A RETURN TO POLITICAL ECONOMY

(The Need For An Interdisciplanary Approach)

by

Edward J. Dodson
206 Pearlcroft Road
Cherry Hill, NJ 08034

3087

Almost every sizable organization, private or public, has its own economists or relies on economic consultants to interpret changing market conditions. At their disposal is an endless stream of economic reports and analyses that pour out of government agencies, universities and private research firms. The reason for all this effort is the quest for market penetration; or, more simply, for profits. The responsible goal of government leaders, on the other hand, and the use to which such expertise is put is to find that magical formula for steady economic growth -- and, full employment without inflation. The argument over how to achieve these results has been raging from the time economics first gained recognition as a specialized field.

How well we understand the workings of our world, its political economy, is a matter of some contention. Even many economists have joined with other skeptics who are doubtful of our ability to direct the economy, despite the aid of computers and complex econometric models. As one economic consultant has commented, "the history of the world ... testifies to the crudity of our knowledge of the world mechanism..."[1] Indeed, there is adequate cause to question whether the efforts of modern economists have actually helped or hindered our ability to understand the dynamics of economic events. Theirs has been an attempt to reduce human relationships to mathematical formulas and to use statistical data to predict changes in economic trends. This approach has proven moderately valuable to the individual firm or industry (but only in the short run), less so to governments concerned with global dynamics. What I hope to offer here is an insight into the world political economy not based on statistics or formulas but on a firmer ground, an analysis of fundamental and consistent patterns in our behavior.

As with all living creatures, the instinct for survival is what drives our actions. Understand this and political economy will begin to lose its seeming complexity. The means for our survival comes from only one source, the physical earth (including all that nature has provided for our use). Denied access to use of the earth we cannot survive. Unfortunately for many, the accumulation of territory and monopoly control over parts of the earth have been ongoing strategies employed by individuals and groups against each other throughout history. History (and the essence of political economy) is, in fact, a recording of our successes and failures in cooperative use of the earth. Mostly, it tells the story of how we killed each other in conflict over control of the earth.

From the eighteenth century writers came what can be described as the first scientific approaches to political economy. Significantly, those who dwelled on these matters back then were far different in education and background from most of the trained specialists of today. They came to political economy almost incidentally, as a diversion in their roles as statesmen or as men of letters. The eighteenth century's political economists[2] continued a "Western" intellectual tradition traced to the Greek philosophers and expanded in dimension by John Locke and Jean-Jacques Rousseau. What is more, the new discipline represented a fusion of political, social and moral philosophies, of law, government and history. Our mistake has been to reverse that process of integration, leaving us with a discipline frequently described even by its practioners as the "dismal science".

Our relationships, with each other and with nature, provided a field laboratory for the political economists. They wrote extensively of our natural inclination to act in self-interest, and with little concern for the common good.[3] The same observation a century later was developed by the American writer, Henry George, into a basic axiom and natural law of political economy -- "that men seek to gratify their desires with the least exertion."[4] It is George's observation that identifies the fundamental conflict between the individual's essentially short-run interests and that of justice in the political economy.

The avenue of "least exertion" has, whenever possible, taken the form of amassing wealth through use of monopoly power . And it is on the subject of monopoly that we run into one of the most serious errors committed by twentieth century economists. At issue is their analysis of market forces and the extent to which monopoly control over nature has distorted both production and a just distribution of wealth. Economists have, for the most part, consistently ignored any distinction between what is construed as wealth by the individual and what becomes wealth to the entire society. It should be clear that wealth in the larger sense must be an end-product of production, the earth being the "source" of raw materials from which wealth is produced. The absence of these distinctions in the discipline of economics casts a dark shadow on economics and can only be viewed as political in origin. To view the earth not as wealth itself but as the source of wealth challenges the political structure that permits individuals to claim ownership of any part of the earth. On principle, then, the concept of private property must be limited to actual production, leaving the earth as common rather than individually-ownable property. To expect widespread appreciation of these principles would be unrealistic, inasmuch as they run directly counter to the fundamental nature of man as described by the political economists. To control any portion of the earth is (almost everywhere) to have the power to secure wealth; to control thousands or millions of virgin acres of land (or city blocks at the center of commerce) can be, and has been throughout history, power to the "n"th degree.

