Prologue
The Archaeology of Economic Collapse: A 4000 Year Perspective

Michael Hudson and Fred Harrison

WHAT is wrong with today's economy? WHEN and WHY did things start to go wrong? And HOW can we restore social and environmental harmony for the third millennium?

Despite the explosion in scholarship and political activism during the 20th century, we still do not have coherent answers to these questions. More books have been published in the past generation than in all of preceding history, yet like commercial television their subject matter has narrowed to absorb our attention without engaging our minds with respect to the great problem of our age: how to (re)structure our society and the world economy in which we live. If this is the Information Age, it threatens to bury the search for truth and insight under a crust of trivial distraction.

More people are graduating from universities than ever before, yet the social-science curriculum has narrowed to produce what Thorstein Veblen called an "educated incapacity" to recognize the flaws implanted in our economy, highlighted by the trained incompetence of professional economists.

Will society rise to the challenge? Unless we produce new diagnoses and practical solutions, the 21st century may prove to be a re-run of the past 100 years: more global poverty, ecological strangulation and commercialization of culture.

These are the time-honoured criteria of decadence. Indeed, future historians may gaze back in amazement on how narrowly the minds of economic and political managers have focused on the short term and on the bottom line of the balance sheet even as society careered over the precipice.

Yet there is a bright side to the corner into which the economy has painted itself. If today's world stands at a philosophical crossroads, such crises are accompanied by a renewed spirit of enquiry. These windows of intellectual opportunity are rare, for society normally is closed around a body of beliefs and rules that form the basis for going about its daily business. It takes periods of social breakdown to provide social and ideological flexibility.

The first such expressions usually have difficulty rising above the trivial, to be sure. Anti-heroes precede heroes, and their first characteristic is a cynicism towards authority. Normally law-abiding people opt out of the mainstream by flouting laws and social conventions, pursuing self-centered lifestyles which offer the semblance of a new identity but which lack the politically binding force needed to consolidate new social takeoffs. The virtual reality of new electronic headsets is not yet a new social reality.

All we can say at present is that the ground is being prepared by wiping the intellectual slate clean of the paradigms that have guided private action and public policy during the industrial era. As these policies fall into disrepute, they create a culture fertile for the growth of new alternatives.

In the wake of Stalinism's death, socialism has not moved to reassert itself. Academic Marxism has moved more toward becoming a theory of language, of literary and ideological deconstruction rather than analyzing the quandaries of modern *rentier* capitalism. Yet even as socialism has been eclipsed in the former Soviet sphere, few countries in the West are convinced that our own particular brand of finance-capitalism has the binding force that is an essential ingredient of a sustainable social system. If the spectre of capitalist economic bubbles is haunting the new Russia (with the collapse of the MMM stock-market Ponzi scheme wiping out the savings of five to ten million Russian investors), the spectre of *rentier* parasitism and its debt-burdened insolvency are haunting the rest of the world economy.

The great irony is that capitalism's victory over communism seems to be coinciding with capitalism itself succumbing to a *rentier* cancer – one which the economics profession is welcoming breathlessly as "postindustrialism" rather than calling it obsolescence.

If the economy is becoming obsolescent, then so is its guiding body of theory. This is the basic truth that most economists are professionally unable to acknowledge.

The authors of this volume offer an antidote, a framework to interpret the past, present and future in terms of a paradigm that neo-classical economics has vulgarized and misrepresented to the point where policy-makers have found it easy to ignore.

The *when* and *why* questions are confonted in the first study. In a series of waves of privatization extending over some four thousand years, our civilization has dropped its once-traditional ideology of periodic economic renewal in favour of irreversible linear progress. Under the circumstances, this means aggravating existing inequality and moving yet deeper into our quandary rather than acting to renew economic balance and cohesion. The result is that our particular brand of progress has been accompanied by a spreading poverty, burdened by debt accruals and the unaccounted cleanup costs (both social and ecological) that are needed to undo what economic self-centredness has left out of its balance sheets and bottom lines.

Dr. Miller, a clinical scientist, confronts the *what* question. Despite the humanitarianism that has guided social evolution during the past century of welfare capitalism, not every able-bodied person is enabled to earn a decent living by the sweat of his or her brow. The Welfare State was supposed to reduce disparities of income and wealth through the progressive taxation of higher incomes. It promised to create conditions for decent living for those who, by age or ailment, were not able to provide for themselves. Instead, the life chances of those at the bottom of society are either no better, or are even worse today than a century ago. The concentration of wealth into fewer hands continues apace even to the point where it is now the rich, not the needy, that receive most economic welfare from society at large.

The Welfare State – capitalism without risk, at least for the richest and most powerful – has become a social system to which we need to attach a Health Hazard warning. But what is the alternative? How can we devise a social system able to evolve sympathetically from current institutions so that the changeover need not involve a brutal "shock therapy"? This is the question addressed by Dr. Feder, an economics professor who reviews the problem of *how* to liberate people by providing them with the economic freedom to pursue the good life.

The privatization syndrome

Analysis of contemporary problems requires a cultural context. In our view, we need an appreciation of the sources of the friction points in our social system. These are traced back to what we call the privatization process. Economic polarization, financial strangulation and tax avoidance by the wealthiest property owners have been distinctive features of societies ever since Sumer yielded to Akkadian and Babylonian conquest over four thousand years ago. At first these problems were overcome, but matters reached an unprecedented critical mass with the Roman oligarchy's law of property, the land seizures of the Norman invasions and fiscal overlordship of Europe, and the modern financial indebtedness of the land and indeed, entire nations.

