Expert Comment

Surreal Economics and the Language of Mind Control

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Executive Summary

The financial crisis of 2008, which exposed how some of the West's major banks were driven into bankruptcy, ought to have been a historic turning point in western civilisation. For eight years, the political elites managed to maintain a 'business as usual' approach by containing the crisis. The protests – notably, the Occupy movement – lacked the conceptual tools with which to inspire a vision of a better future. But then, in 2016, something remarkable happened. Using the ballot box, people registered a level of discontent that the political elites could no longer ignore. The dispute over the future is now being played out as a contest over the collective consciousness. The fulfilment of people's aspirations will depend on how language is re-shaped to facilitate the interrogation of the systemic malaise and on the scope for remedial action. The struggle has begun for the control of people's minds, either to limit the changes to the structure of power or to empower people to determine their future.

To facilitate the optimum outcome, and elevate the quality of geopolitical discourse, two new statistics are needed. This information would improve governance by enhancing the accountability of policy-makers and transparency in the administration of the public's finances. The willingness of the political elites to provide that information may determine the course of the contest over the control of power.

Keywords: financial crisis 2008; political elites; neo-liberalism; saros cycle; land cycle; property cycle; capital formation; Donald Trump; VAT; land rents; migration

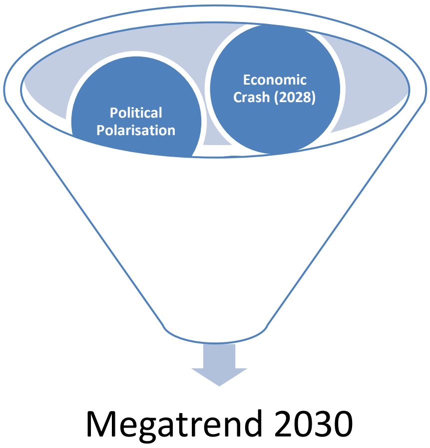
The election of a Left political party in Greece (Syriza) could be ignored. Greece was too small to affect the power structure in Europe. Then came the Brexit referendum, and the election of Donald Trump as president of the United States. These events shattered the complacency that had prevailed since 2008. The weight of the US and the UK within the geopolitical order obliged leaders of the traditional political parties to come to terms with what they ought to have characterised as 'The Great Rejection'. Instead, the elites sought to demean those democratic acts of rejection as 'populism'. The concept denoted an atavistic nationalism, a nostalgia which was not (we were supposed to assume) practical politics. If they could make that portrayal stick, the established leaders would be able to confine change within the boundaries of the existing power structure. The ballot box humiliations were psychically and politically painful for those who occupied the centres of power, but they had time and the assets of the state on their side. And so, in the hope of limiting the pressure for meaningful reforms, they could offer the balm of a few more palliatives in place of changes to the structure of power. It all depended on who controlled and directed the discourse, especially in the realm of economic theory.

The financial crisis of 2008 demolished the credibility of the neo-liberal model of economics. Over the past century it was possible to defend that model with the claim that there was no viable alternative other than the Marxist model, which was unacceptable to most people in the West. John Maynard Keynes provided the rationale for persisting with an economic order that was structurally formalised at least as far back as the seventeenth century. He was convinced that, with capital accumulation, we would witness the 'euthanasia of the rentier', and that his generation's grandchildren would enjoy the luxury of being able to work far fewer hours to meet their material needs – but time has proved him wrong on both counts.

This Keynesian-style optimism evaporated in 2008. Finally, in 2016, the international financial institutions and some distinguished economists confessed that the macro-economic model on which they relied was not fit for purpose. A philosophical hiatus emerged while central bankers continued to juggle with their existing tools. Governments hoped for a recovery in the global economy, which would remove the need to visualise a viable alternative to the neo-liberal model. But by opting for the easy life, governments allowed the business cycle to reassert itself. As I shall explain, the cycle will terminate with the next major financial crisis in 2028. The scope for effective remedial action is now confined to about the next five years. Failure to act will impose an extraordinary price on everyone.

In 2004, America's National Intelligence Council (NIC) warned that economic, social, and environmental crises could one day collide and fuse into what it called a megatrend, ‘a force so ubiquitous that it will substantially shape all of the other trends in the world of 2020’ (NIC, 2004, p.27). If that happened, the ensuing disaster would be beyond the capacity of individual governments to manage. On the assumption that governments retain their current political and economic policies, I foresee at least three trends converging into a megatrend by 2030.

