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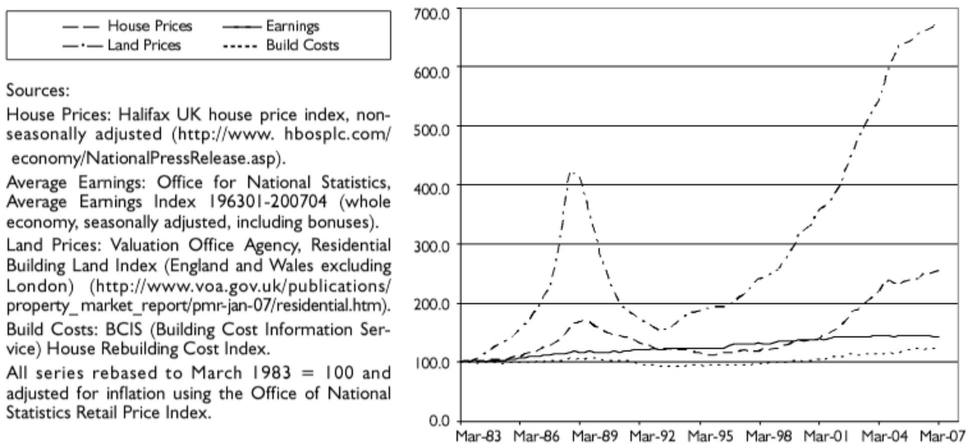
Statistics Calculated to Deceive

EXAMINE the graph on page 164. It does not appear on the desks of economists in HM Treasury or the Bank of England. The data that gives economists like Alan Budd sleepless nights are contained in the two bottom lines, which track the trends in wages and the manufacturing costs that go into the construction of residential property.

The oscillating line above wages and building costs records changes in the price of housing – one of the assets from which

Graph 8:1

UK Selected Indices (1983 = 100)



Sources:

House Prices: Halifax UK house price index, non-seasonally adjusted (http://www. hbosplc.com/economy/NationalPressRelease.asp).

Average Earnings: Office for National Statistics, Average Earnings Index 196301-200704 (whole economy, seasonally adjusted, including bonuses).

Land Prices: Valuation Office Agency, Residential Building Land Index (England and Wales excluding London) (http://www.voa.gov.uk/publications/property_market_report/pmr-jan-07/residential.htm).

Build Costs: BCIS (Building Cost Information Service) House Rebuilding Cost Index.

All series rebased to March 1983 = 100 and adjusted for inflation using the Office of National Statistics Retail Price Index.

central bankers tend to shy away, when they build their models. They claim that they cannot control such asset prices through monetary policy, anyway, so why draw attention to them?

Despite the greater swings in the trend, however, the amplitudes in house prices are nothing compared to the upper line in the graph. This tracks the rate of increase in the cost of land. Over the past 200 years the annual increase in the price of land has been the most volatile, towards the end of each business cycle. They may increase by 30% or more a year. Such numbers are way off the economist's computer screen. In fact, land prices are omitted from their models.

Why? Could it be because we are not supposed to have access to that information? Is economics more to do with ideology than science? The reader will form a view on that question with a little help from Professor Budd, who is a man of integrity. He admits that the practice of economics cannot be separated from the ideology of politics. He confessed the point in an interview for the BBC when he reflected on his "nightmare" in the 1980s when economic policies were used to attack the working people of Britain.

During those Thatcher years, policies were employed to squeeze inflation out of the economy. But there was a secret agenda. Marxist economists like the late Andrew Glynn of Oxford University suspected so. His first book, co-authored with Bob Sutcliffe, was called *British Capitalism, Workers and the Profits Squeeze* (1972). He challenged orthodox economic explanations for the civil disorders of the 1970s. Inflation and workplace conflicts were blamed on a malfunctioning labour market. One of Thatcher's missions was to destroy the power of the unions. And Alan Budd let the cat out of the bag when he admitted that policies to correct inflation were a cover to attack trade unions by *raising* unemployment. The Thatcher government engaged in a covert plan to destroy people's jobs.

