

The Role of Land Tenure, Taxation, and Monetary Systems in Achieving and Enjoying Free Trade

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ABSTRACT. Civilizations rise and fall based on the effectiveness of their socio-political arrangements and institutions. The institutions that matter most are the laws and customs that govern 1) production and exchange of goods (trade), 2) land tenure and the distribution of the surplus associated with it, 3) the levying of taxes to provide public goods and services, and 4) the monetary systems adopted to facilitate such activities. If those institutions distribute the benefits of civilization equitably to all members of society, the result is likely to be peace and prosperity. However, if the rules of a society are designed to protect the interests of an elite, conflict is likely to ensue. Unrestricted trade across national borders (“free trade”) has the potential to produce socially beneficial outcomes, but it is not sufficient to overcome systemic injustices associated with flawed systems of land tenure, taxation, and monetary management. This article makes use of historical examples to examine trade in relation to the other institutions to show why just social arrangements must be considered an essential part of trade policy.

Introduction

Over the course of the last 300 or 400 years, a thoughtful, but not always evidence-based, debate has occurred over the degree to which the state should regulate exchanges of goods and services. Late in the 19th century, the American political economist Henry George

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(1839–1897) contributed what many reviewers have regarded as one of the clearest and most persuasive arguments in defense of free trade. George ([1886] 1950: 277–278) cautioned, however, that certain conditions were required before the full benefits of free trade could be realized:

Our inquiry has shown that the reason why the abolition of protection, greatly as it would increase the production of wealth, can accomplish no permanent benefit for the laboring class, is, that so long as the land on which all must live is made the property of some, increase of productive power can only increase the tribute which those who own the land can demand for its use.

George was referring to what political economists from Richard Cantillon in the mid-18th century to George's contemporary Karl Marx described as the great "land question." George made his mark on the history of economic thought, not in defense of free trade, but through an attack on the private appropriation of rent—wealth derived from land ownership. To George, private control of rent amounted to the redistribution of wealth from actual producers of wealth to those who control wealth through their ownership of the land and other natural resources. Generations of political economists have also consistently identified a third systemic issue facing human societies: the nature and use of money and credit. Together, these three systemic challenges—trade, land tenure, and money—affect one another in a manner that must be understood if societies are ever to achieve sustainable economic growth, full employment, and the wisest use of natural resources. This article examines and evaluates the evolution of human civilizations and the institutions designed to address these challenges. Only by examining the ways in which trade, land tenure, taxation, and monetary systems interacted with each other in their historical development can we understand how flaws in those systems persist and continue to create economic problems.

Development of Human Civilization

The history of humankind's struggles to establish civilizations governed by the rule of law is characterized by a complex process of