1. Trends Converging on 2030



- The political discontent that exploded in 2016 – notably Brexit and the election of Donald Trump, which foreshadow other similar events in Europe – will grow ever deeper over the next ten years, as ideologically incestuous policy-makers fail to develop a formula for mobilising their populations behind a narrative of hope.

- The algorithms of artificial intelligence (AI) are rapidly replacing people, expanding the pool of permanently unemployed people. Employment prospects will diminish even as corporate profits expand as a result of the cut in labour costs, which will further damage social cohesion.

There are other serious pressure points currently rupturing relationships at the local, regional, and global levels. Consider, for example, the ecological crisis. The World Economic Forum's 2017 Global Risks Perception Survey (GRPS) drew this conclusion:

> Over the course of the past decade, a cluster of environmental-related risks – notably extreme weather events and failure of climate change mitigation and adaptation as well as water crises – has emerged as a consistently central feature of the GRPS risk landscape, strongly interconnected with many other risks, such as conflict and migration. This year, environmental concerns are more prominent than ever. (World Economic Forum 2017, Summary)

The shrinking supply of potable water is at the interface of a number of crises. What might happen when water shortage combines with the discontent in the Middle East as Islamic nations fail to rebuild shattered communities? In Africa, economic development is not proceeding fast enough to meet the aspirations of the increasing populations. Droughts will encourage an acceleration of migration northwards in the hope of salvation in Europe. How will Europe respond to another onslaught of refugees? The complexity and intensity of the pathological state of our world needs comprehensive treatment, but I shall here confine my comments to why the business cycle will terminate in 2028, creating the next major economic crisis just as other trends converge at the end of the next decade.

2. The Blinkered Elites

Policy-makers are frightened. The Great Rejection requires a constructive response that convinces people their governments are able to deploy solutions that were not previously available. But such solutions are not currently ‘on the table’. So governments are being urged to be ‘responsible’, but there is little discussion about the nature of the policies that would encourage responsible behaviour.

Klaus Schwab, for example, who founded the World Economic Forum as the platform for global elites to meet at an annual talk-fest in the Swiss Alps, deploys fine words that are not matched by policy reforms capable of meeting people’s needs. His claim that the world is now ‘unmapped’ is an implicit confession that he does not know how the world got into the mess that confounds policy-makers. Furthermore, his claim that there is ‘no simple, ready-made solution’ (Schwarz, 2017) is calculated to deter others from hypothesising an over-arching vision of viable alternatives. His is a palliative – not a structural – approach. By demeaning the millions of people who have used the ballot box to express dissatisfaction with their political representatives (Schwab characterises them as nostalgic, as wanting to ‘turn back the clock’), he affirms his fundamental failure to understand the roots of current events.

Nobel laureate Joseph Stiglitz would argue that there was a ‘simple, ready-made solution’: shift the revenue system away from wages and onto rents, and a multiplicity of benefits would automatically flow to reward the working population and rebalance the economy (Stiglitz, 2016, p.130). Despite the lengths to which Stiglitz has gone to emphasis this insight, the conceptual framework employed by mainstream economists and the consultants who advise governments prevents them from learning the lessons of the collapse of the banks in 2008. The consensus view is that the crisis was caused by the financial sector. This diagnosis relies on the apparently authoritative testimony of people like Pier Carlo Padoan, who was chief economist at the OECD at the time. He admitted that they failed to anticipate the financial crisis because their macro-economic models did not contain an equation measuring the performance of the banking sector. He added this curious lament: '[P]redictions are very difficult; especially if they are about the future…[I]t is particularly true with economic forecasts' (quoted in Harrison, 2015, pp.66–67). Padoan is now the finance minister of Italy, a country whose economy has yet to recover from 2008.

The financial sector was intimately engaged in the events that led up to 2008, but bankers are now being used as scapegoats. Remedial efforts by governments have been concentrated on tighter regulation of banks and credit creation. This preoccupation distracts attention from the structural flaws in the capitalist economy. The outcome is the preservation of what Joseph Stiglitz calls the rent-seeking economy, which lives to once again create havoc in the future (Stiglitz, 2012, ch.2).

