

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

claims to property by its producer and, therefore, the drift toward specialization and dependency on others to produce different but needed and useful goods. The warrior aristocracy claimed some portion as did the priesthood, but not so much that people were prevented from engaging in trade to meet basic needs. Producers required some assurance that what they produced with their labor would be treated as their property (subject to consistently applied limitations). Equally important, access to a sufficient quantity of land had to be assured to those engaged in agriculture as well as those in the towns and cities serving as middlemen between producers and consumers. Thus, a key element in the social and economic health—as well as the political stability—of ancient societies was the means by which access to land was allocated and protected. This was even more necessary than protection of property in produced goods.

One must look quite far back in history to find agrarian societies not yet dominated by a formalized hierarchy of inherited aristocratic authority. While land for much of ancient history was held in common, there had to be rules governing access and ownership of what was produced on the land. The introduction and acceptance of private claims to ownership of land expanded gradually. As Henry George ([1897] 1911: 373) observed, the pattern was firmly established by the rule of law governing the Roman Empire:

The idea of absolute individual property in land, which modern civilization derived from Rome, reached its full development there in historic times. ... It was from this public domain, constantly extended by conquest, that the patrician families succeeded in carving their great estates. These great estates by the power with which the great attracts the less, in spite of temporary checks by legal limitation and recurring divisions, finally crushed out all the small proprietors, adding their little patrimonies to the *latifundia* of the enormously rich, while they themselves were forced into the slave gangs, became rent-paying coloni, or else were driven into the freshly conquered foreign provinces, where land was given to the veterans of the legions, or to the metropolis, to swell the ranks of the proletariat who had nothing to sell but their votes.

George argued further, that with the fall of Rome, the evolving feudal system served as “both a blending and an admixture of the idea of common rights in the soil with the idea of exclusive property” (George

[1897] 1911: 375). Across the European continent liberated societies returned to a state of localized production and consumption. Will Durant (1950: 450) paints a vivid picture of the conditions soon after the fall of Rome:

Western Europe in the sixth century was a chaos of conquest, disintegration, and rebarbarization. Much of the classic culture survived, for the most part silent and hidden in a few monasteries and families. But the physical and psychological foundations of social order had been so disturbed that centuries would be needed to restore them.

Feudalism slowly evolved out of the vacuum of power and order left by disintegration of the Roman Empire as people looked locally for security and stability.

What Europeans Learned from Other Societies

The term “Dark Ages” was for centuries used to describe conditions within the former territorial holdings of the Western Roman Empire after Romulus Augustulus departed in 476 CE. Historians generally agree that this era of feudalism continued on the European continent until the beginning of the 11th century. Conditions during these centuries are succinctly described by sociologist Emmanuel Wallerstein (1976: 17):

What we should envisage then, when we speak of western European feudalism, is a series of tiny economic nodules whose population and productivity were slowly increasing, and in which the legal mechanisms ensured that the bulk of the surplus went to the landlords who had noble status and control of the juridical machinery. Since much of this surplus was in kind, it was of little benefit until it could be sold. Towns grew up, supporting artisans who bought the surplus and exchanged it for their products.

The stage was set for a dramatic shock to the decentralized hegemonic structure dominating the European continent, and the mechanism turned out to be a call to arms in 1095 by Pope Urban II, as Seljuk Turks threatened the very existence of Christian rule in the Eastern Mediterranean. European armies marched to Constantinople to join with Byzantium’s emperor, Alexius Comnenus, against the

Syrian city of Antioch and then Jerusalem. For the next two centuries, opposing armies fought for control of the region.

The port city of Venice grew into a major trading center, and its ruling elite enlisted the assistance of the Crusaders to take the rival Adriatic port city of Zara (then under the control of Hungary). New wealth and ambition flowed to the Venetians, who then pushed for the conquest of Constantinople. Significantly for the coming centuries of Mediterranean trade, in 1204 the Crusaders looted and nearly destroyed the city of Constantinople. What happened is aptly described by Will Durant (1950: 604):

[S]ome Latin soldiers, horrified to find Moslems worshiping in a mosque in a Christian city, set fire to the mosque, and slew the worshipers. The fire raged for eight days, spread through three miles, and laid a considerable section of Constantinople in ashes.

