

# The Silver Bullet



In this excerpt from *The Silver Bullet* – the first monograph in theU’s economics of abundance series – author Fred Harrison considers the institutional basis of poverty and argues that on this, its 60<sup>th</sup> anniversary, the time has come to look again at the almost-sacred UN *Universal Declaration of Human Rights*.

The world is no closer to consigning poverty to history. Why is there still poverty – from whole countries of the poor South, to the back streets, slums and trailer parks of the rich West? The good intentions, the money, the rhetoric, the pity and the media histrionics are but pinpricks to a world-rampaging monster. They say there is no silver bullet. Neither Geldof or Bono, nor the United Nations, nor the vast assembled hosts of international aid and development agencies have the answer. Doesn’t every citizen of the world have an equal right to the good life? With so much wealth in the world, why are so many of us so poor, when we could rid ourselves of this monster? And the fact is, there’s only one way to kill poverty...

UNDER THE policies that determine the distribution of income in the capitalist economy, poverty is an institutionalised by-product of economic growth. Growth-oriented investment retards people's development if it is not combined with changes to the tax laws that determine the primary distribution of income. Understanding the nature and role of 'rent' in the market economy – the value of a country's natural and common resources – is a precondition for rebasing society on the principles of economic efficiency and of justice for everyone. The societal treatment of rent is the lynchpin of any poverty elimination agenda.

Once it is privatised, the rent of land and of nature's resources is converted from public value to private debt. Its essence remains: rent is the product of cooperative effort, institutionally separated from private incomes through the social rules of the marketplace. But it is transformed from benign social surplus, available to fund the

secular arts and spiritual life (among other things), into a legal force that tears culture apart. Rent becomes a debt – a transfer payment, as economists put it – that is owed by the majority to the privileged minority. The owners of land interpose themselves between people and nature, causing the implosion of society in a thousand and one ways.

To understand the making of poverty, both in the poor countries and in the rich West, we need a theory of corruption. Evidence for the mechanism that institutionalises corruption as a social process is to be found beneath our feet. All the information we need is strewn on the pavements of our cities. The anatomy of corruption in the making may be perceived as we go about our daily business. We shall recount one example.

Our story begins in Nyevesky Prospekt, the Fifth Avenue of St. Petersburg. Here, out of the ashes of Soviet communism, emerged the entrepreneurs ready to use what space they could find. The people could not wait for Russia to develop a commercial property market to accommodate retailers. Kiosks sprang up on the pavements. Traders came from Azerbaijan and Tajikistan to sell to a public that was hungry for their wares. From exotic regions of the east the spirit of the free market flowed in and ended up as deals outside the Metros of Moscow

and the gates of the walled city of Novgorod.

Municipal governments, including St. Petersburg, issued licenses for the kiosks, and charged a few roubles as rent. Then came the mafia. They wanted 'protection money' from the traders. It might be wondered how the entrepreneurs could afford to pay. The answer was to be found in the locations occupied by the kiosks. Traders situated closest to Metro station entrances had the highest turnover. They paid the flat fee to the municipal government, but paid much higher sums to the mafia. Kiosks further along the highway, where the pedestrian footfall was lower, paid smaller sums for 'protection'.

Nobody taught the mafia and the kiosk traders about David Ricardo's theory of rent. But this was the marketplace: the better the location, the higher the rent that the tradesmen were willing to pay. They could pay, and they did pay. The problem was that the money went to the bullies waiting to grab it.

The lesson is this: if government does not charge the full market rent for the benefits derived from a public space, the difference is not vaporised: it is privatised. In this case, hoodlums realised that there was spare cash on the pavements of Nyevesky Prospekt waiting to be picked up and pocketed. As for the traders, they settled for the easy life: it was all the same to them who collected the rents as long as they were free to transact their business and retain their wages and the profits from the sale of their stock.

The same reality exists on the pavements of India's cities. Migrants from the countryside stake out a few square metres and erect flimsy shacks which they call home. They choose locations close to where they can find work. Pedestrians are displaced on to the highways. The slum dwellers can and do pay the rents of

these locations. But because the rents are not collected by the local government, the *dadas* – the local goons – pocket the money in return for ‘protection’.