3. Entrenching the Macro Models

Attempts are being made to rescue the doctrines on which the neo-classical model is based. While the big story of 2016 was the confession that the macro-economic models were not fit for purpose, the dispute in 2017 will be over how to refine those models. In desperation, economists are turning to the latest fad. They hope to limit the changes by incorporating insights from psychologists (Lewis, 2017). The outcome is the emerging sub-discipline of behavioural economics, which claims to take account of the uncertainties in human nature. Big Data is being accumulated with which to embellish the macro models.

But the emphasis on psychology is a mistake. It is not the primary area of human experience in need of interrogation.

Neo-classical theories assumed that people behaved rationally (spawning, for example, the efficient market hypothesis). The representative individual was centre-stage in mathematical equations that purported to describe the ebb and flow of the economy. Behaviourists also treat people as isolated individuals, with insufficient attention paid to the pressures constantly emanating from culture. Those pressures are unseen, the legacy of decisions taken long ago. This issue is highlighted by current evaluations of Trumponomics.

Financial journalists are miscalculating the consequences of Donald Trump. Martin Wolf of the *Financial Times* has labelled the president-elect a ‘bellicose ignoramus’, and he describes the people nominated for top positions in the new Washington Administration as a ‘wrecking crew’. On such appraisals, economists try to anticipate prospects for the US economy, which, because of its $18 trillion size, will affect the rest of the global economy. But how can investors or governments make sensible decisions in an environment in which the US president is assumed to be a crank?

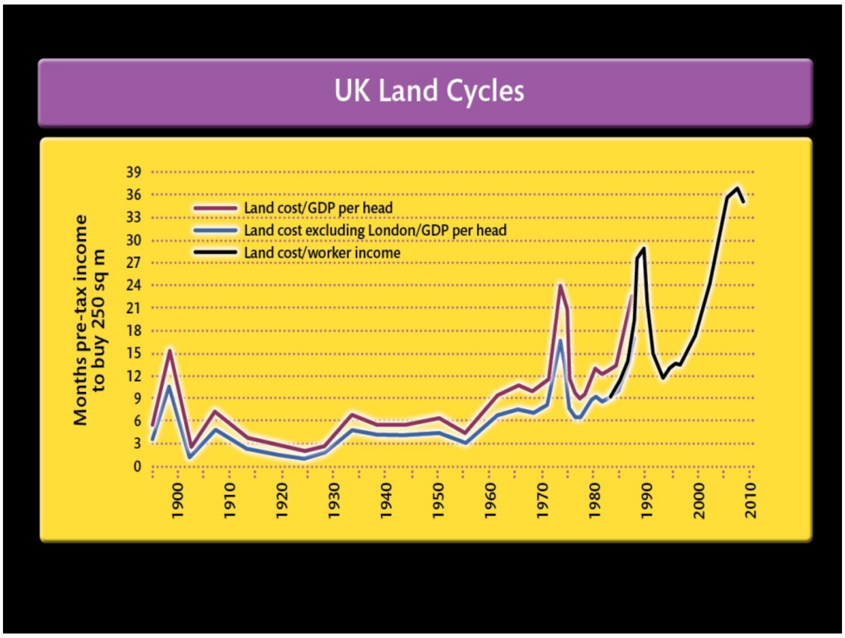
To treat Trump as a chump is to ignore the power of the culture that has guided him throughout his long life. He acts as if he knows what he is doing. He calculates the odds, from his perspective, and his policies in government will generate outcomes that can be predicted with a high degree of accuracy. Correctly anticipating the outcomes of Trump’s actions (which means understanding the culture to which he is attuned) offers scope for investors to make a lot of money. However, because they do not understand the cultural framework which guides Trump’s decision-making, mainstream forecasters will remain ignorant of the dynamics that drive the market economy, which means, in turn, that they will fail to anticipate the next major financial crisis.