> Raising unemployment was a very desirable way of reducing the strength of the working classes. What was engineered – in Marxist terms – was a crisis in capitalism, which re-created a reserve army of labour, and has allowed the capitalists to make high profits ever since.[1]

1 Brooks (1992).

Britain is still living with the fall-out from that episode. About 2.6m workless Britons are not classed as unemployed; instead, they are deemed to be too sick to work. So they live on taxpayer-funded incapacity benefit. They were transferred from the register of the jobless, to save governments the embarrassment of admitting that capitalism is not a self-correcting system. Some families have now lived through three generations of unemployed members in what used to be the nation's industrial heartlands of South Wales and the North of England. Even if half of those people were re-classified as fit to work, the jobs do not exist for them.

Statistics are used to conceal secret agendas; that is why the truth from insiders like Alan Budd is crucial, to understand the dynamics of the capitalist economy. For politicians rely on lulling people into the belief that all is well, when things are actually going wrong. By the time the truth emerges, it is too late to take remedial action. This was illustrated by the reassurances that were offered to Britain by the Prime Minister, just as families began to lose their homes in 2007.

Experts in the property market, and even Gordon Brown, reassured homeowners that the rate of repossession of people's homes was nothing like the rates that prevailed in the early 1990s. The Council of Mortgage Lenders, the lobby group representing the financial institutions, reassured people in its Press release dated February 8, 2008. As far as it went, the statement was true. It reminded me of a story recounted by one of my philosophy tutors at Oxford. How can you lie while telling the truth? His example: greeting one of the college porters with the statement: "Hello, John, I see you are not drunk today." The poor chap was never drunk. But anyone listening to that greeting would be forgiven for thinking that the porter was disposed to the regular consumption of alcohol that left him the worse for wear.

Similarly with assurances from the property industry that home-owners were not suffering excessive rates of repossessions. Newspapers left their readers with the impression that the economy was not about to be crucified by another property crash. In the event, it took a bail-out of mind-bending proportions to camouflage the disaster, from which taxpayers will suffer for generations to come.

One motive for interpreting statistics in a way that sidelines the bad news is to maintain "confidence" in the economy. But as a result, in Britain people continued to buy residential properties in 2007. They were doomed to lose a large slice of the equity in their homes.

Along with the mortgage burden were credit card debts that pushed household budgets to the edge of the financial precipice. Reassured that the strains would not intensify, people failed to off-load personal debts to protect their homes. For many of them, there could be one outcome only: the loss of the roofs over their heads.

Whose Money is it Anyway?

POST-CLASSICAL ECONOMICS anticipated the age of digital technology.

A century ago, theorists with an ideology to promote pruned out the spatial features of classical theory. David Ricardo's theory of rent provided the description of how rents varied between locations, and why some land beyond what was called the margin failed to command a rent (no-one wanted to use it). This was a breakthrough in scientific reasoning. It enabled analysts to measure the impact of rent on people's lives. Post-classical economists, however, anticipated the virtual world that was made possible by the electronic revolution. They created a spaceless world inhabited by Labour and Capital alone. In economic models, people do not bump up against anything as solid as the ground beneath their feet!

Historically speaking, there was a logic to keeping us in the dark: people were prevented from looking too closely at the way in which they were being ripped off.

That may seem a harsh pronouncement. Can it be true that the guardians of our society, just about all of them distinguished individuals of integrity, are deliberately withholding vital information from us? So that a privileged group can enrich itself at our expense?

First, consider the way in which we are deprived of our equal share of the rents which we all help to create. The process is a subtle one. And it's legal, thanks to the complicity of the law-makers of the past (parliamentarians were either landlords, or in the pockets of landlords – hence the name “pocket boroughs” for those constituencies that were in the gift of the local land baron). The institutions of the state conspire to facilitate those laws of exploitation while preserving a veneer of concern for the equal welfare of everyone.

If we wish to side-step the barriers that have been thrown around this crime scene, we need sharp forensic tools. Our investigation begins by discovering the source of the money that rightfully belongs to us. Then we can point the accusing finger.

Money is made of illusions. When we pocket a wad of dollars or pounds sterling, we don’t ask whether the value which the notes represent is differentiated in special ways. The assumption is that value is created in the economy, and we divide it up according to the rules of the game.

Big mistake: an error that has taken a hundred years to embed in our collective consciousness.

So let’s start at the beginning. We are talking about *value*. Value is that special something which we create when we expend our labour. In the most primitive examples, people in the pre-civilised stage of cultural evolution learnt how to fashion tools from flint stone. These artefacts were transported over hundreds of miles to be exchanged for goods that were accepted as being of equivalent value.