While the consensus of modern historians is that the Crusades had almost no permanent influence on the future of European societies, the one certain outcome was a growing commerce carried on from one end of the Mediterranean Sea to the other. Supplying armies over long distances and poor communications provided many hard lessons. Despite the heavy debts incurred, European princes began to look toward territorial expansion as a path to financial solvency. Many European monarchs had expanded their own land holdings, acquired from the families of nobles killed in battle, the families unable to repay debts owed to the crown. The Catholic Church and monasteries similarly expanded their land holdings. The system of feudal reciprocity between the feudal lord and the peasant population broke down, as land became just another commodity to be bought and sold. As Durant (1950: 609) writes: "Serfs by the thousands had used the crusader's privilege to leave the land, and thousands had never returned to their manors."

European financiers also adopted the Eastern banking and credit practices of standardized currency and lending to provide the monetary facility for an ever-expanding network of trading partners managed by the Italian city-states. Adam Smith ([1776] 1937: 380) recognized the economic impact of this new system:

The cities of Italy seem to have been the first in Europe which were raised by commerce to any considerable degree of opulence. Italy lay in the centre of what was at that time the improved and civilized part of the world. ... The great armies which marched for all parts to the conquest of the Holy Land, gave extraordinary encouragement to the shipping of Venice, Genoa, and Pisa, sometimes in transporting them thither, and always in supplying them with provisions. They were the commissaries, if one may say so, of those armies; and the most destructive frenzy that ever befell the European nations, was a source of opulence to those republics.

This opulence was an important source of envy and future conflict. Additionally, the consolidation of land holdings by Europe's monarchs stimulated trade by removing many of the feudal-era tolls and tariffs. At one point there had been over 60 toll stations on the Rhine River (Durant 1950: 614). By the 14th century, standardized trade policies were adopted by the Hanseatic League, a federation of north German towns and cities formed in the 12th century to facilitate trade, and similar organizations. The advantages of removing restraints to trade were recognized and embraced, although prices were controlled and the quality of goods inspected.

Also evolving was the recognition of the need for a standardized monetary unit to increase the efficiency of trade across societal borders. Silver had since ancient times been minted into coins serving as a primary medium of exchange; the coins of the Greek city-states circulated throughout the Mediterranean region. Bronze coins were minted for use in transactions of small value. Silver continued to be minted by almost every empire, although the Byzantines utilized gold and copper until the fall of Constantinople and the loss of much of its store of precious metals to the Crusaders. During the Middle Ages, the coinage varied in size and metallic content from place to place and experienced debasement until design changes (such as ridged edges) made shaving of coins far more difficult. Gold, silver, bronze, and copper coins circulated, with floating exchange rates between the coins. In the process, possession of the precious metals, not simply as a potential claim on other tangible goods but as symbols of wealth and power, came to influence the introduction of new patterns of governance and economic power. As Durant (1936: 36) noted: "When metals were mined they slowly replaced other articles as standards of

value; copper, bronze, iron, finally—because of their convenient representation of great worth in little space and weight—silver and gold, became the money of mankind.”

These practical advantages pulled the global economy in the direction of a uniform monetary structure.

Social Upheaval Over the Land Question

Many factors combined to bring an end to feudal arrangements governing the allocation of land. When territory changed hands as a result of war, conflicts over competing codes of law had to be reconciled if the desired outcome was to be assimilation of the existing population. Despite frequent warfare, periodic epidemics, and widespread crop failures, the population throughout the European continent increased dramatically beginning in the mid-11th century (Durant 1950: 642). Accordingly, the demand for land intensified. Improved methods of cultivation meant there was a huge and growing surplus of peasant labor in those regions where innovation was encouraged. Nearly everywhere, fundamental social and economic relations experienced dramatic shifts in economic power and social status. As Durant (1950: 644) explained:

To keep the peasants on the land, and make their labor profitable to himself, the baron commuted the old feudal dues for money payments, sold freedom to serfs who could pay for it with their savings, leased more and more of the demesne to free peasants for a money rental, and hired free labor for the workshops on his estate. ... The change to a money economy proved costly for the feudal landlords; the commutations and rents they received acquired the fixity of medieval custom, and could not be raised as rapidly as the value of money fell. Many of the aristocracy had to sell their land—usually to the rising *bourgeoisie*; some nobles, as early as 1250, died landless or destitute.