The history of North America, we would do well to remember, has been little more than a giant land grab. In that process neither France, England nor their colonists much concerned themselves with claimed sovereignties by people they contemptuously viewed as inferior. To their great disadvantage, few native leaders realized the threat presented by the Europeans until it was much too late. One who did was the Iroquois chief Scononodoa. At a tribal council held in 1752 to discuss joining the English fight against the French, he attempted to warn his people of the what awaited in the very near future:

> "Are there none here who remember when this land was all ours and that though other tribes were round about, they were there by our forbearance and there was none who could stand before us; are there none here who remember that from the green sea to the east and the blue sea to the south, to the land of always-winter in the north and the land of always-summer in the west, they feared us?
>
> "But then came the men in their boats and they brought us gifts. They asked for our friendship and we gave it to them. Then they asked for "just a little land and we foolishly gave it to them. Then, when they asked us for more land and we would not give it to them, they asked us to sell it to them and because they had goods that were new and powerful to us, we sold them some. Then they asked us for more land and when we would not give it or sell it, they took it from us and we talked and talked and always it was we who gave in and signed a new treaty and took gifts for what was taken, but the gifts were cheap and worthless and lasted but a day, while the land lasts forever.
>
> "Can you not see that it makes no difference whether these white men are of the French or the English or any other of the peoples from across the sea? All of them threaten our very existence. All of them! When they came here they had nothing. Now, like a great disease they have spread all over ... Yet this was not long ago all Indian land."5

Though Scononodoa was without formal education as we know it, his words reflect an intuitive appreciation for the real political economy. His society acknowledged the fundamental difference between nature and things manmade ("... the land lasts forever."). Manmade capital goods do depreciate and eventually disappear, some very quickly. Sconondoa also knew that a claim to territory ultimately rests on "the right of conquest" and the ability to resist the strength of other claimants. And yet, the experience of our forefathers differed greatly from that of Sconondoa. Neither he nor any other tribal member claimed private ownership of tribal lands; theirs was a communal, if exclusive, control.[6] The existence of similar patterns of tribal ownership of land in Europe was hardly remembered by the European colonists, having disappeared as agriculture replaced hunting and gathering and as fixed communities (governed by landed aristocracies) became the European norm.

The eighteenth century political economists expressed much the same views on land ownership as were held by the North American tribes (a dangerous position to hold in eighteenth century Europe, to be sure). The same was true of some of our Founding Fathers. As political economy has evolved into the more limited discipline of economics, its practitioners have abandoned much of what their predecessors brought to light.[7] They seem today to have become apologists for the existing political and economic structure, rising to great heights of influence at the centers of power, but providing scant help in solving the problems of poverty and recurring depression. Absent from their texts and other writings is a clear analysis of the role land plays as a factor of production.

Of the three factors of production[8] identified in political economy, only land (i.e., nature) has no production cost. Land requires no expenditure of labor or capital for its creation. Throughout much of history, the cost of acquiring nature is best measured in terms of human life lost and the destruction of accumulated production, these being the pawns in the game of territorial war. Warfare, it seems, is inevitable when groups line up as opposing sovereign states and attempt to exercise their monopolistic desires. That, at least, has been the case up to now.

Even though the French and English crowns extended their respective political structures (and the concept of private property in land) to North America, there was plenty of land for the grabbing. The prize was both gigantic and elusive. Time and population growth has finally tamed our frontier, and our European political heritage has finally caught up to us. As a result, our society is being pulled toward serious social and political instability. The conflict between the landed and the rest of our population has been hidden and forestalled by many factors -- an open educational system, expanding technologies and productivity, slowed population growth, the merging of land and capital ownership within the corporate entities (with many people sharing in land derived income through stock dividends and pension fund earnings), the ability of labor unions to raise real wages for many workers, and -- perhaps most importantly -- the democratic experience in government. Nevertheless, our political system has produced almost the same concentration of land (and natural resource) ownership here that caused mass poverty in Europe and the migration of its propertyless to this land. Already, the only protection against severe poverty for many Americans is a strained system of transfer payments. What has shocked so many of us is the speed with which our society has changed from one forged by individualistic cooperation to one of unrelenting government intervention.