Here, then, is the choice offered by the market economy. Competition equalises the returns to labour and capital. Because wages and profits are privately earned, their owners make sure they claim what is due to them. But rent is public value. If the stewards of the community’s interests fail to collect that revenue, others have no scruples about appropriating what is not theirs. Corruption as an institutionalised process originates with the failure of governance.

In Africa, the losses are enormous. Nigeria bears witness. Over 90% of Nigeria’s population live on less than \$2-a-day, while civil conflicts are fuelled by the oil rents which government fails to collect for the public’s benefit. Corruption pervades individual deeds, corporate strategies and government policies. From terrorist attacks by malcontents, to bribes paid into Swiss bank accounts and vote rigging at elections, all can be traced back to the failure of public policy in relation to oil rents. Will Africa be able to separate rent privatisation from the interests of the political elites who now exploit the continent’s natural resources?

The community of nations is in need of a period of social renewal, so that people can see the need for changes to property rights and public finance policies. What will encourage such reforms? Pessimistically, the Asian Development Bank notes that “the most successful redistributions” of land take place after wars, citing South Korea and Taiwan. “Is the redistribution of land possible in less extreme circumstances?”, it asks. “The answer to this question may well be ‘No’”.

Wars, driven by the desire for territorial aggrandisement, were intrinsic to past Ages of Unenlightenment. Must we resign ourselves to the prospect that future reforms can only follow destructive conflicts? Or should we hope that, by democratic debate, and by showing that everyone gains from tax-and-tenure reform, enlightened people will reclaim their birthright without others first having to die?

Neo-colonised countries that wish to redevelop, need to take control of the agenda if they wish to determine their fate. Westerners can

help, and a good starting point is the recognition that a new approach is needed to debt cancellation. Relief from the debts that cripple whole societies must be sought by new means.

We need to start with a deeper understanding of the nature of this debt, as defined by the United Nations. The UN recommends that, in national accounts, balance sheets should have entries for buildings, machinery and vehicles, but should exclude land. Why? The UN correctly defines land as a non-produced asset. This means that the money paid for its use is a simple transfer of income from one person or group to another. Rent, when privatised, does not represent an exchange of value-for-value.

For so long as that form of debt hangs around the budgets of nations, it must impede evolution towards communities that are balanced in personal health, wealth and social welfare. The debt cancellation agenda, therefore, should switch its emphasis from debts owed to banks to the far larger debt – one that otherwise exists in perpetuity – which is paid to those who literally own the country and claim the legal right to extract a nation’s rents.

We need a new and different campaign to consign poverty to history. To support the goodwill of individual reformers, that campaign should be endorsed by governments that genuinely wish to see the redevelopment of their postcolonial societies. The starting point should be a move for change to the constitutions and declarations of human rights that inspire people; which mobilise moral authority behind popular consensus for change. In particular, attention now needs to focus on the endorsement of amendments to the UN *Universal Declaration of Human Rights*.

An amended *Declaration* would inspire governments to reform their tax codes – making it possible to unburden those who work for their living, by collecting revenue from the community’s natural financial fund – as the prelude to consigning poverty to history.

The need for inter-governmental initiatives has been recognised by people like Gordon Brown, Britain’s Prime Minister. He now realises that the Millennium Development Goals are not being achieved – “it is already clear that our pace is too slow, our direction too uncertain, our vision at risk”. He has

assembled a coalition of government leaders and multinational corporations to convene at a UN-sponsored conference in 2008 to address the deepening poverty in Africa. But without a comprehensive understanding of the causes of poverty, such initiatives will go the way of previous gatherings, where hand-wringing was not followed by action proportionate to the problem or its root causes.

The peoples of Africa and the other neo-colonised regions do not need the kind of aid that reduces them to dependent clients. They can enjoy cultural and economic renewal by funding out of their own resources their capital-intensive needs. This transformation would unite the world’s citizenry through a declared common stake in its natural home. A fairer, richer, international community united to address the global crises that now beset us all on Earth.

In future, we need to burrow down much more deeply into the phenomenon of poverty. Its nature has changed: because the material achievements of the past 30 years in some redeveloping countries have been offset by a steep rise in what we call pauperisation. This condition touches everyone on both sides of the income divide.

- In the UK the geographical maldistribution of wealth and poverty since 1970 has been confirmed by exhaustive examination of official statistics. The historic trend is away from equality. Wealthy areas (and classes and individuals) have tended to become disproportionately wealthier. An increasing polarisation is driving spatially deeper wedges between rich and poor, fragmenting communities to the point where, in some city locations, over half of all households are deemed to be ‘breadline poor’.