A dramatic shift in power occurred in the island nation that would eventually become the United Kingdom of Great Britain. In 1215 the barons forced King John to sign the *Magna Carta* or *Great Charter*, which restricted the powers of any future monarch. A mercenary army raised in Flanders and France helped King John regain control of most of England outside of London, but John became ill and died

before he could reestablish his authority. This charter is consistently touted as one of the most important social contracts in the history of Western civilization. A quite different conclusion, however, is reached by British political economist Fred Harrison (2015: 26):

Magna Carta was the beginning of the end of the liberties of people born on the British Isles. Because it was here, in Runnymede, that the knights and the barons persuaded the king to begin a centuries-long process of de-socializing the rents of the land of the kingdom. Now why is this significant? The state was supposed to protect every person in the territory. The rents were there to support the state to ensure that the liberties of every man and woman and child in England were protected. Everybody [was to be] treated equally under [laws based on] natural rights.

In other words, the adoption of the *Magna Carta* signaled a monumental shift in the treatment of land rent—the value attached to land above and beyond its natural capability—which altered the relationship between the people and the state.

Adam Smith ([1776] 1937: 805) revealed a basic truth about the relationship of power and taxation during this period:

In the disorderly state of Europe during the prevalence of the feudal government, the sovereign was obliged to content himself with taxing those who were too weak to refuse to pay taxes.

The landed aristocracy of every society still derived much of its income from the rents charged to peasant or tenant farmers. However, land was quickly coming to have a higher, better use than the planting of food crops for domestic consumption. Rising incomes meant a rising demand for beef and the cloth manufactured from sheep's wool. To obtain those products, some farmers were forced off the land that was previously tilled in order to create pasture. Displaced peasants and tenant farmers became a migrating population in search of some means of survival.

By the middle of the 15th century, technological advances combined with a heightened desire to capture the vast riches of India and the Far East to spur the expansion of shipping and the businesses catering to the needs of shipowners and seamen. When new territory

was secured by purchase or conquest, domestic considerations more or less determined the extent to which migration to new lands was encouraged or even permitted.

The European Conquest of the Americas

With the exploration of the African coast by the Portuguese adventurer Henry the Navigator in 1434, the stage was set for what became the campaign by European seamen for financial and material support for further explorations in the quest for riches. Fifty-eight years later, the Italian Cristoforo Colombo (Christopher Columbus), sailing under the Spanish flag, headed west in search of a short passage to India. Another Italian sailing for Spain, Amerigo Vespucci, was the first European to set foot on the shores of what became known as Brazil. A decade later, Vasco Nunez de Balboa successfully navigated around the southern tip of South America to reach the Pacific Ocean.

The fact that the Americas turned out not to be India or any part of Asia was initially disappointing to these adventurers. The people they initially encountered lived simple lives, with few possessions and almost no gold, silver, or precious stones. That all changed when Hernan Cortes and Francisco Pizarro defeated the armies of the Aztec and Inca empires, respectively.

The large quantity of gold and silver taken from the indigenous peoples of the southern Americas and later mined with slave labor required establishment of a complex system of transport, first over land, then onto ocean vessels to cross the Atlantic. Two fleets of nearly 90 ships left Spain each spring for different Spanish-held destinations, wintered in the Americas, then met at Havana the following spring for the return voyage. The convoys suffered considerable losses of ships and cargoes during severe storms and from Dutch and English privateers. Yet, the amount of gold and silver that was safely delivered to Spain raised prices for other goods in Spain and elsewhere in Europe. Historians have made a number of attempts to determine the quantity of gold and silver brought to Spain, greatly aided in their efforts by the meticulous records kept by Spanish officials. According to Earl Hamilton (1929: 439):

The *Cuenta y Razon*, a sort of journal of receipts and disbursements, kept by the treasurer of the House of Trade (*Casa de la Contratacion*), contains a fairly complete record of crown treasure ... and likewise methods of disposing of the gold and silver—such as sale by contract, auction, coinage in the Seville mint, shipment to another mint, or delivery to an agent of the crown in Seville or some other city.

Hamilton (1929: 466) notes that from “1503–10 to 1591–1600 there was a steady increase in the receipts of treasure” and a “precipitous drop” between 1630 and 1660. Desautly et al. (2011: 9006) explain the final destination of the precious metals during the period of peak production:

Of the silver mined in the Americas, 20% stayed on the continent. Another 10% was used to buy Asian silk, porcelain, and spices, and yet another 15% fell into the hands of pirates or was smuggled, leaving 200 tons to reach Seville every year of the late 1500s and early 1600s.

The variation in gold deliveries to Spain created volatility in the price of goods and services. In modern economic terms, the volatility was caused by either too much or too little money chasing available goods and services. In the 17th and 18th centuries, some of the best economic minds in Europe began to think about the nature of trade, the role of money creation and credit, and potential changes to the existing systems of land tenure and taxation.