What would strike any visitor from antiquity as most remarkable would be our economic ideology. No Stoic or other philosopher proposed that Rome avert economic stagnation by sponsoring industrial corporations to borrow Roman savings and invest them productively. Debt was viewed as the surest path to perdition, in an epoch where productive borrowing was unknown. No philosophers advocated a self-expanding consumer-driven society. Just the opposite: they wanted to withdraw into austerity, idealizing the past and its image of the Noble Savage. The Bronze Age appeared to classical philosophers as having been a Golden Age, one that subsequently was corrupted by self-centredness, appropriation of the land and the consequent falling of entire economies into debt.

What shines through Livy's *History of Rome*, Plutarch's *Parallel Lives of the Famous Greeks and Romans*, Solon's poetry and his political acts is a decrying of the dynamics of usurious debt burdening grinding society to a halt, and the addictive *hubris* of wealth expressed most notoriously in monopolization of the land and money. This economic *hubris* forms the subject of the best early Greek poetry, such as that of Theognis and Archilochus.

Yet land privatization, debt, and the need to shape public laws and market relations so as to harmonise the private pursuit of wealth with the public interest are the most conspicuous blind spots in neo-classical economics. As an academic discipline, this narrow-minded economics was sponsored a century ago to replace classical political economy. It was the product of a well-financed campaign by men who had grown rich by monopolizing land, minerals, oil and other natural, once-public resources, and by financial manipulations and stock watering.

These twin *rentier* interests – rent-takers and interest-takers – joined hands to create a new orthodoxy. One fount of economic shortsightedness was the University of Chicago, the legacy of John D. Rockefeller's Standard Oil fortune. Another early fount was Columbia University, expressing the economic philosophy most congenial to J. P. Morgan's Wall Street managers. From such academic nodes the new teachings came to pass for economic objectivity by an equally well-financed Congress and network of "public-interest" institutions.

The seeds of civilization's long evolution along the privatization path – indeed, the path to debt-financed privatization – may be found even earlier, in the collapse of Bronze Age Mesopotamian society at the end of the third millennium BC. This experience, history's first Dark Age, shows how the *privatization syndrome* initially resulted from military overlayerings of one people (in this case, the Sumerians) by alien conquerors who parcelled out the land among their own ranks, and then supplemented the rent-lever with the debt lever to extract the economic surplus.

As in medieval England, the Mesopotamian overlayering blocked society's ability to serve the interests of its component local groups. The economic surplus, hitherto used to maintain the local community's infrastructure – including export handicraft production in Sumer's case – was diverted to pay tribute to alien appropriators. Assets were stripped rather than productively managed. This asset stripping went hand in hand with deepening poverty for most people, ending in ecological and military disaster, even before there was a World Bank and IMF to give their economic blessing to the looting of man and nature by saying that all this made perfect economic sense as an "austerity program."

Modern scholarship provides a chronological sequence of developments in antiquity which, to use a biological analogy, were rogue genes spliced onto the cultural DNA of Western civilization:

• **territorial conquest**, leading imperial conquerors to rely on local client chieftains for support, relinquishing more and more local authority to them, enabling them to engage in local exploitation, personal appropriation of the land, and consequent rack-renting.

• **monopolization of the soil** at the expense of social self-support and fiscal collections, ultimately strangling the central government apparatus.

• **unproductive interest-bearing debt** kept on the books rather than being cancelled when it grows to overburden society's debt-paying capacity.

• **failure periodically to restore economic order**, letting creditors monopolize the land and other hitherto public resources *irreversibly*.

Territorial conquest The earliest conquerors of agricultural societies were obliged to preserve the primordial right of access to the land. At first the victors demanded what they could get in the form of whatever payment of movable wealth could be extracted on the spot – precious metals, slave women and other time-honoured trophies of war. In time, however, the land itself was made to yield its usufruct to foreign conquerors.[1]

The land ethic of these conquerors, from Sargon's Akkadians to those of imperial Rome and, later, the medieval Normans and other Viking invaders, had the effect of undermining the customary social balance. As the combination of foreign tribute and the spread of local warfare throughout the archaic world elevated war chiefs to commanding positions, territorial conquest became an instrument for the ruler's own personal aggrandizement. The economic consequence of war no longer was merely a transfer of surplus movable wealth, but an ongoing support for oppressive regimes.

The result was an organization of warfare on unprecedented terms. Local headmen and imperial bureaucrats came to equate power with depriving local populations of their land-rights. This expropriation of the land was backed by the development of usurious credit. Interest was calculated on the arrears that resulted when local populations were unable to pay the tribute or other public fees that were levied. By Roman times, empires tried to seize from abroad the economic surplus they no longer could produce at home, as a result of their drying up the domestic market and reducing freemen and their families to economic bondage.

Forfeiture of land-tenure rights The archaic natural order had vested every community member with personal rights of access to the land as the basic means of self-support. These customary rights defined a family's freedom to live independently rather than for others.

However, there were times and circumstances when wars called men away from their land to fight. Some were wounded or even killed, or captured and held for ransom. Floods, droughts or insect infestations might ravage the land. In such circumstances cultivators had to pledge their land-rights to creditors. This was to become a defining characteristic of civilization – a progressive alienation of people from the land, initially through the debt lever.