4. Understanding Donald Trump's Worldview

In the 1920s, Homer Hoyt was a doctoral student who wrote his thesis on the Chicago land market. He logged data revealing that, over a period of 100 years, land values moved in waves of 18-year cycles (Hoyt, 1933). That insight was not incorporated into mainstream economic analysis and was forgotten until I began my research into the causes of instability in the capitalist economy. I excavated Hoyt's empirical work, and I wondered if the Chicago phenomenon had been repeated elsewhere in the United States since the formation of the land market at the beginning of the nineteenth century. I discovered that the American economy was, indeed, subjected to major recessions every 18 years. But was this a distinctively American pattern? I found that the UK was disrupted by major recessions every 18 years over a period of at least three centuries. But was this a uniquely Anglo-American trait? Japan's civilisation stood in sharp contrast to that of the UK's. Again, the 18-year pattern was present, as it was in the case of the land-rich/newly settled continent of Australia (Harrison, 1983).

My findings were published in *The Power in the Land*. At the time, I did not name the cycle. I will do so now, by calling it the saros cycle, after a celestial discovery by Babylonian astronomers. Several centuries BCE, they confirmed that eclipses of the sun and moon recurred every 18 years and 11 days. The name *saros* (Greek: σάρος) was applied to the eclipse cycle in 1691 by Edmond Halley, the English astronomer and physicist. The saros cycle explained the geometry of the heavens, but we needed an economic explanation for the repetitive cycles on earth. I have offered an hypothesis related to the long-run rate of interest (Harrison, 2005).

Fig. 1

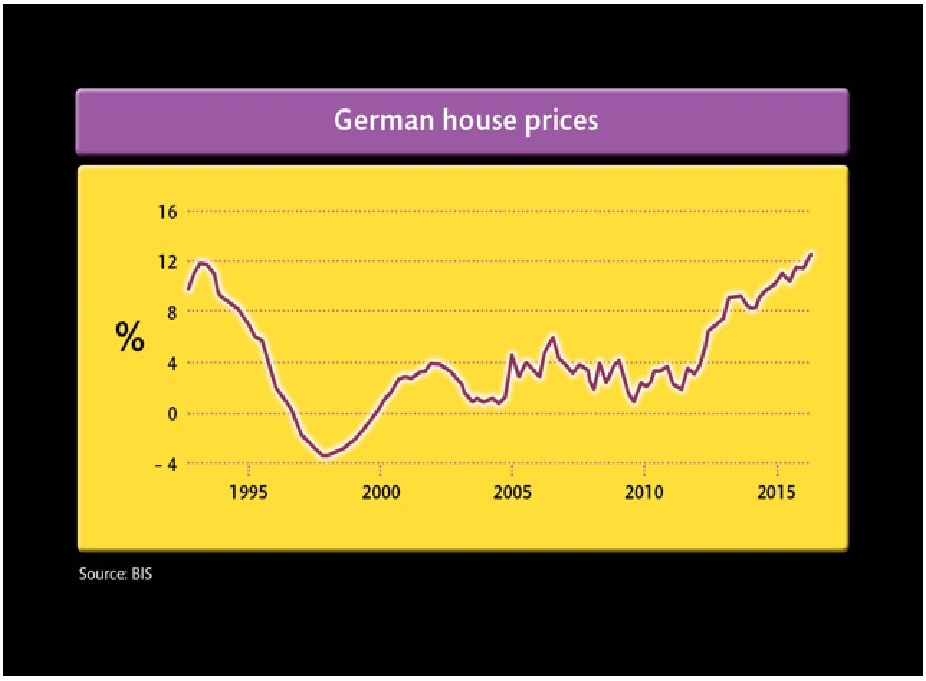


I put the saros cycle to the empirical test in 1997. That was when Tony Blair and his New Labour Party were elected to govern the UK. In that year I wrote to the Prime Minister and explained that he and his finance ministers had 10 years in which to reform the fiscal system before land prices peaked in 2007, which would trigger the depression of 2010 (Harrison, 2010). I was proved correct (see figure 1). Blair and his finance ministers chose to ignore the warning. Her Majesty's Treasury continued to pump up the housing market through to 2007, which was when land prices froze. Ed Balls was economic adviser in the Treasury during Blair's premiership. He rationalises away their failure by blaming the international financial sector. '[N]one of us spotted the warning signals that the financial system was becoming too overextended…We were scanning the horizon for global risks, rather than focusing on the risks at the end of our nose' (Balls, 2016, pp.307, 308). But financiers, while implicated, were not the *cause* of the crisis. They were merely exploiting the opportunities created by the lawmakers. Understanding how to profit out of the land market reveals the *mentalité* that guided Donald Trump to billionaire status.