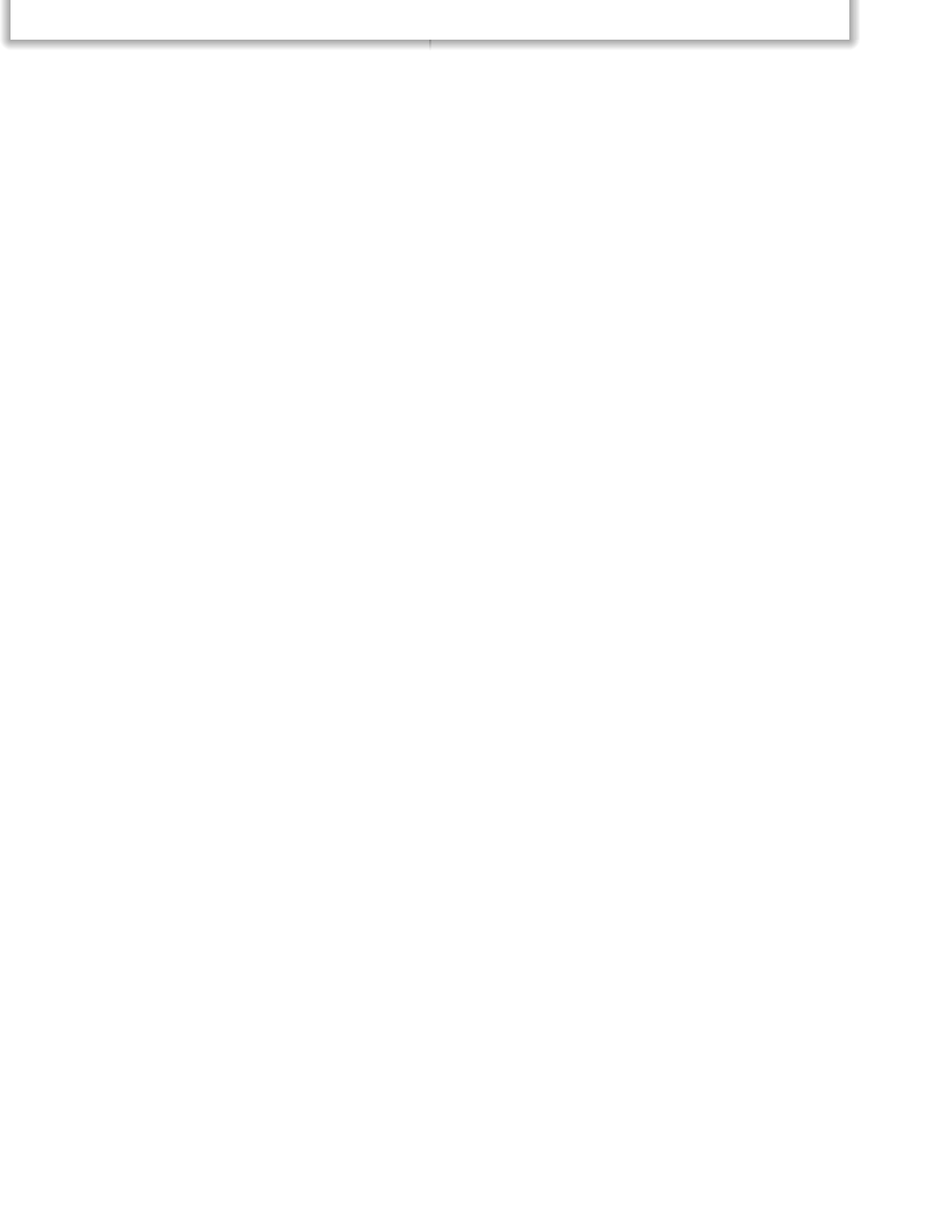


evolving cultural norms and technological innovations. For tens of thousands of years, relatively small groups of people migrated with the changing of the seasons, in response to weather conditions, and to meet their food supply needs.

Eventually, humans set up permanent settlements. To preserve social stability in those settlements, they established rules for allocating access to and control over locations and the resources provided by nature. Rules dictating the terms of exchange for goods and services were also required. One or more tangible goods came to serve as a form of money (i.e., as a storehouse of value, as a medium of exchange, and as a unit of record-keeping). Maintaining equality of opportunity proved tremendously difficult. Several thousand years ago, Hebrew prophets challenged the laws and social norms that had permitted the rise of a rich minority with extraordinary political power within Israel. Similar responses occurred in India and Greece long before the Christian era (Lenski 1966: 4).

As Henry George studied the history of civilizations, he found one very consistent common denominator or axiom: “[M]en always seek to gratify their desires with the least exertion” (George [1897] 1911: 87). This behavioral pattern is exhibited in efforts to gain exclusive control over nature—to charge others to access what the natural environment provides independent of our labor. When the number of people in any human society was small and the life-sustaining resources of nature seemingly unlimited, the threat of internal domination was prevented by traditional norms and by the need for cooperation. With the growth in population came a distancing of personal relations, as individuals competed for control over increasingly scarce resources.