People knew the value of their labour. They knew how to trade with others. Setting up a market that delivered a mutual benefit was one of the sophisticated first steps leading to civilisation. This process, resting on the free exchange of goods, is the formal expression of how two communities may enhance the value of their wealth. All the participants – from the hewers of the flint stone, the carvers of the wooden handles, the merchants who travelled to distant places to complete the transaction – added value to the deal.

The distinctive characteristic of capitalism, however, is that it is composed of two primary processes. One is the value-adding exercise. We still undertake the transactions that are as old as the Stone Age. The other is the *value-grabbing* exercise. This has been elevated into an art-form. The skill was to design a mechanism for extracting value from those who produce, without them being aware that they were conniving in the theft of their own incomes. This is the aspect of capitalism that concerns us.

This value-extracting activity is not of the highwayman kind: using pistols to hold up the stagecoach, to rob the passengers of their purses. We are interested in the way hundreds of billions of pounds and dollars are transferred out of the hands of those who create it, *every day*, as a social process, one that is legitimised by law.

To recognise the transfers as theft, we need to identify those factors that produce value. First, there is our labour: nothing happens without a human hand or brain behind it. Then there is the capital that we use – from a desktop PC to the humble screw-driver. But nothing can happen without land, which is defined by classical economists to mean everything supplied free by nature. Earth.

Land is the key. Or, rather, the rent that we are willing to pay for the use of an urban site, or for the metals beneath the surface, or the electromagnetic spectrum that makes it possible to communicate by internet or cell-phone. Anthropologically speaking, land belonged to us all. Pre-modern societies employed a rich variety of cultural techniques for sharing nature's resources. But whatever the variation, the theme was that everyone in the community was entitled to claim a share of those resources. The reason for this egalitarian streak in humanity is obvious: without land, people could not exist.

Now, jump 500 years of cultural manipulation to the present day, in which land is not treated (within the economy) as a social asset. The portion of the nation's income paid as rent is privately appropriated. And yet, we need to continue stressing, *we all participate in creating that value*. The genius of the market economy is that, through the competitive process, land can be efficiently allocated to people who can make the best use of it, while distinguishing the rents they are willing to pay from wages and the profits of capital. But for markets to work effectively, government is needed as a partner to ensure that rent is allocated in ways that benefit us all.

But because of the doctrine of private

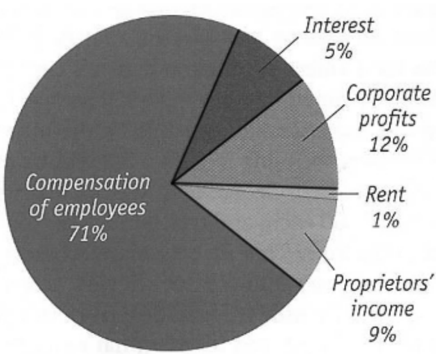
ownership of land, which denies the social characteristics of rent, governments are forced to adopt other forms of revenue-raising taxes. This leads to a grotesque anomaly. As a community, we *socialise* our privately earned incomes (wages and salaries), while our social income (from land) is *privatised*. The result is the economics of the Mad Hatter's Tea Party.

Taxation is the transmission mechanism for the fractures in society. Overcoming the pathological consequences of capitalism can only be accomplished through a paradigm shift – a new model for pricing goods and services, and for paying for those services that we want to share in common. As I will explain in Part III, this reform is no longer an optional extract for Western nations. Without the reform, our civilisation will continue to implode.

FOR HISTORICAL REASONS, financial statistics were manipulated to conceal the fact that the aristocracy plundered the public purse. Revenue traditionally came from the rent of land, which the patricians privatised. One outcome:

economists propagate the myth that rent in the national economy is trivial. Who is the student to challenge that claim when, for example, a Nobel prize winner[2] claims in his textbook that rent is just 1% of US income (chart)?

Why does this matter? Because if we want to disentangle the financial crisis that exploded in 2008, we need to look at how economic incentives affect the distribution of income. But economists persist in arguing that economic rent does not warrant their attention. So statistics are calculated to shape our perceptions of how the world works. Well, the world isn't working, so could that mean there's something wrong with the statistics?



2 Krugman (2006: 283).