

Editor's Introduction

Capitalism and the Clean Slate

Fred Harrison

NUCLEAR weapons ensured the mutual destruction that led to the stand-off between ideological enemies in the 45 years up to 1990. Since then, the New World Order promoted by the first President Bush has delivered the terror of stateless bands of malcontents who have no territory to yield to their enemy. Terrorists are the moving target that no weapon can destroy for so long as the economic and political conditions exist which nourish a profound sense of cultural deprivation. Resolving this grievance is the 21st century's task. The policy shift needs to be away from the science of destruction to the social reforms that would deliver prosperity for everyone.

The responsibility for delivering reform lies with everyone on both sides of the economic divide. Rich nations need to re-examine the capitalist order, because there are profound fault lines in that system. Developing nations need to question their values because they are fostering the failures that help to spawn the terrorists. To clarify the issues, we need to revisit history as well as the philosophies that guide political decisions today. We find that governments are driven by doctrines which are calculated to defeat their aspirations.

An example of the philosophy of failure is the so-called Right to Development. This notion emerged in the post-colonial era. The de-colonised states expressed their discontent within the United Nations circuit by evolving the demand for greater support from the rich nations. They might have simply expressed themselves in terms of a demand for compensation for the damage done by the colonial powers. Why did they fail to take this course of action?

Instead, they sought to extend the concept of human rights. This provided them with a language which expressed

demands for greater recognition of economic, social and cultural rights, international recognition that colonialism and neo-colonialism were gross violations of international and human rights law, and the push to recognise development co-operation as an obligation owed by former powers, rather than as an act of charity.¹

The notion of a right to development was embedded in a resolution drafted by the UN Commission on Human Rights in 1977. But rights come with obligations, and the states which have promoted this doctrine have

singularly failed to undertake the internal reforms that would facilitate the development to which they claim they have a right.

ONE OF the complaints from developing countries is that aid donors tie strings to their gifts. A classic case was of the Reagan administration which, through its appointment of Barber Conable to the World Bank, attached conditions to loans requiring wholesale privatisation and trade and investment liberalisation.

What did the developing countries expect? They were not suing for compensation for provable damage inflicted during the colonial era, so such help as they received would inevitably come on the basis of the donors expecting to gain a benefit from the transaction. The only way to avoid this would have been to demonstrate that the developing countries were owed assistance for which they were under no obligation to reciprocate in cash or kind. But this would have necessitated a diagnosis of the nature of the colonial exploitation to which they were subjected. And that would embarrass the elites whose representatives were lobbying through the UN Commission on Human Rights.

Europe acquired foreign territories in the 18th and 19th centuries to milk them of their natural resources. In the post-colonial era, that milking continued. The form of the exploitation changed, but the outcome remained the same: the rental value was extracted through the privatisation of natural resources and the liberalisation of capital markets. This reading of the global institutions from Breton Woods onwards is convincingly documented in Michael Hudson's *Super Imperialism*.² In the 19th century it was not necessary to privatise timber and sub-surface minerals, because the state-sponsored trading network had no difficulty in extracting the raw materials from "their" territories for the factories of Europe. A more sophisticated approach was required in the post-colonial era, and the financial system provided the tool through which the raw resources of other people's countries could be liquefied and smoothly channelled through the banks and stock markets into Europe and North America.

This was the technique of unequal exchange on which the case for compensation would have to be built. And that's the problem for the Mugabes of this world. The elites that now run the states that emerged out of the ashes of the colonial project are as guilty of operating the unequal exchange as the governments of Britain, France and the Netherlands in the 19th century. To convict the colonial countries of a gross misdemeanour – for which no-strings compensation should be delivered to Kenya, Nigeria, Zimbabwe, Burma, Malaya and so on – most of the rent-appropriators of the former colonial territories would also have to be convicted.

The notion of the right to development is a disguise to conceal misdemeanours being perpetrated by social elites in the impoverished countries. They are seeking to transfer responsibility to others for the grotesque scale of poverty in their countries. It is not surprising, therefore, that their sympathisers, who have no brief for what is called the economics of the Washington Consensus, should despair at the difficulties of

introducing land reform in the Third World. This issue is discussed by Professor Stiglitz in the interview he gave to Christopher Williams.

A MODEL of development that overcomes the problems that are now nurturing terrorism can be elaborated. It rests on the recognition of the fundamental difference between the wages of labour and the rents of natural resources.

Capitalism was built in Europe on the back of a philosophy which socialised people's earned incomes (through the tax system) and privatised the rents that were community-created. This combination of policies placed an artificial ceiling on the productive potential of capitalism. The long-run rate of growth was capped by the cyclical booms and busts, the nature of which has mysteriously eluded explanation by economists. Ed. Dodson's survey of the failures of corrective policies in the US reminds us that we have little to learn from the authorities who pontificate to the public today.