It should come as no surprise, therefore, that the individuals who framed our Constitution represented the interests of landed property. They are described by historian Ferdinand Lundberg as what we think of today as the "Wall Street crowd," consisting of "planters, bankers, merchants, ship-owners, investors and speculators in land and securities."[10] And yet, the Constitution also protected labor-produced private property, initially guaranteeing that what was produced would be kept by the producer. Government was to be kept weak and have only minimal taxing powers, its role being to defend property through national defense. Most of our forefathers honestly but erroneously identified the aristocracy itself as the source of European social inequities. The bounty of this continent was so great and the population yet so small that even Thomas Jefferson could not foresee of a day when Americans would not all share in the private ownership of the nation's land and natural resources.[11]

Tom Paine was more fearful of the future than Jefferson and attempted to warn his fellow revolutionaries of what was sure to follow if they failed to incorporate in the new nation's framework a lasting distinction between common property and true private property. Instinctively, he seemed to recognize the undemocratic power being given to the nation's landowners. With political power concentrated in the landed interests, Paine foresaw adoption of a tax system exclusively levied against what we produce. And, in fact, except where reached by the local property tax, the economic value of nature (calculated either on an annual leasing basis or capitalized for sale) is taxed only under limited circumstances. Even then, the increase in value is treated as a so-called "capital gain" and is taxed at a lower rate than income derived from labor. Paine's own words are quite telling.

> "It is difficult to discover what is meant by the landed interest, if it does not mean a combination of aristocratical landholders opposing their own pecuniary interest to that of the farmer, and every branch of trade, commerce, and manufacture. . . The Aristocracy [large landowners] are not the farmers who work the land and raise the produce, but are the mere consumers of the rent; and when compared with the active world, are the drones ... who neither collect the honey nor form the hive, but exist only for lazy employment."

As a statesman and man of ideas, Benjamin Franklin also held strong opinions about the politics practiced by his countrymen. In a letter to Alexander Small in 1787, Franklin expressed his dismay that the landed interests had succeeded in preventing the adoption of truer democratic principles:

> "I have not lost any of the principles of political economy you once knew me possessed of, but to get the bad customs of the country changed, and new ones, though better, introduced, it is necessary first to remove the prejudices of the people, enlighten their ignorance, and convince them their interests will be promoted by the proposed change; and this is not the work of a day. Our legislators are all landholders; and they are not yet persuaded that all taxes [should be] finally paid by the land ... therefore we have been forced into the mode of indirect taxes, i.e., duties on importation of goods."

Who owns the land and natural resources in the United States today? Government (mostly the federal government) still controls about one-third of the nation. There is considerable debate over government's management of the nation's publicly-owned resources. One thing is certain; the overall impact on our society could be vastly improved if government land other than that preserved as parks or wilderness were leased at market rates, and the income (i.e., rent) be used to offset a much greater portion of the costs of government. Unfortunately, access to use of government-controlled land is heavily politicized and only a small part returns anything close to true economic value.

Something less than five percent of the population owns roughly nine-tenths of the privately-controlled land in the nation. A recent study on land ownership in the United States reported that "in many parts of the country, it is giant absentee landlords --

timber companies, railroads, energy companies, corporate farms that control much of the valuable land in the community".[13] One example is that of Southern Pacific, which controls more land in California than is owned by all homeowners combined and whose total holdings in the western United States equals an area the size of the state of California.

Inevitably, concentrated control of land and the political process feed on each other. In the United States and in all the democracies, the landed corporate sector exerts a great deal of political pressure against meaningful reform. British economist Fred Harrison identifies this as a primary factor blocking the way to a more stable future.