This was the first step in what was to become something unanticipated, a concentration of land in private estates, capped by the Roman *latifundia* plantations which, as Pliny decried, became the ruin of Rome. Landlessness became a general social phenomenon. Economic order was replaced by chaos, at least temporarily, for debtors could not earn their way out of debt simply by working harder. Interest rates of 33 % per year quickly increased the debt principal even further beyond the already strapped debtor's ability to pay, doubling his burden in just three years.

Appropriation of the land started with incursions at the very top of the social pyramid, by the royal family and their allies. The first lands to be taken over were those which yielded the largest economic surplus, starting with those belonging to the temples (and of course the palace itself, which rulers turned into their own personal estate). These lands already were organized to provide a regular usufruct. Hitherto used to support administrative and workshop labour, this now was taken by administrators in their private capacity.

Officials in the royal bureaucracy used their position as tax or fee collectors to establish credit claims on those who fell into arrears. Unlike the palace rulers, the object of acquisition by these officials was primarily the subsistence-land of smaller cultivators. The object was to squeeze these lands to generate the same kind of *rentier* surplus and, in time, a body of dispossessed and hence dependent clients which was being created in the public sector.

Fiscal crises accompanying the concentration of wealth

Anthropologists have shown that in pre-monetary economies, the surplus took the form of labour services or the provision of food and other materials that were essential for the performance of public service. Mesopotamia's agrarian societies financed the public sphere out of surplus income generated from land, that is, its *rent*.

The first step taken by the privatizers was to keep the surplus crops for themselves rather than turning them over to the palace. They also appropriated the labour of their debtors, rather than letting cultivators perform their civic *corvée* labour or even military duties. It was indeed this labour that the land appropriators wanted most of all, for it was needed to cultivate the land at harvest-time. Quite simply, the new landlords resented seeing the palace finance public services out of the rent of "their" land. Having obtained this land, they sought to make it exempt from taxes and communal labour obligations.

Increasingly, creditors coveted their debtors' land. However, without labour to cultivate it, this land would not be of much use. There was as yet no supply of "free" labour for hire, that is, economically unfree labour dispossessed of its own land. This fact obliged creditors to leave their debtors and their families in place on the land.

This meant depriving the palace of the community's traditional obligation to provide contingents of fighting men. Accordingly, rulers fought this privatization. By restoring order, cancelling the debts, returning the land to its cultivator-occupants and freeing the debt-bondsmen, they not only restored their army, but in the process blocked an independent oligarchic power from emerging which, in classical Greece and Rome, would succeed in overthrowing the kings and substituting their own, more narrowminded authority.

The spread of unproductive interest-bearing rural debt

Organized warfare drove subsistence cultivators into the arms of creditors. Most of these were officials in the royal bureaucracy; others were heiresses, whose families had placed them in temple complexes to invest the family money rather than marry and convey their dowries out of their clan. Still other creditors were merchants, who accumulated money through foreign trade, or war chieftains building up claims for payment on their clients.

What all these creditors had in common was a desire for collateral as security for their financial claims. Sometimes they accepted family-members as pledges; indeed, this debt bondage was civilization's first form of dependent able-bodied labour. (Wage labour would take centuries longer to develop, and seems to have developed first for mercenaries and seasonal agricultural workers.) In the end, creditors took their gains in the form of foreclosure on the property and enslaving their debtors.

The new property rights were rights of permanent eviction and expropriation. In legal language, these rights displaced rights of person.

What Roman (and hence, modern) law called "security of tenure" actually was tenurial chaos, from the vantage point of ancient traditions of social survival and equity. Privatization of the land also deprived the community of its rights to the economic surplus for use in socially necessary ways. What modern economic terminology calls "market freedom" thus connoted the right of property to deprive the weaker members of society of their own freedom-of-person, and society at large of its freedom of economic self-determination and even economic survival.

Failure periodically to restore economic order by proclaiming Clean Slates

The Sumerian economic planners who innovated the charging of land-rent and interest back in the third millennium BC hardly intended this outcome. What they sought was a means to support the public infrastructure, which they organized in the first instance as temple corporations. These were history's first business corporations. 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.

As the commercial practices which the temples developed came to be emulated by private individuals acting on their own account, rulers sought to correct matters by proclaiming Clean Slates. These restored popular rights to the means of livelihood to counteract personal debt and privatization of the land. Agrarian debts were abolished and bondservants were freed when new rulers took the throne or "proclaimed order" for immediate civic reasons.

For thousands of years, communities had erected sanctions to protect personal land rights. The reason was self-evident. Societies were not yet rich enough to support displaced cultivators on welfare. Each family had to support itself. This meant supporting oneself on the land, on one's own plot with one's own animals. These assets accordingly were made immune from seizure.

One way to protect personal right-of-access to the land was to limit its alienation, that is, its sale (usually at a distress price) or the practice of pledging it for debt and subsequently forfeiting it. Public laws nullified such sales or forfeitures "below the full price," e.g. by pledging land-rights as collateral for a loan at only a fraction of the land's full value (in an epoch when land prices stood at only one to three times annual rent). Another sanction decreed that the land could be conveyed only to one's heirs.

In the face of Mesopotamian rulers restoring order by proclaiming Clean Slates, creditors began to devise loopholes (and this in an epoch when *lawyers* had not yet become a profession; that would arise only in Rome). The Babylonians (and even more so the Nuzians, upstream along the Euphrates) developed the legal loophole of false adoptions. The debtor would adopt his creditor as his heir, to the exclusion of his own children. Creditors also forced their debtors to sign a waiver of their rights to recover the land under royal Clean Slate proclamations. Rulers declared such waivers to be illegal, but access to royal justice often ran by way of the local headmen who themselves were the offending parties!