Political Economy and Scientific Inquiry

In the 17th century, political economy arose as a way of systematically asking questions in new ways about production, trade, money, land tenure, and other processes associated with the management of material well-being. Many societies had passed through a centuries-long stage of agrarian landlordism. New markets and new methods of production added a new dimension to the underlying structure. Animal husbandry had become a commercial enterprise. The guild system was dismantled in favor of wage-labor manufacturing. The creation of a far-reaching finance and insurance sector affected both the production and the distribution of wealth and income. These complex and interdependent parts of an evolving system are rightfully described as

agrarian-commercial-industrial-and-financial landlordism. We owe the term “capitalism” to Karl Marx’s analysis of the ownership and use of capital.

The term *political economy* suggests that to a significant extent politics dictates economic outcomes. When the politics of a society is structured to secure and protect monopolies and other forms of privilege, the prospects for a decent human existence for the majority of the population are unlikely to be very good. On the other hand, when the systems of law and taxation are consistent with the protection of individual liberty, equality of opportunity, and the application of just laws, a widespread blossoming of culture, creativity, and cooperative enterprise can occur. However, as Adler (1971: 28) points out, the challenges of sustained adherence to such principles are ever-present:

Men are morally responsible only for what it is within their power to do or not to do; similarly, societies and governments are morally accountable only within the limits of the possible. This, of course, raises a crucial question of fact about what is possible or impossible at a given time in history, under the circumstances that exist at that time.

The Origins of Modern Banking

By the mid-16th century, the center of innovation—political as well as economic—was rapidly shifting away from the Italian city-states in the direction of their northern competitors. For a time, the city of Antwerp functioned as the predominant financial center in Europe. Religious intolerance by Spain’s Catholic king, Philip II, resulted in the establishment in 1581 of the Republic of the Seven United Netherlands (the northern provinces). Protestants, Jews, and even many Catholics migrated there to employ their entrepreneurial talents under a more liberal regime. Amsterdam, in particular, was poised to take on a role unparalleled by any other European center. The city “was already at that time the pivot of the Baltic grain market and ... thereby, was able to remain more solvent than Antwerp and other cities of the southern provinces” (Wallerstein 1976: 132).

Historians have for several centuries debated the reasons why Amsterdam and the northern provinces ascended so remarkably in

such a short period of time and in the face of opposition from the Spanish crown. The struggle for independence began in 1566 but was not fully achieved until 1609. In the intervening years, Spain's position as the dominant empire in Europe experienced major setbacks, including the British defeat of the Armada. The Dutch were then free to experiment, forming into "a confederation of town governments who quickly shed any 'democratic' trimmings but who also were free from the economic burdens which their participation in the old Spanish system inflicted" (Wallerstein 1976: 138). They were extremely well positioned to take advantage of their newfound independence from bureaucratic restrictions:

Because the Dutch had an edge in Baltic trade, they became the staple market for timber. Because they were the staple market for timber, they reduced shipbuilding costs and were technologically innovative. ... On this basis, Amsterdam became a threefold center of the European economy: commodity market, shipping center, and capital market. (Wallerstein 1976: 139)

Settling one's accounts with gold or silver coinage was recognized by those engaged in commerce as inefficient and fraught with danger. The problems of counterfeit coinage and debasement of legal coins continued. There were so many types of coins circulating that just determining the right exchange value coin-to-coin slowed exchanges and added costs to every transaction. The number of Spanish treasure ships lost to the depths of the ocean or captured by privateers made for an insecure money supply. All of these issues were taken into consideration when officials in Amsterdam sought to find a practical solution.

In 1609, the city of Amsterdam chartered the Bank of Amsterdam (Amsterdamsche Wisselbank, which literally meant Amsterdam exchange bank). The primary function of the Bank of Amsterdam was to accept deposits of foreign and local coinage as well as gold and silver bullion, which was then minted into coinage of a standard weight and precious metal content. The Bank's revenue came from charges for the services it performed on behalf of depositors. Depositors were credited for the value of their deposits and provided with a receipt that served as currency circulating without the need to transfer storage

of the gold or silver coins held on deposit by the Bank. The Bank provided a guarantee of the quality of any coins withdrawn. Over the next 40 years, deposits held by the Bank increased by an average rate of 10 percent per year (Quinn and Roberds 2007: 263). The new structure worked well but was regularly undermined by coinage with equal or nearly-equal nominal value but having far lower gold or silver content. Nonetheless, the early decades of the Bank's operation proved to be the longest period of sustained, noninflationary economic stability experienced by any modern society:

The creation of the Bank of Amsterdam diminished and ... ultimately severed the link between the commercial credit and debased coin. Mints' incentives to engage in debasement were curtailed, and the monetary situation began to stabilize. During the first 50 years of the Bank's existence (1609–1658), the average loss of metallic content slowed to a crawl (0.1 percent annually), and Dutch inflation fell to 1 percent, half its previous level. (Quinn and Roberds 2007: 264–265)

Inadvertently, however, the operation of the Bank opened the door for what became fractional reserve banking:

Following the official recognition of the *banco florin* in 1659, there ensued a 100-year period of remarkable monetary stability, during which neither the metallic value of the florin nor the domestic price level followed any persistent trend. Over most of this period, the Bank maintained the value of the *banco florin* via open market operations, meaning the exchange of receipts against balances held at the Bank. (Quinn and Roberds 2007: 265)

The Dutch soon had fierce competition that challenged their monopoly of European transport and commerce. England and France were slowly gaining ground but were far behind the Dutch in their institutional support for international commerce. Thus, well into the early 18th century, Dutch trading volume was well above that of the English or French. Contemporary observers in other countries urged their governments to adopt Dutch methods and policies. Eventually, others nations began to catch up. The decline of Dutch commercial hegemony, as C. H. Wilson (1939: 113–114) explained, was three-pronged:

Holland lost her intermediary position in world trade as other European countries developed their own shipping and port facilities, and direct trading routes were established between nations which had previously used Dutch shipping and trading agents. Secondly, this decline in the strapping organization was not counterbalanced by any industrial development, such development being hindered by the high level of wages and the conflict of interests between the powerful free-trading staplers and the protectionist industrialists. Thirdly, there was a gradual shift of interest from trade to finance—to insurance and credit banking, and, because of the low rate of interest in Holland, to foreign loan business and speculation. This did not necessarily indicate economic decline, but the recurrent crises due to an overdevelopment of speculation sapped confidence in Amsterdam, and indirectly strengthened the position of London.

Despite this decline, Adam Smith ([1776] 1937: 453), expressed confidence that the Bank would remain true to its charter and function:

The bank of Amsterdam professes to lend out no part of what is deposited with it, but, for every guilder for which it gives credit in its books, to keep in its repositories the value of a guilder either in money or bullion.

Smith's ([1776] 1937: 453) subsequent comment suggests the importance of frequent, independent audits of financial institutions, so important to public confidence and trust:

But whether it does so likewise with regard to that part of its capital, for which the receipts are long ago expired, for which in ordinary and quiet times it cannot be called upon, and which in reality is very likely to remain with it for ever, or as long as the States of the United Provinces subsist, may perhaps appear more uncertain.

John Locke, Cantillon, and the Problem of Speculation

In the 18th century, as European powers claimed territory, they sought to protect their sources of raw materials and the market for finished goods. Few among their colonial subjects possessed the cash to afford these goods. As innovation increased the production of manufactured goods, mercantilist trade practices proved inconsistent with economic expansion. Social problems, such as rising unemployment

among agricultural workers and former guild members displaced by mechanization, were addressed by early political economists such as William Petty (1662), who urged government to undertake public works projects.

John Locke provided additional insights on political economy. Locke strongly believed in the responsibility of government to protect the individual's right to property. Therefore, to impose taxation on property without the consent of the governed is the exercise of arbitrary power. What is most important in Locke's treatment of the issue is how he defines property. In a letter sent to a Member of Parliament, Locke (1691: 3) warned of efforts by government to attempt to manage the demand for money by manipulation of interest rates:

For Money being an universal Commodity, and as necessary to Trade, as food is to Life, every body must have it, at what Rate they can get it; and unavoidably pay dear when it is scarce, and Debts, no less than Trade, have made Borrowing in Fashion.

Locke (1691: 6–7) identifies the choice a society must make between two very different strategies in order to raise the living standards of its people:

In a Country not furnished with Mines there are but two ways of growing Rich, either Conquest, or Commerce. By the first the Romans made themselves Masters of the Riches of the World; but I think that in our present circumstances, no Body is vain enough to entertain a Thought of our reaping the Profits of the World with our Swords, and making the Spoil and Tribute of Vanquished Nations, the fund for the supply of the Charges of the Government, with an overplus for the wants, and equally craving Luxury, and fashionable Vanity of the People. Commerce therefore is the only way left to us, either for Riches or Subsistence, for this the advantages of our Situation, as well as the Industry and Inclination of our People, bold and skillful at Sea, do Naturally fit us: By this the Nation of England has been hitherto Supported, and Trade left almost to it self, and assisted only by the Natural Advantages above-mentioned, brought us in Plenty and Riches, and always set this Kingdom in a rank equal, if not superior to any of its Neighbours.