Because governments refused to acknowledge the primary roots of the crisis, their subsequent responses caused terrible suffering. The policies of the European Union's central bank, combined with the austerity measures imposed on the most vulnerable regions of Europe, exacted a tragic human price. Here, I shall focus on one of the ripple effects: the way in which the German economy is being disfigured.

5. Infection by the Anglo-American Disease

Fig. 2



After World War II, Germany rebuilt its economy by concentrating resources on value-adding investments. It avoided what is called the Anglo-American disease of property speculation. One indicator of the contrast in economic philosophy is the rate of home ownership. Germany had one of the lowest rates in Europe, with the majority of families content to rent their homes. The UK had one of the highest ownership rates, with many families in tenanted accommodation sacrificing their well-being to raise the money to enable them to 'get on the property ladder' of home ownership. The consequences became crystal clear. The UK suffered from a highly volatile boom/bust cycle (figure 1). Volatility was not driven by capital formation in the housing sector, but by the rent-seeking motive in the land market.

Germany, by contrast, enjoyed the benefits of relative stability in the property market. At the end of the saros cycle which terminated in 1992, house prices in Germany had increased at an annual rate of 12% (figure 2). Following the recession, prices levelled off as investors channelled their savings into capital formation, creating the rock-solid economy that made Germany one of the leading exporting nations in the world. House prices remained stable in the run-up to the end of the saros cycle in 2010. But consider the implications of what has happened since the imposition of the bank-rescuing monetary policies of the European Central Bank. Already – and we are only halfway through the current saros cycle – house prices are increasing at an average rate of 12%. Germany's prospects are now changing. Because negative interest rates are damaging the value of household savings, more families are diverting their cash into real estate. That is driving up prices to levels that are creating alarm. For three years, German property prices have been rising at double-digit rates. Munich's is now the fifth most expensive housing market in the world. In Hamburg, prices leapt by 70% over the five years to 2016. We can infer the implications for macro-economic stability from figure 2. There is a further nine years of price rises before the combination of land-and-tax policies terminates the growth in property prices in 2026! This implies that, on current trends, German property prices will match the levels which wreck the UK and US economies on a cyclical basis.

If Germany fails to stall the property cycle before its peak, it will join the UK in collapsing the European economy into the financial tragedy of 2028. A tax system that encourages speculation in real estate, rather than investment in value-adding capital formation, automatically distorts the economy and serves the interests of the asset-rich 1% (Stiglitz, 2016, p.28). If Germany falls victim to that process, it will not be able to serve as an anchor for the rest of Europe. And it will not be in a strong enough financial state to cooperate with other nations to address the emerging global crises, such as the drought-driven water shortages that will encourage yet more migrants out of Africa into Europe.

The remedy is for Germany to begin switching the revenue system away from taxing people's wages and profits and on to the rents of land. That would have the twin effect of dampening down the property price cycle while increasing the profitability of investment in capital formation, which would rebalance the economy back onto the path of value-adding growth.

6. Towards a New Paradigm?

If, for diagnostic purposes, understanding the land market and the implications that follow from the flow of rental income is as fruitful as I claim, might this offer clues to reforms that could lay the foundations of a new economic paradigm?

In the economic literature, there is an almost total blackout of discussion of the implications of the fiscal policy elaborated by a few people like Joseph Stiglitz. But there is one issue on which there is almost unanimous agreement: the economics profession agrees that raising revenue from rents would eliminate the distortions that are created by conventional taxes. The value-added tax, for example, causes Europe to lose about €1 trillion in wealth and welfare every year. That is the estimate by Mason Gaffney, Emeritus Professor of Economics at the University of California. If we were to abolish VAT and replace the revenue with the aid of an annual ground rent, productivity would leap in the land, labour, and capital markets. Consequently, Europe would produce an extra €1 trillion every year (Gaffney, 2016).