The outcome was institutionalised poverty. No matter how hard people worked, the populations of Europe and North America would never be able to abolish deprivation. That impoverishment necessarily translates into cultural deprivation. An understanding of the scale of the losses is now possible, thanks to the work of two economists in the US. Professors Tideman and Plassmann first elaborated their model of deadweight losses for the G7 countries. They showed that something like \$6 trillion was being lost annually during the 1990s to the people of the seven richest nations on earth alone. They have now refined their model, and they report their latest findings for the US economy in *Geophilos*.³

The causal connections between taxes, capital formation and employment are analysed by Professor Gaffney in this issue. These associations provide the template for understanding why the capitalist economy is locked into self-defeating mechanisms that deprive it of what is scientifically and technologically possible: the banishment of poverty. Socialism did not prove to be the remedy for this pathological state of affairs, although many distinguished philosophers attempted to find solutions through state planning. The formulation of a compromise with the socialist model was attempted early in the 20th century. Karl Polanyi (1891-1976), a journalist in Vienna, struggled for years to find a formula that would synchronise the pricing mechanism with a system of wages that were not contingent on the market economy.⁴ He failed, but went on to write a classic text [*The Great Transformation*, 1944] that showed how 19th century capitalism was fatally detached from its social context. Polanyi demonstrated that the doctrine of the "self-regulating market" was a utopian notion, but as Peter Gibb argues in his appraisal, Polanyi failed to deliver an account of the mechanisms that would create stability and restore culture to the vitality that is necessary if we are all to be enriched by the synergy of society.

There is a formula for delivering social development of the kind that would include everyone. The economics of this formula have been elaborated by William Vickrey, the Columbia University economist who

received the Nobel prize for his work on the use of auctions and games theory in the solution of economic challenges. In essence, Vickrey showed that capital costs could be financed out of the rental value that the investment in "public goods" created. One of his classic studies was on the economics of the linear city, published by Macmillan in 1977. That volume also contained an essay by Joseph Stiglitz which confirmed that the rational approach to public finance was to draw revenue from the rent of land and natural resources.⁵ The wisdom of that insight was acknowledged by the British government when it was faced with the issue of allocating licences that gave access to the electro-magnetic spectrum for third generation mobile telephone users. In the past, the rents of common resources were allowed, by default, to end up in private pockets. From this, it became inevitable that governments – which were guilty, by default, of allowing the misappropriation of rental income – would resort to the socialisation of people's wages and savings. That put the cap on capitalism.

THE HUMAN rights philosophy that we now need to develop is not sourced in the UN building in New York. There, the discourse is perverted by a loss of understanding of the nature of human rights. As Francesca Klug, a learned observer, has noted, "our notion of bills of rights is largely drawn from American movies". She argues that human rights values as they have evolved over the past two centuries are scarcely understood.

Some of us know about common law liberties, about civil liberties, about a culture of freedom, but, if we are to be honest, we understand little about human rights in their modern incarnation.⁶

Ironically, the search for a new collective awareness of our rights is to be found in the desert sands of Iraq. The guardian of some of the wisest strictures on human rights is not one Saddam Hussein. The principles of human rights and the practice of enforcing them are to be found in the ancient civilisations of the Near East. The enforceable juridical right of access to land was evolved by the civilisations of Mesopotamia, where it was chiselled on the stone tablets that are being excavated from the cities of antiquity. The priests and princes who administered those civilisations understood that the cancellation of debts and the restoration of access rights to land was fundamental to preserving the stability of their communities. These were the Clean Slates which provided the structural guarantee that the privatisation of rent would not continue indefinitely to weaken society.

The modern version of this ancient Clean Slate practice is the annual charge on those who benefit from the possession and use of land and natural resources in all their forms. This model delivers the self-financing programme of development to which the Third World countries should turn for the solutions to their problems. This is the development strategy that would deliver prosperity for all. Otherwise, as David Smiley notes in his essay, the future is a bleak one for us all.

The rent-as-public-revenue formula is a principled strategy that does not rely on violence for change; in fact, it is a Parliamentary-based reform which relies on the key principles of market economics such as the obligation to pay for the benefits that one receives. By adopting this self-financing programme, dependency on foreign aid is eliminated. This establishes a new community of equals among nations, and eliminates the need to assert claims on others through vacuous doctrines such as the unenforceable "right of development".

If adopted, this tool of public finance becomes the single most important mechanism for establishing peace on a global scale. By eliminating the something-for-nothing features of capitalism, a new capitalist order is established that gives meaning to notions such as equality, and lays the foundations for the renewal of cultures financed out of their own common resources.

This prospectus could be denigrated as utopian by hostile opponents who see no virtue in having to work for what they take home at the end of the week. That is why it is incumbent on the advocates of this policy to intensively elaborate the consequences of its implementation. Given the absence of a viable alternative social paradigm, such an ambitious venture in philosophy and social science has to rate as at least as important as the violent containment of those who claim they have no alternative but to use destructive weapons as their means of expression.