Locke also realized that commerce alone would not lead to the improvement in conditions of all members of a society. Where control

of land is concerned, he conditions claims of ownership to, first, land actually being used; and, second, that there is enough and as good left for others. That this second condition no longer existed in Europe or even in parts of England's colonies in North America, Locke ([1680] 1947: 143) acknowledged:

Thus labour, in the beginning, gave a right of property, wherever any one was pleased to employ it, upon what was common, which remained a long while, the far greater part, and is yet more than mankind makes use of. Men at first, for the most part, contented themselves with what unassisted Nature offered to their necessities; and though afterwards, in some parts of the world, where the increase of people and stock, with the use of money, had made land scarce, and so of some value, the several communities settled the bounds of their distinct territories, and, by laws, within themselves, regulated the property of the private men of their society, and so, by compact and agreement, settled the property which labour and industry began.

Speculation in land was not new. The desire to profit by such speculation at the expense of others was not new. Even the use of money and credit to engage in such speculation was not new. What was new, however, was the scale of such speculation and the huge amounts of money allocated for this purpose. One outcome of this shift in scale was a global economy characterized by periodic cycles of boom and bust.

Shortly after Locke's 1680 treatise, Britain faced an acute shortage of silver money, and the former Secretary of the Treasury, William Lowndes, provided a detailed report to Parliament with recommendations on how to respond. Lowndes "concluded with a recommendation that the clipped coin be called in and reminted with a devaluation of 25 per cent, that is with 25 per cent less silver denominated for each coin" (Appleby 1976: 47). The underlying problem was that silver bullion had a greater market value outside Britain than silver coins of an equal weight. Thus, the incentive was to melt down existing coins and move the bullion out of the country.

Speculation in land, in currency, and in other financial instruments reached a level of unprecedented frenzy during the first two decades of the 18th century. John Law's *Compagnie des Indes* gained a firm monopoly over the colonial trade of France, and his banking operation

was empowered to collect taxes and mint money. Investors drove up the price of *Compagnie des Indes* shares well beyond what the company's earnings justified. A general stock market boom spread throughout Europe. At the same time, the French government caused a general inflation by printing huge amounts of paper currency. In 1720, Law's financial empire collapsed, cascading into a general stock market crash in France and other parts of Europe.

None of this escaped the keen attention of Richard Cantillon, perhaps the most brilliant of the mid-18th-century political economists. As a young banker working in Paris, he became a business partner with John Law but soon became critical of Law's scheme and invested accordingly. His first-hand knowledge of Law's methods of financial manipulation convinced him of the great difficulty of trying to achieve macroeconomic objectives by the tools of monetary and exchange rate controls. In *Essai Sur La Nature Du Commerce En General* (written in the 1730s but not published until after his death in 1755), Cantillon observed that while access to land was necessary for the production of wealth, a large portion of the population was landless and, therefore, forced to turn over a portion of their income to the landed. This phenomenon occurred everywhere and throughout the course of human settlement. As Cantillon ([1755] 2010: 59) observed: "The most ancient titles are founded on violence and conquest."

Cantillon made few moral judgments. His analysis was descriptive rather than prescriptive. However, he did offer a rather interesting proposal for reducing the influence of traveling evangelical Christians who, while adopting a lifestyle of poverty, looked to those who produced wealth to provide for their basic needs without offering anything substantive in return. As Cantillon ([1755] 2010: 101) explained:

If a state wanted to achieve its full potential, it might be possible, it seems to me, to diminish the number of mendicants by incorporating them into the monasteries, as vacancies or deaths occur. This could be done while providing places in the monastery for those who show little or no aptitude in speculative sciences, but who are capable to advancing the practical arts, i.e., in some area of mathematics. The celibacy of churchmen is not as disadvantageous as is popularly believed, ... but their idleness is very harmful.

Cantillon's *Essai* was studied and absorbed by his contemporaries. The Physiocrats, in particular, found Cantillon an important precursor of their own thought. A succinct summary on Cantillon's perspectives comes from Joseph J. Spengler (1954: 286):

Cantillon thus looked upon the European economic society as a kind of network of reciprocity, given hierarchical form by prevailing institutions and kept in adjustment by the play of self-interest, into which individuals and groups were bound by "need and necessity."