Anthropologists have determined that the first permanent human settlements appeared some 10,000 years ago. Cultivation of the land first occurred in what is today the Middle East by the same people who also learned to domesticate wild animals. With cultivation and domestication of animals came the need for the rule of law assigning rights to property in this chattel. As Lenski (1966: 28) has observed, settlement in one location required a previously unknown need for peaceful cooperation and collaboration:



If one is fond of paradox and irony, one might go further and argue that cooperation itself is one of the basic sources of conflict in human life. If man were a solitary species, with each individual living apart from all the rest except for mating, ... there would be far less conflict among men. If each produced only for himself and there were no division of labor and exchange of goods, one of the major sources of human strife would be eliminated. By contrast, when men join forces in a cooperative enterprise, whether it be a family or total society, both the opportunity and the motivation for conflict are greatly increased.

The early settled societies were initially tribal in structure, with strong family and clan relations binding them within an informal, but universally accepted, code of behavior. Threats to this cohesive societal existence were external, but these threats brought on the evolution of hierarchy and the introduction of inherited positions of authority and power. Written language facilitated the formalization of these societal norms and created the institutional framework for interpretation and enforcement. The Egyptian civil code was formalized as early as 3000 BCE. Athenians, in the seventh century BCE, enlisted the aristocrat Draco to codify the laws of the polis. Other ancient societies formalized their socio-political arrangements and institutions similarly.

Historical evidence confirms that given enough time to develop without external disruption or intervention, every societal group evolves in a similar pattern. Hunter-protectors establish a subculture dominated by ritual and exclusivity. As this group morphs into a warrior class, it begins to exert claims to society's wealth by demanding tribute rather than a reasoned distribution of wealth based on services rendered. Those individuals who possess a superior understanding of the physical world achieve a similarly higher societal standing as knowledge-bearers, and they eventually claim an ability to communicate with the gods. Religion is born, temples are constructed, and tithes are collected to support the priesthood. The rest of the population is responsible for working the land to produce a surplus of food and resources sufficient to meet the demands of the warrior aristocracy and priesthood. Secular and religious codes of law and accompanying rituals assured acceptance and obedience, at least for some period of time. On this, the observation offered by historian Carroll Quigley (1961: 127) is fairly representative:



It is clear that every civilization undergoes a process of historical change. We can see that a civilization comes into existence, passes through a long experience, and eventually goes out of existence. ... Now, while everyone will probably agree with all this, it would be difficult to obtain agreement on any specific dates on which these events occurred. This difficulty arises from the fact that civilizations come into existence, rise and flourish, and go out of existence by a slow process which covers decades or even centuries, and historians are unable to agree on any precise dates for these events.

What Quigley's analysis suggests is that every civilization (so far) has followed a cyclical pattern. However, it is possible that some civilization might not have succumbed to this pattern absent some external shock. The fact that all known civilizations have eventually gone "out of existence" tells us only that their socio-political arrangements and institutions were in some material ways similarly incapable of preventing internal decline or external peril.

From Subsistence to Surplus

Archeologists have found examples of the first primitive tools dating to over 2.5 million years ago. *Homo erectus* made effective use of tools to increase food production. The most important tool for the next million years or more was the versatile hand-axe (Burke and Ornstein 1995: 12). Human culture and the birth of civilization was made possible by the gradual improvement of this basic tool:

For the first time, thanks to the axemakers, we were about to live in "places" from which some of us would never again move. We would think of ourselves as "of" those places. In the form of large villages, they would become our "home." We would, from now on, identify with one location and the people with whom we shared that site. Together we would be "of that place" and others, similarly settled, would be from "their places." (Burke and Ornstein 1995: 40)

The societies of the ancients were fast becoming worlds of surplus, of property that was not immediately consumed and, therefore, required a means of record-keeping: "The act of cutting into a stone to make tools now became a tool for reproducing the world in symbol" (Burke and Ornstein 1995: 40–41). Record-keeping served to reinforce