After Babylonia fell to foreign occupiers after 1595 BC, these Clean Slate edicts stopped. As the military burden grew heavier, more people lost their land to foreclosing creditors. To compensate for this state of affairs, the new landowners were expected to become patrons to the clients they had dispossessed. Thus was created the culture of dependency which, a millennium later, would find its epitome in Rome.

But by this time, rulers had long been displaced by aristocracies who permanently blocked any attempts to restore order on earth. The idea became otherworldly, being postponed until the Day of Judgment.

The social impact of debt and privatization of the land

Starting in Babylonian times after about 2000 BC, in what archaeologists call the Middle Bronze Age, the seemingly intractable problems of the modern era appear as part and parcel of the privatization syndrome: conflicts between creditors and debtors over possession of the land, and a deepening impoverishment of economies locked in a spiral of indebtedness mounting up in excess of the capacity to pay. Poverty became a systematic element of normal everyday life as people were deprived of the ability to earn their bread.

Hunger, no longer a random result of inclement weather, became an inevitability. Uprooted families who had lost their lands to foreclosing creditors sought whatever livelihood they could find. Many joined roving bands to find whatever seasonal harvesting or other work was available. Many ended up as mercenaries, or becoming predators on their own, such as the *hapiru* bands attested in the Levant ca. 1400 BC. This creation of a dispossessed labour force became another defining characteristic of our civilization. It signifies the origin of dependent labour-for-hire.

Private appropriation of the land, especially by erstwhile public officials and military commanders, was aggravated by the devastation of warfare, alien overlordship, and domestic monopolization of the land by local puppets of the foreign chieftains. This fragmentation of society into hierarchies based on the monopoly of land, a class-based tool to subordinate people to the new landlord elite, became yet another defining characteristic of civilization.

The nexus of warfare, rising rural indebtedness, fiscal strangulation resulting from private individuals appropriating the land (and taking the surplus that hitherto had accrued to the public sector), and indeed, the increasing polarization of landownership patterns, has wielded a fateful influence to this day. One professor of history has summarized Britain's experience during the century leading up to the industrial revolution in these terms:

> Wars were never cheap, but they were fought over such a span that they became progressively more costly. Government both borrowed and taxed to finance them. It borrowed so heavily that the greater part of its peacetime revenue was mortgaged to service and repay its debt. Financing the industrial revolution was small beer compared with the cost of waging war. In 1785 it cost £63,174 to build the 100-gun ship *Victory*. That was five times greater than the fixed capital value of Ambrose Crawley's celebrated iron works – one of the industrial wonders of the age.[2]

Instead of serving the interests of its citizens, the state in 18th-century Britain, found itself locked into a vicious fiscal circle.

> Only a modest proportion of government expenditure went on civil matters, while between 75 and 85 per cent of annual expenditure went either on current spending on the Army, Navy and ordnance, or else to the service of war debts. Wars became ever more expensive, and with them the national debt rose to heights that to contemporaries seemed awesome.[3]

The resulting fiscal knot has been tightened around the necks of citizens in the kind of spiral that systems analysts call positive feedback: war *results in* private debts *results in* inability of the private sector to support the public sector *results in* increased taxation or public debt *results in* more borrowing to pay the interest on public debts. And: creation of a warlord aristocracy *results in* privatization of the commons *results in* landlessness and a loss of the means for self-support for a growing proportion of the population *results in* dependency on servile or wage labour, or on charity, culminating most recently in the welfare state which threatens to become a fiscal Leviathan in its own right — once again, inequitably benefiting the Few at the expense of the Many.

The Welfare State

There is now sufficient evidence to indicate that electorates have come to view the welfare state as a failure. It certainly is not what liberals and socialists campaigned for a century ago. Over the past hundred years the material conditions have improved for the population *on average*, but in Dr. Miller's view, that improvement should not be attributed to the welfare state. It would have happened anyway, through the hard work and capital accumulation of the last four generations of workers.

The test to which Dr. Miller subjects the welfare state is a fair one. Taking Britain as his case study, he explores the question of whether government intervention through the public sector improved the relative position of those who were at the bottom of the social scale in the 19th century. The answer is unambiguous: No! The luck of the demographic and hereditary dice has more influence than the law of the land. Each year over 40,000 deaths occur among people who would continue to live if they had been born into professional families. Each year more than 3,000 infants die because they had the hard luck to be born to parents who do not count as professionals.

Assuming that an infant survives his bad luck of being born to lower-class parents, he then suffers from an injustice that persists throughout his life. For although he may save money for his pension to finance the comforts of old age, he stands a poor chance of enjoying the benefits of the sacrifices of his lifetime. For as a member of the working class, he faces a shorter life span than that of professionals: five years may be cut off his life. For these people it really is not worth saving up for old age; they do not live to enjoy the benefits.