A chain of influence runs from Cantillon through Francois Quesnay and the other Physiocratic writers to Adam Smith ([1776] 1937: lix–lx), who explained in his "Introduction and Plan of the Work":

In this book I have endeavored to show; first, what are the necessary expenses of the sovereign, or commonwealth; which of those expenses ought to be defrayed by the general contribution of the whole society; and which of them, by that of some particular part only, or of some particular members of it: secondly, what are the different methods in which the whole society may be made to contribute towards defraying the expenses incumbent on the whole society, and what are the principal advantages and inconveniencies of each of those methods: and, thirdly and lastly, what are the reasons and causes which have induced almost all modern governments to mortgage some part of this revenue, or to contract debts, and what have been the effects of those debts upon the real wealth, the annual produce of the land and labor of the society.

Contrary to widespread belief, Adam Smith did not embrace the libertarian desire for minimal intervention in the private affairs of individuals. Instead, Smith ([1776] 1937: 670) observed that "the civil magistrate" exists wherever there exists great inequality. In his view, deep and widespread poverty is a problem in "stationary and declining economies only" (Gilbert 1997: 273).

It would take a Scot possessed of even greater insight to raise the level of discourse on sensitive societal issues. Two decades before Henry George gave serious thought to the ancient "land question," Patrick Edward Dove ([1850] 1910: 125) argued that the laws of England resulted in unjust and economically destructive outcomes:

[T]axation of labor has introduced vast systems of restriction on trades and industry. Instead of a perfectly free trade with all the world, England has adopted a revenue system that most materially diminishes both the amount of trade and its profit. And, instead of a perfectly free internal industry, England has adopted an excise that is as vexatious in its operation as can well be conceived. Both the customs and excise laws, and every other tax on industry, have arisen from the alienation of the soil from the state; and had the soil not been alienated, no tax whatever would have been requisite; and were the soil resumed (as it undoubtedly ought to be), every tax of every kind and character, save the common rent of the soil, might be abolished, with the whole army of collectors, revenue-officers, cruisers, coast-guards, excisemen, etc.

As intellectually penetrating as the analysis was by Dove, whatever influence he had over his contemporaries is not recorded. Far more influential was David Ricardo's (1821) argument on behalf of free trade, in which he expanded on insights of Robert Torrens and James Mill relating to the concept of comparative advantage. Ricardo demonstrated, using specific examples, that all parties gained under conditions of voluntary exchange. Political economists continued to write on the issue and on the merits of free trade, keeping alive a level of interest that awaited an opportunity for legislative action. The British working class found their champion in the person of Richard Cobden.

Britain: Corn Laws vs. Free Trade

Beginning in 1815, landed interests in Britain orchestrated the passage of the Corn Laws, tariffs that protected domestically produced "corn" (grains, primarily wheat and barley) from foreign competition. The subsequent high prices and profits from grain sales were capitalized into higher prices for farmland. The Reform Act of 1832 extended the right to vote to members of the merchant class, who pressed for the repeal of the Corn Laws. Richard Cobden played a leading role in bringing the repeal act before the House of Commons and gained the support of the conservative Prime Minister, Robert Peel. As Cain (1979: 234) explains, Cobden's motives ran deeper than any simple opposition to tariffs:

It was particularly galling to Cobden that a large part of the revenue to pay the interest on the national debt and to meet current military and colonial

expenses should be defrayed through tariffs, especially the Corn Laws, which helped to maintain the income and therefore the position of the landed aristocracy and deprived industry of investible funds.

Cobden was not alone in his dislike of tariffs. Agitation by Britain's merchants and manufacturers for the lifting of trade restrictions (essentially the dismantling of mercantilist arrangements) finally won the day in 1846, when the Corn Laws were formally repealed.

