritarianism came to the fore. In nearly half of them, political liberties, as measured by the Washington DC-based Freedom House, contracted (Diamond, 2016).

Chinese state. But he was not able to implement the policy. In the event, the KMT was driven off the mainland by Chairman Mao's Red Army in 1949. Refuge was sought on the island of Formosa. The Statute for the Equalization of Urban Land Rights was enacted in 1954 to enshrine the objective's set by Dr Sun. Rural landlords were pensioned off and security of land tenure was granted to the tillers. The KMT established governance funded by a public charge on land rents (Lam, 2000). The outcome was the first Asian Tiger. Democracy – not “a remorseless dictatorship” – was the political basis of this reform. Taiwan flourished to become one of the richest communities in the world in just two decades. Through the doctrines of Sun Yat-sen, the classical model of statecraft shaped the fate of the people of Taiwan.

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