Dr. Miller, who undertakes research for the General Medical Council at the Wolfson Institute of Preventive Medicine based in The Medical College of St. Bartholomew's Hospital, London, is not hostile to the goals of the welfare state:

> In questioning the record of the welfare state, I am not out of sympathy with its basic tenets. I am diametrically opposed to Thatcherism, which espouses the virtues of the Victorian capitalist ethos and sees the welfare state as not merely ineffectual but as dissipative if not actually ruinous. To me, the welfare state is an acknowledgement of the need to reform the capitalist system as it had evolved up to the beginning of this century. My argument is that though reforms were most certainly needed, the welfare approach adopted has been largely ineffectual. The Victorian problems that the welfare state was meant to remedy are still there; the Thatcherites pretend they never existed.[4]

There are many ways in which the statistics demonstrate that little progress has been made over the past hundred years. One of these relates to the physical condition of young Englishmen. A century ago, in the 1890s, the government became alarmed about the poor physique of recruits who were needed for the Boer War. Something had to be done to strengthen the nation's fighting men. A Royal Commission was established to investigate the facts and propose remedies. A century later, and despite the cradle-to-grave welfare services – from the state provision of milk to new approaches in housing and care for the aged – we now find that the army is turning away up to 40% of potential recruits because they are "too weedy."[5]

The welfare state did not and could not succeed, for it was not designed to remodel the foundations of society. Failure therefore continues to pile upon failure. If society is to restore order, it is necessary to recognise the need for a fresh start. What lawmakers now need to do is to define the terms for a new national Clean Slate.

The need for a fresh start

That our social system is grinding to a dead stop is confirmed by the governments of the world's richest nations. They are reconciled to the prospect that once the recession of the 1990s is over (imagining it to be selfcuring, and hence, merely temporary, rather than recognizing it for what it really is – the painfully slow process of the debt-strangulation), millions of people will be without jobs. In a report to its 25 member governments, the Organisation for Economic Co-operation and Development concluded that unemployment would traumatise 35 million people in 1995, and that "not too much should be expected from cyclical recovery, particularly in Europe."

> Unemployment is probably the most widely feared phenomenon of our times. It touches all parts of society. There are 35 million people unemployed in OECD countries. Perhaps another 15 million have either given up looking for work or unwillingly accepted a part-time job. As many as a third of young workers in some OECD countries have no job.[6]

The social implications were not lost on the OECD's Paris-based secretariat, which warned that this unemployment "represents an enormous waste of human resources, reflects an important amount of inefficiency in economic systems, and causes a disturbing degree of social distress."[7] The political and global implications of mass unemployment also were noted:

> It brings with it unravelling of the social fabric, including a loss of authority of the democratic system, and it risks resulting in the disintegrations of the international trading system.[8]

Capitalism relies for its survival on the ability to create and replicate wealth. Today, this ability is being undermined by the *rentier* privatization syndrome inherited from pre-capitalist economic formations as a genetic blot. If today's welfare capitalism is excluding more and more people from work, it is largely because of a carryover of financial and land-tenure characteristics that are antecedent to capitalism. Not only does capitalism not inherently need a parasitic debt overhead and private monopolization of natural and public resources, but these phenomena are actively threatening to destroy it.

The basic question is thus what *kind* of capitalism are we to have? The debt overhead and natural-resource monopoly threaten to bring down our particular economic system, as they did the Roman imperial system and Babylonian public enterprise two thousand years prior to the collapse of the Roman Empire. But need these dynamics bring *us* down too?

Even our medical and demographic breakthroughs are being transformed by the economic overhead problem, by the practice of funding retirement pensions, Social Security and medical insurance via financial savings and their corresponding debt-claims that have the effect of shrinking the economy's ability to support these functions. The irony is that as people live longer, they increase their retirement savings, Social Security and medical claims on those fortunate enough to remain in work. Under these conditions the social contract becomes increasingly unenforceable. A shrinking employed labour force is obliged to support a growing pyramid of retired, geriatric, medical, welfare and other demographic overheads, while the exponentially growing debt overhead creates a financial and real-estate bubble. The result is an artificial hothouse brand of postindustrialism run wildly off course.

The risks of the welfare state have been recognized formally by governments from Britain to the Americas, which have cut back on the provision of welfare services to the population at large even while increasing guarantees and socializing the risks for large institutional investors, detaxing the land for the benefit of real-estate developers, picking up the "external" costs of improving their property, and cleaning up the ecological mess they have left so that they can recover all their capital (and indeed, capital gains) and proceed to repeat their economic devastation elsewhere.

Britain and America have not been able to formulate better solutions mainly because they limit the analysis of the problem to an obsolete paradigm of property and tax rights. The guiding ideology restricts the range of policy options to those that are favoured by the polluters, the land owners and strip miners, the mineral and oil companies, deforestation companies, and the banks which finance their activities to convert their land-rent into a securitized flow of interest revenue.

Perhaps the time has come to learn the lesson from the clay tablets, glazed cones, buried figurines and public statues on which the Sumerian rulers inscribed their Clean Slate proclamations. What links their epoch to ours are phenomena that warp today's economic functioning as deeply as it did that of the Bronze Age and classical antiquity: debt, land monopolization and tax avoidance by landholders, which undermined social solvency for private benefit.

Our specifically modern problem is the tendency for debt liabilities – and this means, on the asset side of the balance sheet, the economy's savings –

to accrue interest more rapidly than can be supported by growth in the capacity to pay out of current income and wealth levels. One way or another, the stresses generated by those debts have to be resolved. The question is, how will this resolution occur? By a slow bankruptcy grinding the entire economy to a halt after first having transferred public and private assets into the hands of creditors? Or by deliberately letting the bad debts go (along with their counterpart savings), and re-starting the economy financially and fiscally afresh with an Economic Miracle such as that which triggered postwar Germany's recovery in 1947, when the Allied Powers cancelled all internal German debts and freed the nation from foreign reparations debts?