> "The frontier lands had to be colonised for the land to yield its riches. There was no sound economic reason why the publicly-created share of that wealth should not have been retained to build up the infrastructure of the new commonwealth. All that the legislators needed was a modicum of rationality and a strong sense of justice. However, they were persuaded by the great vested interests that monopoly control of land was a necessary pre-condition of economic development. This view even shapes modern American politics. Some evidence of this must be presented if we are to avoid the mistake of thinking that the problem is not a contemporary political issue. For public policies are still designed to promote the financial prospects of monopolists."[14]

Harrison's recommendation is as much mechanistic as it is theoretical. Yet, it is consistent with both democratic principles and those of a competitive market economy.

> "The only efficient method of accomplishing this is to impose an annual tax on the value of all land that is capable of yielding rental income. Owners would

thus be obliged to put their land to good use, within the framework of existing social and economic needs, and legal constraints [e.g., zoning]. By doing so, they would acquire an income out of which to pay their tax dues...This ad valorem tax, which becomes a cost on the right to possess and use land, effectively neutralizes the power of the monopolist to withhold it from use for no better reason than to cash in -- at some future date -- on the needs of society for a finite resource."[15]

Aside from the obvious philosophical and ethical implications of Harrison's proposal, the practical impact on our market-oriented economy is highly desirable. The growing concentration of control over our land is a primary cause of inflation. High land costs prevent business from effectively competing in world markets and have raised the price of housing beyond the reach of many families. Only a more competitive land market can reverse these trends. The goal of the so-called "land value tax" is to capture as much of the annual potential rental value of land as possible, thereby removing most of the income potential from simple ownership. Moving to a tax system lifted off of production and directed at income derived from landownership will redirect investment resources away from speculative acquisition of land, in favor of actual capital formation.[16]

A greater availability of developable sites (as well as a wider distribution in the control of our natural resources) is a legitimate concern in a democracy. We know that competition produces lower prices and greater market efficiencies, but we have yet to implement the measures required to halt inflation and produce continuous economic growth. As long as concentrated control is permitted over the land and resources comprising our national heritage our economy's health will continue to be at the mercy of those vested interests. Capturing economic rent via the tax system should permit a greater reduction in the taxes imposed on production and trade, contributing to a sounder and long-lived economic recovery. That, in turn, will lead to lower interest rates for both government and private sector borrowing. For those of us who are concerned about preserving both the market system and democratic principles, the wisdom offered both today and in our distant past cannot long be ignored. Our economy -- and our country -- may not be able to withstand another period of deep recession and mass unemployment.

NOTE 1: Wanniski, Jude. THE WAY THE WORLD WORKS. Simon & Schuster. New York 1978, p. ix. Later in his book, he adds that "every economic event that takes place someplace in the world is felt virtually everywhere in the world" and, therefore, "theories that threat the U.S. economy as if it were closed when in fact it is in constant interaction with the rest of the world are likely to be deficient or worse."

NOTE 2: Francois Quesnay and A. R. Jacques Turgot (of the French physiocratic school), Adam Smith and Alexander Hamilton.

NOTE 3: Adam Smith observed that "... the candidates for fortune too frequently abandon the paths of virtue; for unhappily, the road which leads to the one, and that which leads to the other, lie sometimes in very opposite directions."

NOTE 4: George, Henry. PROGRESS AND POVERTY. Robert Schalkenbach Foundation. New York. 1975 ed. pp. 11-12. George's full statement identifies what political economy as a science should attempt to accomplish: "... political economy is not a set of dogmas. It is the explanation of a certain set of facts. It is the science which, in the sequence of certain phenomena, seeks to trace mutual relations and to identify cause and effect, just as the physical sciences seek to do in other sets of phenomena. It lays its foundations upon firm ground. The premises from which it makes its deductions are truths which have the highest sanction; axioms which we all recognize; upon which we safely base the reasoning and actions of everyday life, and which may be reduced to the metaphysical expression of the physical law that motion seeks the line of least resistance -- viz., that men seek to gratify their desires with the least exertion." Adam Smith also added his observation as to the means we would employ:

> "People of the same trade seldom meet together but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

NOTE 5: Eckert, Allan W. WILDERNESS EMPIRE. Little Brown & Co. Boston. 1969. p. 220.