- In the USA, tens of millions of families survive only because mothers seek employment to cover the cost of the mortgage. Real wages have been falling since about 1975. This decline in material standards is reflected in the erosion in the American citizen’s constitutional ‘right’ to happiness.

According to one estimate, between 1979 and 2004 the pre-tax incomes of the top 1% of Americans had increased by \$664bn (\$600,000 per family), an increase of 43%. The lower 80% of families were worse off by \$7,000 in income per

family (a 14% loss) – with the trend continuing to widen the gap.

We can see that the capitalist model does not provide for sustainable growth; nor does it deliver equity between individuals or classes. But the problem that we wish to highlight is this: the material deprivation index fails to capture the full horror that follows the separation of people from their natural environment.

Pauperisation can be observed in the way that some indigenous peoples find themselves marooned on modern versions of reservations. Their culture began to implode the moment they were separated from ancient land rights. Their lives ruptured from traditional cultural forms of activity, they seek solace in drugs, alcohol and other self-destructive behaviour. The material welfare made available by government is no protection against the trauma that results from personal and group detachment from their ecological niche. Poverty slides into the pauperisation of personality and community.

According to the UN, we would all benefit from a general mobilisation in favour of 'human security', by responding to the threat of global poverty travelling across international borders in the form of drugs, HIV/aids, climate change, illegal migration and terrorism.

But the UN's notion of human security fails to address the process of pauperisation. Furthermore, even the need for security cannot be achieved if we do not restore the role of land in our lives.

Pauperisation encompasses material, psychic and spiritual forms of deprivation. A country's *per capita* income can rise – suggesting it is reducing poverty – while at the same time the population's welfare may deteriorate. Growth in national income can be associated with a desperate deterioration in quality of life.

The concept of potential is crucial to a consideration of what we mean by pauperisation. It is the measure of achievements unrealised. It reminds us of how we could all enjoy peace and the economics of abundance. But abundance does not allude to material satiation. It refers to that contentment which comes with the state of liberty – of not being subjected to arbitrary restraints imposed by others, and of being equipped to challenge oneself to achieve personal goals.

The UN's notion of human security is

underpinned by a doctrine of 'human rights' that pauperises people in the rich as well as in the poor regions of the world. In England and Wales, for example, one in three children still live in poverty. This is relative poverty: it is impossible to compare the poor children of England to the poor children of Malawi. But this poverty contributes to the collective sense of a pervasive social malaise which is now spawning acts of desperation. These include the self-destructive acts of suicide bombers who are reared in families that do not lack material resources, but who experience a profound sense of deprivation and alienation.

We do not claim that fiscal reform will be the instant answer to religious fanatics or corporate bullies. We do claim that our agenda provides the framework for a new sense of justice in our relationships both with each other and with Earth. This fiscal agenda assumes critical importance when we realise that narrowly defined poverty, by itself, cannot explain the global crises that are converging in the 21<sup>st</sup> century. The billion who suffer \$1-a-day material deprivation constitute but one of four interrelated global challenges. The other three are:

- Terrorism. No corner on earth is free of this brand of violence, which is used as a tool of politics by other means. Is force really the optimum way to address the causes that inspire what President George W Bush called "the axis of evil"?

- The eco-crisis. All nations agree that nature is, now, about to wreak revenge on humanity. We will all be affected by climatic shifts. Should we allow the polluters to set the terms for reducing that damage?

- International trade. When two billion people from the ex-socialist East arrived in the market economy, the demand for protectionism was resurrected in the West. That demand will be heightened as the global economy dives into a recession. Should trade be framed to suit the corporate rent-seekers?

The correct reforms will not be

L&L's publishers the Henry George Foundation endorses theIU's petition to the UN to amend the *Universal Declaration of Human Rights* "to restore our right to a share in earth and our duty to compensate the community for what we receive". From the site you can invite others to sign up, and a free digital copy of *The Silver Bullet* can be downloaded or sent to anyone interested in why tax-and-tenure reform is imperative to erase mass poverty and territorial conflicts – [www.UNpetition.net](http://www.UNpetition.net)

adopted without a full understanding of the facts by people with open minds. The price of failure is beyond our present comprehension.

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