The Sumerian rulers were anything but irresponsible. The mathematics underlying their economic models were more sophisticated than those of today, for they did not shy away from recognizing the exponential growth of debt at annual rates of 20% or 33 %, in contrast to the slower growth (or even shrinkage) in the means to pay. The edicts of Sumerian and Babylonian rulers show that they recognized the classical distinction between productive and unproductive debt. They neither cancelled commercial silver-debts nor rescued entrepreneurs from their misadventures, but only cancelled consumer barley-debts. They left urban real-estate intact as part of the economic surplus, while restoring popular economic freedom in the form of personal rights to the means of self-support. Thus, what they cancelled were only corrosive creditor claims on land-rights in excess of the capacity to pay.

Unfortunately, the spirit of periodic economic renewal has become a relic of the past. By classical antiquity, dreams of periodic economic renewal, freedom from debt and recovery of the land from its expropriators became otherworldly and utopian, no longer a practical social program but one that was put off to the Millennium, the Day of Judgment at the end of history.

Time and again during the past four thousand years, societies have found themselves crippled by the consequences of the failure to develop rational principles of land tenure and public finance. Time and again, rulers and governments restored social stability by restoring the traditional economic order with its rights of person. But time and again these fresh starts proved unsustainable. The same social activities have repeatedly tightened the noose around people on the land and in the towns, who wanted nothing more than to be left alone to get on with their lives.

The archaeological record throws important light on the character of social disharmony through the ages. It shows that the first to prey upon private lives and encroach on living standards are political leaders operating from within the public sector. The fiscal system becomes a means to reinforce the power of emerging land-rich creditor elites. Rather than rulers restoring equity and spurring enterprise, they become chairmen and prime beneficiaries of the new privatizations, until finally their entire society succumbs to internal debt and land parasitism.[9]

This pattern of development needs a distracting ideology to make what is bad appear good. That is where contemporary economics comes in, as a public-relations front, calling such financial destruction by other names, by euphemisms such as the "postindustrial society."

Beyond the Clean Slate

So deep is the modern world's economic quandary that it needs more than just a fresh start. It needs a philosophy for a fair society.

Simply to cancel debts outright would leave most property in the hands of real-estate developers, joyfully freed of all debt encumbrances. It would make them the richest class in society, unparalleled lords of the earth. Plutarch makes this clear in describing the "wrong" way to cancel debts in his biography of Sparta's reformer-kings of the third century BC, Agis and Cleomenes, as well as their successor, Nabis.

Central to a fair political philosophy is the need to keep the land from reverting into the hands of land-monopolists and creditors. Land and other natural resources must be treated fairly for public revenue purposes. Public resources would revert to the public domain, to be auctioned on fair terms for development and the revenues treated as income, thereby reducing the need to tax labour and physical capital.

Henceforth, what is to be taxed is unearned income – economic parasitism – not productive enterprise. Society would actively shape the marketplace within which enterprise operates, steering it in the direction of the mutual benefit of both the private and public interest rather than to serve *rentier* interests.

The reconstruction of political economy

The 19th-century moral philosophers who developed the concepts and theories that formed the building blocks of political economy viewed their discipline as a social science. Tax policy was central, along with the advocacy of productive rather than unproductive activity. With this fiscal focus and economic growth in mind, political economy became a method to analyze how wealth-producing nations distributed income among their factors of production, and whether these factors consumed or invested the money they earned.[10]

A shortcoming of this approach was the inadequate attention it paid to *rentier* elements. In retrospect this failure is hardly surprising. David Ricardo was the leading bond-broker of his day. His broker's-eye view of the world found debt to be only a means of financing growth, not an economic burden. His adversary, Thomas Robert Malthus, defended landlords as helping to solve rather than causing society's economic problems. Under the influence of these two men, economics evolved with a bias in favour of *rentier* propaganda. And with the establishment of modern-day business schools, well subsidized by the economy's increasingly powerful *rentier* interests, this blind spot has increased.

The neo-classical counter-revolution at the turn of the 20th century blurred the distinctions which classical economists had drawn between land and capital, and between the private and public sectors. This fatally compromised the analysis of economic problems, by urging governments to provide welfare in such a way as to consolidate the power of the very parties that were undermining the capacity to create general prosperity in the first place.

Economists should have explained that the most efficient system of public finance is that which encourages new investment of capital and upgrading of labour, while limiting parasitic *rentier* income and related economic overhead. This is best done by treating the rent of land and other monopoly gains as public revenue, while channeling credit into productive activity, which was the thesis most energetically articulated by American social reformer Henry George. Instead, the neo-classical economists gave their blessing to the growing debt and land-rent overhead, and refused to acknowledge that any given way of making money was more economically productive than any other!

This bad advice followed naturally from the demise of classical economics and the emphasis it had placed on the unearned character of land-rent. The academic debate concerning public finance was restricted to whether to raise or lower existing tax rates on income indiscriminately, without regard for whether it is earned productively or parasitically. Today's economists no longer acknowledge land-rent's role as a natural source of public taxation – an understanding which, in modern times, originated with the French Physiocrats and was refined from Adam Smith through David Ricardo, John Stuart Mill and Alfred Marshall. Although this perception is cursorily confirmed in some textbooks, and even acknowledged freely by many Nobel laureates, it is a taboo subject when it comes to formulating policies to deal with today's exploding budget deficits.[11]

Operating seemingly within conventional paradigms, the New Right empowered by Ronald Reagan and Margaret Thatcher were able to drive their nations deeper into debt. Instead of a full wartime mobilization such as historically had been the prime cause of national debts, the new indebtedness stemmed mainly from mushrooming interest payments accruing on the existing stock of debt/saving, coupled with a lessening tax burden on *rentiers*. Instead of being taxed, the latter were given public welfare. The result was a transfer of income and wealth from taxpayers to creditors, to a degree never experienced before in history. The result was an explosion of postindustrial economic parasitism, freed from the regulations and even the taxes that hitherto had held it in check.