NOTE 6: Historian Allan Eckert, in an earlier chapter of the same work, uses the words of the Seneca chief, Monakaduto, for a comparative view of how tribal societies dealt with the concept of legitimate property. The land of North America was, according to Monakaduto, "a country that no one can own, any more than a man can own the air he breathes or the water he drinks, but which is there for all to use wisely and well ..."

NOTE 7: The work of Harry Gunnison Brown during the second and third quarters of this century is an exception. See Brown, H.G. ECONOMIC SCIENCE AND THE COMMON WELFARE. Lucas Bros. Columbia, Mo. 1925.

NOTE 8: Land, labor and capital. The inconsistency with which these terms have been defined has produced serious problems for scientific examination. Land is generally correctly defined to include all of nature. Entrepreneurship, a characteristic of labor (i.e., a talent or skill), is mistakenly viewed as as fourth factor of production. Capital is the physical goods we use in wealth production but the term is too often used interchangeably with financial reserves.

NOTE 9: The central role of land and its control to political economy was a central theme of the French Physiocrats, and Adam Smith borrowed heavily from them in his analysis of land, both as a factor of production and as a source of political power; though not the first to do so, in THE WEALTH OF NATIONS (page references are from The Modern Library edition. 1937) he reveals an understanding of the landowner as a usurper of wealth.

> "In [the] original state of things, which precedes both the appropriation of land and the accumulation of stock [capital], the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him." [p. 64]

> "As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the laborour only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must give up to the landlord a portion of what his labour either collects or produces." [p. 49]

> "... every improvement in the circumstances of

the society tends either directly or indirectly to raise the real rent of land, to increase the real wealth of the landlord, his power of purchasing the labour, or the produce of the labour of other people." [p. 247]

NOTE 10: Lundberg, Ferdinand. CRACKS IN THE CONSTITUTION. Lyle Stuart Inc. Secaucus, N.J. 1980. p. 108.

NOTE 11: In a letter written in 1817 to Thomas Cooper Jefferson expressed his views on what he thought was the basic difference between the English and American societies:

> "... we have no paupers, the old and crippled among us, who possess nothing ... being too few to merit notice. The great mass of our population is of laborours; our rich, who can live without labor, either manual or professional, being few, and of moderate wealth. Most of the laboring class possess property; cultivate their own lands, have families, and from the demand for their labor are enabled to exact from the rich and the competent such prices as enable them to be fed abundantly, clothed above mere decency, to labor moderately and raise their families ..."

NOTE 12: In THE RIGHTS OF MAN Paine shows that he also foresaw how the landed would use their political power to protect the unearned income derived from landownership:

> "What piller of security does the landed interest require more than any other interest in the state, or what right has it to a distinct and separate representation from the general interest of a Nation? The only use to be made of this power ... is to ward off taxes from itself, and throw the burden upon such articles of consumption by which itself would be least affected." [from THE SELECTED WORKS OF TOM PAINE. Duell, Sloan and Pearce. New York. 1945. p. 237]

NOTE 13: The disappearance of the family farm is attributable in large measure to the government encouraged speculation in farm land which drives the price per acre far above the income that can be reasonably expected from cultivation. At such high land costs only large corporate farms can achieve economies of scale. Smaller farmers must leverage themselves to compete and cannot survive in a down market. Hence the large number of bankruptcies and foreclosures in rural America.

NOTE 14: Harrison, Fred. THE POWER IN THE LAND.

Shepheard-Walwyn Ltd. London 1983. p. 140.

NOTE 15: A similar view is expressed by Professor Dick Netzer of NYU's Urban Research Center, who has written, "A switch to exclusive taxation of land could have strong positive effects by removing the disincentive to invest in buildings. Owners would be encouraged to develop sites more intensively, thereby securing a flow of income from which to pay the land value tax."

NOTE 16: Another point made by Professor Netzer is that:

> "In urban areas, taxes on vacant land would tend to rise, making it more expensive to withhold land from development. It is likely that a switch to land value taxation would encourage development most in two parts of a metropolitan area -- in the central sections, on valuable sites where older and smaller buildings are now standing, and on the urban-rural fringe where landowners would be less likely to hold out for future speculative gains. Landowners would generally be under pressure to better utilize their land, or sell out to others willing and able to better use the site."