The era of free trade in Britain proved brief. The social stresses associated with the economic depression of the 1870s brought about a return to protectionist policies. When John Nye (1991: 25) examined the commercial statistics for this period, he found "little evidence that Britain's trade was substantially more open than that of France." The problem with this conclusion, however, is that there is no way to directly associate Britain's economic problems with either its system of land tenure and taxation or its monetary system. Britain's experiment with free trade applied only to "specific classes of goods" (Nye 1991: 33). British historian Roy Douglas (1979) offers this assessment of why Britain's government pulled back from even this limited experiment:

After the notorious Corn Laws were abandoned in the period 1846–49, remaining restrictions on trade were rapidly removed. The thirty years which followed 1849 were a period of rising prosperity in all social classes. Then, suddenly, everything seemed to go wrong. In 1879 there was an appalling harvest. Grain from the United States and elsewhere was imported in great quantities to assuage the danger of famine; but during the 1880's cheap food from abroad continued to pour in, and improvements in refrigeration technology brought meat as well as grain. Thus agriculture faced a flood of foreign competition. About the same time, British industry met a new challenge, though this was not immediately recognized. Coal was the primary source of power, and iron the chief component of machines. Britain had long been the main source of both. Production continued to rise; but in the last two decades of the century Britain was being overhauled by Germany and the United States. By the turn of the century, the general standard of living was stagnant.

In other words, the depression of the 1870s exacerbated and laid bare the brutal reality that British production—in industry and agriculture—was starting to lag behind the United States and Germany.

During the last few years of the 19th century, reform-minded British citizens worked to make progressive changes in the governance of the nation. World wars, economic crisis, and the unraveling of the British Empire in the 20th century, however, delayed and overturned many of these reforms. Despite strong initial support among Liberals, the campaign to tame land markets by adoption of a high annual tax on the value of land failed and was eventually abandoned by the main political parties. Calls for protectionist tariffs gained support during each economic contraction. Trying to honor the commitment to satisfy currency imbalances through payments of gold proved impossible. Francis C. R. Douglas (Lord Douglas of Barloch) (1957: 77) addressed these issues in a speech delivered in the House of Lords:

There seems to me at the present time to be three essentials for the economic progress and well-being of this country. The first is a reduction and a redistribution of the burden of taxation; the second is stabilization of the purchasing power of currency, and the third is the removal of obstacles to international trade.

In the mid-1950s, only a few of Douglas's countrymen grasped the depth of the problems he went on to describe. As a young man, Douglas had read Henry George's *Protection or Free Trade* and had become a convinced proponent of free trade. He went on to read George's most celebrated book, *Progress and Poverty*, and soon became a vocal advocate of everything George espoused. After World War II, Douglas was appointed Governor of Malta, returning to Britain in 1949 to become a member of the House of Lords.

Shortly before his death at age 90, F. C. R. Douglas (1980: 75) wrote an article detailing the declining support in Parliament over the decades for the very measures he was convinced were essential to stabilize Britain's future:

The sad fact is that at the election of 1945 many good supporters of land-value taxation had retired, and a number (mainly Liberals) were defeated. Many of the young men elected as Labour members were political novices who were devoted to a vague socialism which involved raising much revenue by no matter what means from those who appeared to be rich and redistributing it in cash or kind to sections of the population arbitrarily

classified as being in need. Many of their opponents seemed to be victims of the same outlook.

What Douglas was describing was the beginning of a deep ideological split growing in nearly every society over the scope of government involvement in social and economic affairs. The struggle has been to find the just balance between the rights to property and human rights. After several thousand years of rising and failing civilizations, we seem to be no closer to accepting that universal principles actually exist. Faced with the same reality, Henry George ([1886] 1950: 332) left his readers to ponder what they had read:

Here is the conclusion of the whole matter: That we should do unto others as we would have them do to us—that we should respect the rights of others as scrupulously as we would have our own rights respected, is not a mere counsel of perfection to individuals, but it is the laws to which we must conform social institutions and national policy if we would secure the blessings of abundance and peace.

Conclusion

The evidence from history is clear. The optimal conditions required for the full benefits of free trade to emerge have always failed to materialize. Free trade increases aggregate wealth in a society, but the benefits are not spread equally. The continued private appropriation of rents (from land, from natural resources, and from other assets with an inelastic supply) redistributes wealth from producers to asset-holders without any corresponding services in return. Thus, the potential social benefits of free trade are lost due to the skewed distribution of rewards.

Monetary systems are also not designed for optimal social benefit. The entirety of economic activity is driven by a monetary structure that achieved considerable stability in the early 17th century with the Dutch establishment of a deposit bank, but that structure was short lived. Eventually, it was corrupted and weakened by allowing banks to issue bank notes in excess of reserves of gold and silver coinage, which introduced instability into the financial system. Later

generations completely abandoned any tangible backing for bank notes at all, leaving the monetary system open to continuous political tampering. Absent the necessary systemic reforms, we can expect the cycles of boom and bust to continue, inevitably bringing about the collapse of modern civilization.

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