In the US, for example, the savings and loan (building society) industry bailout guaranteed depositor claims despite the fact that these were secured by bad real-estate speculation. Indeed, the worse the mismanagement, the higher the interest received by money managers as compensation for their "risk" – one that the government picked up *in toto*, for a final bill that will amount to somewhere between $1 and $1.5 trillion.

Paying off these financial claims is a burden that now weighs upon the back of corporate capital as well as the labour of taxpayers. Both capital and labour thus are now oppressed by a common *rentier* enemy.

No wonder people have lost the sense of freedom to work. In England, the process began with the uncoupling of culture from the natural environment in the Enclosure movements that inaugurated the modern industrial epoch. People who lost their access rights to the land were deprived of the basic right to work for themselves. Today, even the prospect of industrial employment is being closed off as debt-ridden economies enter the phase of postindustrialism, a perverse condition in which corporations are so heavily indebted that they only can pay their bondholders, bankers and other creditors by selling off their assets.

Rent: reconnecting people to land and the environment

The need to refocus policy in the direction of social harmony and economic efficiency will not be easy, psychologically, because we are burdened with a great deal of historical baggage. The problem has now assumed global proportions. Through colonisation, Europe – led by Britain and Holland – infected much of the world with the privatisation syndrome. As the Europeans expanded into Africa, Asia and Latin America, they co-opted local chiefs as their agents. The usual ploy was to register all land-rights in their names and then "negotiate" with them to alienate these rights to the colonising powers or pledge them for debt, while taxing their own peoples to build the ports, transport infrastructure, power plants and related activities associated with these plantation, forestry, mineral and oil industries. Finally, they had to tax yet more to clean up after these foreign investors had left, as well as to provide soldiers for the colonising power's armies.

Britain had incorporated the rogue genes into her social system during the Middle Ages. Following the departure of the imperial Roman centurions, the Anglo-Saxons had developed a social relationship with land based on use-rights which ensured a coherent relationship between society and nature. Rent revenues formed the prime source of public revenue. However, the invasions of Viking and Norman overlords brought a new feudal aristocracy, sanctified by the Roman church and soon thrown as prey to the Italian bankers portrayed so scathingly in Dante's *Inferno* and Matthew Paris's *Annals*.

Sir Kenneth Jupp, who served for 15 years as a judge in the English High Court,[12] has described how the newcomers took possession of the land by transferring rights formerly associated with people to landed property itself – that is, to its absentee appropriators rather than its users – and thereby skilfully casting aside the old reciprocal obligations associated with this property. The shift suited a small class of people who became Lords of the Land, and hence Masters of the People.

As a result of this privatisation of rights to the benefits of land, there developed personal rights to charge others for the use of what originally had been their own holding by communal right as citizens. People were forced to depend for their lives not on their own labours or the bountifulness of nature, but on the whims of the new – and, as every Irishman knows, alien – lords of the land.

The new property rights conferred an unprecedented power to exclude people from access to the land. The outcasts made up a growing proportion of the population. Their ranks even included war veterans, who since antiquity had received special protection by being assured their own settlement plots in gratitude for their public service. Henceforth, they were expelled from the land and turned into loom-fodder.

The history of civilization and its ultimate political achievement, the nation-state protecting land and resource ownership by the few, as a lever to be turned against the many, was an inversion of the archaic natural order. The process must now be put into reverse, by a new Clean Slate proclamation linked with a radical reform that neutralizes the rogue genes in our culture.

This strong, literally millennarist response reflects the degree to which today's economic problems have reached a historically unique scale. For one thing, the global character of today's crisis necessitates such a qualitative change. What hitherto was merely national decadence today becomes a worldwide Super Decadence. Now that we live in One World, interdependency magnifies every shock to the social system, leaving no region untouched.

Never before have so many countries recognised the need for a fresh start to wipe the slate clean. It is obvious that the existing level of debt cannot be paid off. Attempts to do so will merely strip debtor countries of their remaining public wealth, dooming them to IMF austerity and more World Bank-sponsored asset-stripping.

Peoples ranging from Russia in the north to Africa at the end of the southern hemisphere have swept away Stalinist communism on the one hand and apartheid capitalism on the other. They are now searching for new social models. The question is whether they will improve on the past, or incorporate its surviving *rentier* genes into their economic reordering. Will they see how narrowminded is the advice being cooked up by the teams of World Bank and IMF advisors? Will they truly break new ground? Or will they fail to imagine a better world and to fight to create a more independent economy?

These countries writing new constitutions afford the rest of us the opportunity to see the possibility of redefining the rights of men and women in a new natural order. This opportunity was last experienced 200 years ago, during what the outcasts had hoped would be the popular revolutions of France and America. However, the constitution-makers will fail again if they do not bring to bear a deeper understanding of how society works. This time they must avoid privatizing the land, taxing the smaller holders while giving special breaks to the large land monopolists and, ultimately, to their creditors.[13]

The contributors to the present series of books believe that if culture is to evolve in the direction of a sustainable solution, we need to focus attention on the failures of taxation and on economic parasitism, above all debt-parasitism and absentee landlordship that society's accumulated savings are now busy financing across the face of our planet. We need a system of public finance that recognises the principles of social equity and environmental responsibility embedded in our primordial land ethic.