IN MY essay on Britain's auction of the third generation mobile telephone licences, I propose a mechanism for converting existing taxes to approaches that derive revenue from rent. The Tax Conversion Fund is a concept that needs to be explored democratically, since I argue that fiscal reform is imperative if we are to achieve the full democratisation of the western parliamentary process. One of the fundamental obligations of this fund would be to audit the impact of existing taxes. People need to know how their elected representatives impose an artificial ceiling on productivity. They will be shocked to learn that, in Britain alone, we could produce an additional £15,000 for every man, woman and child, if the public's revenue was grounded on the public's community-created rents.⁷

This one reform entails a paradigm shift in the character of the capitalist economy, with consequential changes to the fabric of society. It constitutes the Clean Slate translated into modern terms. But extensive exploration is necessary if it is to receive the support of people who have been socialised into accepting the current approaches that subvert their aspirations. The outcome, however, would be a reformed capitalism that would empathise with the cultural aspirations of others; there would be no diplomatic brow-beating of the kind that now passes for negotiations surrounding the international conventions such as those sponsored by the World Trade Organisation.

It is not just renegade philosophers who are advocating the need for an epochal change. Mainstream politicians are beginning to express fears from which the creative thinkers should take their cue.

In Britain, for example, Tony Blair's environment minister, Michael

Meacher, declared in a Newcastle University lecture that a question mark now had to be placed over the survival of the human species, which he compared to a virus in danger of destroying the planet.

The sheer scale of what is now required [to save the planet] has never been attempted and the shortfall between scientific theory and political action remains huge. There is a lot wrong with our world. But it is not as bad as many people think. It is actually worse ... Five times in the history of the last 540m years on Earth there have been mass extinctions, in one case involving the destruction of 96% of species then living. But whilst that was previously the result of asteroid strikes or intense glaciation, this is the first time in the history of the Earth that species themselves by their own activities are at risk of generating their own demise. What we now face is a transformation of our world and its ecosystems at an exponential rate, and unprecedentedly brought about not by natural forces, but by the activities of the dominant species across the planet.⁸

A mainstream government minister does not offer scare stories of this magnitude without good reason. The weakness in his analysis is discerned in the inclusive treatment of the whole of the human population as somehow implicated in bringing the world to this critical point. If the end of the world is nigh, the guilty ones are those who drafted the systemic rules that facilitated the greed and destruction that threatens mankind and other species on which the ecosystem relies.

To Meacher's credit, he acknowledges that we now need to explore new ways of allocating rights and opportunities globally in a fair way if we are to redeem the human project. His cabinet colleague, Gordon Brown, concurs with the need to especially help the millions who are starving to death by freezing out the corrupted elites that line their pockets with the aid of grants from other nations. But Chancellor Brown is not entitled to preach to others about their need to adopt "stable conditions for equitable and sustainable economic growth in developing countries", since European and North American nations have yet to discover that formula.⁹

People in the streets intuitively identify one of the sources of their problems: fiscal policy. In Bolivia, the president had to flee when the police sided with the public and engaged in a fire-fight to protest against tax rises. The tax state is under siege on several fronts. In La Paz, 20 people died early in February to express their opposition to arbitrary exactions on their earnings. Many of them were also protesting against a US-sponsored action against their traditional coca crops culture.¹⁰ In the US itself, the protests against malevolent forms of taxation are registered in the silent death of cities. The process of cultural implosion is sensitively registered in the books by Mike Davis. His *City of Quartz* was an autopsy on Los Angeles. His latest diagnosis is aptly entitled *Dead Cities: A Natural History* (The New Press, 2003).

THE GREATEST THREAT to America is not posed by Saddam Hussein. It comes from within. There are no individual villains of this piece. It is a social

process that divides communities on the basis of rules that privilege a minority. Not surprisingly, many people are trying to opt out of this mess by creating isolated communities, as analysed by Fred Foldvary. The history of the private communities movement is surveyed by Kenneth Jupp.

We are on a treadmill which, if Minister Meacher is to be believed, leads to destruction. That process has at its heart the fatal propensity to over-exploit Earth in the pursuit of windfall rental gains.

The scientific ingenuity that reduces our dependence on land is not the ultimate solution. As Nobel laureate economist William Vickrey once noted, land-saving innovations have helped. But "land rentals have risen ... in considerable part the result of the increase in population and capital; had population and capital thus increased without the benefit of the land-saving innovations, rentals would have absorbed a considerably larger share of the national product ..."¹¹

It is this interaction between people and their capital, and the resources of nature, which needs diagnostic clarity before we can hope to implement the correct reforms based on mankind's moral imperatives. This project of enlightenment does not have time on its side.

References

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