James Galbraith, Professor of Economics at the University of Texas (Austin), explains the rent as public revenue policy in these terms:

> By taxing land and minerals, one reaches the least defensible forms of accumulated wealth, while at the same time doing the least to distort market decisions as between capital investment and hiring of labour. And there is another advantage: unlike financial wealth, land stays put. It exists in fixed jurisdictions with registered ownership; all the taxing authorities need to do is to send an appraiser, and then a bill. (Galbraith, 2016, p.157)

Thus, the extraordinary synergy emerging from a single fiscal reform solves multiple problems. I will briefly discuss two of these problems.

(1) *Worldwide, governments face the prospect of lower revenues, even as demands on their budgets increase.*

Despite attempts by the OECD to orchestrate attacks on tax havens, the evasion of tax obligations continues to be one of the reasons why governments are being driven deeper into debt as they desperately try to finance their obligations.

> Not only may personal income tax incomes drop as individuals move from being employees to self-employed, but there could also be a big hole in corporation tax revenues as whole rafts of established organisations disappear and are replaced by networks nominally hosted in suitable low-tax regions. (Dewing & Jones, 2016, p.17)

As revenues ebb away over the next few years, there is a grave risk that nations will find themselves provoked into a tax war (Dwyer, 2016, pp.178–98). But as Galbraith stresses, the switch to collecting revenue at the location where value is created removes the need for tax havens. It would also, automatically, discipline corporate behaviour without the need for burdensome regulations and ever-more-complex tax codes.

(2) *Migration threatens to be a source of future conflicts. One billion people are expected to be on the move in response to climate change and the poverty that blights failed states.*

One way to mitigate such tensions would be to build the infrastructure that raises productivity and creates jobs. But according to the World Bank, there is already a US$1 trillion gap between what is currently being spent and what needs to be invested in infrastructure. The McKinsey Global Institute has concluded that 'the world needs to increase its investment by 60%' by 2030 just to maintain current levels of infrastructure.

That sum does not include the costs of maintenance, renewal, and the backlog that currently exists (cited in Dewing & Jones, 2016, p.40).

To catch up with the deficits of the past and anticipate the emerging crises, governments need a new approach to funding infrastructure. The optimum solution is based on paying for infrastructure out of the rents that are created by new highways and railways and all the other social assets that civilised nations need (Harrison, 2016a). The rehabilitation of infrastructure would simultaneously realign the patterns of growth in the world's megacities, where demographic pressures are intensifying social discontent as competition marginalises many more people.

7. The Smart Way to Conflict Resolution

There is now a seemingly unbridgeable gap between the people and the political elites. Action is necessary to heal the wounds that pose a threat to democracy itself. The 'smart' financial way to address the crises that are converging on 2030 would also restore trust in governance. But, as yet, there is no space in public dialogue for discussions about the smart way to fund public services. The technical capacity for delivering all the infrastructural assets needed by the modern economy is available. But the political will is lacking. And so the democratic deficit continues to blight western nations.

What can the masses of discontented people do about their alienation from their political leaders? Two steps could be taken immediately. There is nominal agreement that democracy is based on the rule of law, enforced by norms that include transparency and accountability. Thus, people engaged in The Great Rejection could inspire progress by demanding two pieces of information not currently available to them. Parliaments should require governments to publish, annually, two statistics:

(1) The aggregate net income (rent) produced by the cooperative endeavours of people working in their communities

Every citizen, in one way or another, contributes to the production of their nation's net income. Arguably, they are entitled to share that income, either in the form of rent-funded public services or as an annual social rent dividend paid to all citizens. If they are not receiving an equal share, this information would equip them to demand remedial action from their elected representatives. This would enhance the accountability of governments.

(2) Estimates of the deadweight losses inflicted by conventional taxes

Transparency would be enhanced if governments were obliged to publish estimates of the losses they inflict on their citizens because of their choice of tax policies. The annual loss, for the UK alone, is estimated at £493 billion (Harrison, 2016b, p.11). Armed with this information, taxpayers would quickly engage in a conversation about the possibilities of more efficient ways of funding their public services.

These observations on the virtues of a new approach to high finance evoke the vision of a new social paradigm. The language of ethical finance would liberate the collective consciousness and hold out the prospect of a fresh approach to governance. It all depends on whether people are willing to initiate a new discourse. If they do, I suspect they would conclude that they have the right to mandate fiscal reform. That singular transformation would empower them to evolve into a future that delivers peace and prosperity, both within and between civilisations.

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