Modern – or rather, contemporary – social science has no ready-made analytic model to place at our disposal. Economics has become particularly banal by insisting that land and other natural resources (along with other natural monopolies) are not distinctively important, but merely normal modes of wealth-seeking, not to be taxed differently from other modes. Debt financing is viewed merely as a form of funding the creation of wealth, not as an intrusive economic overhead. Indeed, the GNP format for national income accounting draws no distinction between wealth and overhead, between productive and parasitic economic activity.

These harmful failures to distinguish between the economically good and bad have become the very foundation of the self-proclaimed "generality" of today's economics. The disengagement of economics from its classical foundations – the unearthing of economic theory, one might say – began a century ago and can be traced through the statements of such Nobel laureates as James Buchanan, who asserts that "in centuries past, 'land,' as such, was far more important, relatively, than it is today."[14]

The Georgist paradigm

The model we offer as a tool for analysis is named after the American social reformer Henry George (1839-97). Why Henry George? Leo Tolstoy offers a good reason that remains as valid today as when it was written a century ago:

> The evolution of man's knowledge in reference to the use of land goes on, and . . . the process of putting this thought into action must soon commence. In these processes . . . Henry George was and is the pioneer and leader of the movement. Herein his paramount importance rests. He has, by his excellent works, materially contributed both to the improving of people's ideas on this question as well as to their direction on a practical basis.[15]

Henry George offered his ideas on social reform in *Progress and Poverty* (1879), which quickly became the target of a well-subsidized vituperative attack by academic economists.[16] In his subsequent *Social Problems* (1884) as well as in his journalism, George dealt with the problems of public debts and what he rightly called the "fictitious capital" which established parasitic claims on society's wealth-producing activities.

The authors of the volumes in The Georgist Paradigm series build on the problem-solving principles articulated by Henry George to help governments visualise how, in the 21st century, they may succeed in creating a fair society where their predecessors failed. Without such a new approach, politicians will continue to lead people into the traps that found their origin in Mesopotamia. So our starting point has to be the recognition that rent-taking and the debt overhead and resource monopolization does not herald a new post-industrial society. Rather, it constitutes economic obsolescence through self-cannibalization, a fate from which we can liberate ourselves by adopting the fiscal principles embedded in the Georgist paradigm.

Footnotes

1 "Early wars (in the sense of organized struggles) appear to have occurred in the area now known loosely as the Middle East and came about due to geography. In about 5000 BC, people known as Sumerians occupied the area called the Plain of Shinar, and this fertile region became the envy of surrounding desert and mountain tribes." Arthur Banks, *A World Atlas of*

Military History, Vol.1, London: Seeley Service, 1973, p.3.

2 John Rule, *The Vital Century: England's Developing Economy, 1714-1815*, London: Longman, 1992, p.276.

3 *Ibid.*, citing J. Brewer, *The Sinews of Power*, London: Unwin, 1989.

4 G.J. Miller, "Verdict on the Welfare State", *Land & Liberty*, London, July-August 1994.

5 Charles Hymas and Annabel Heseltine, "Army forced to turn away teenage weeds", *The Sunday Times*, London, July 19, 1994.

6 *The OECD Jobs Study*, Paris: OECD, 1994, p.7.

7 *Ibid.*, p.9.

8 *Ibid.*, p.29.

9 The contemporary evidence from the United States is spelt out in the study by two investigative reporters from *The Philadelphia Enquirer*. Donald L. Barlett and James B. Steele, in *America: Who Really Pays the Taxes?* (New York: Simon & Schuster, 1994) show that there are two streams of taxation, one for the rich, the other for the poor. Income earners interviewed by the journalists had pointed to a tax system that was "perceived to be unfair, a system that they believed was contributing to their falling standard of living, accelerating the drift toward inequality, and eroding the essential trust between citizen and government" (*ibid.*, p.5). This picture is confirmed by the evidence on the tax burden and income distribution in Britain.

10 Adam Smith can be criticized for his willingness to adopt a theory of property rights congenial to his class. Nonetheless, he did develop the concepts of public finance which did challenge the financial interests of landowners. See Fred Harrison, *The Power in the Land*, London: Shepheard Walwyn, 1983, Ch.22.

11 This criticism of economics cannot be directed at other disciplines, which have begun to integrate land into their models. Archaeology is an interesting example. Over 20 years ago, archaeologists acknowledged that "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". Grahame Clark, "Foreword", in E.S. Higgs, *Papers in Economic Prehistory*, Cambridge: The University Press, 1972, p.ix.

12 Kenneth Jupp, in Ronald Banks and Kenneth Jupp (editors), *Private Property and Public Finance*, London: Shepheard-Walwyn/CIT, 1995.

13 The constitutional errors that have crippled the United States are outlined by Fred Harrison in *The Corruption of Economics*, London: Shepheard-Walwyn/CIT, 1994.

14 James M. Buchanan, *The Public Finances*, Homewood, Ill.: Richard D. Irwin, 1960, p.440. A critique that begins to restore the primacy of land is offered by Mason Gaffney, a professor of economics at the University of California. See especially his contribution to *Land and Taxation* (1994).

15 Letter from Leo Tolstoy to Bernard Eulenstein, cited in "Count Tolstoi on Henry George", *The Single Tax*, Glasgow, July 1894, p.3.

16 See especially Mason Gaffney's analysis of the behaviour of some of the most influential neo-classical economists in *The Corruption of Economics*.