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Economic Law, Ethics, and Paradox: Is There a Way Out?

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ABSTRACT

The author's intention is to show that if economics is to become a social science, analysis has to start with the truth of things, continue with the virtue of justice, and end by assigning their rightful places to the approaches of the past 200-odd years: Liberal, Marxist, Austrian, ecclesial and Georgist-Gesellian. The argument hinges on the Land and Money questions, which modern economics persists in not addressing. Hence the rampant economic disorder. The modern State has been rendered impotent by the vested interests that have succeeded in keeping the two questions under wraps. Conventional solutions of economic problems are grossly defective for the same reason. Two men, neither of them an economist, did tackle the problems and solve them: Henry George (1839-97) and Silvio Gesell (1862-1930). Their solutions: Free Land and Free Money would spell the end of landlordism and usury, thus ending multi-secular oppressions. Oppressors would no doubt put up a stiff resistance.

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1. INTRODUCTION

After being thrown out of the IMF in 1999 for whistle-blowing, Joe Stiglitz, ex-Chief Economist of that venerable institution, received the Nobel Prize for

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Economics in 2001, for his explanation of how "asymmetric markets" work. An asymmetric market is one where some people know more than others. Had the Nobel Prize existed in Aesop's time, the fox that enticed the crow to speak so as to make him drop his cheese would have easily qualified for it.

The man and his prize are emblematic of the disorder in economic affairs that has been spreading since *The Wealth of Nations.* The past 200 years have increasingly seen what may well be called "the Stiglitz paradox:" parallel to the setting up of university chairs, tenured professors, prestigious textbooks, journals of great erudition, and thousands upon thousands of doctoral theses (published or not), not to mention the Nobel awards, the economy of the real world, suffered in the flesh by countless men, women and children, is a world where poverty reigns side by side with opulence; unemployment rises its ugly head side by side with the need for work; the gap between the rich and the poor widens by the day; and the scourge of war and terrorism goes together with a diminishing freedom caused by the oppressive intromission of the State in personal and family affairs.

Let us add that economists who dare "predict" anything, are always proved wrong, and that neither universities nor government departments dare to sack them as they would if instead of economists they were, say, engineers or accountants, e.g.:

> Just a year ago, top Fed officials (most of them economists) forecast the economy for 1994. On average, they predicted economic growth of 3 to 3.25 percent, inflation of about 3 percent and year-end unemployment between 6.5 and 6.75 percent. In fact, the economy grew 4 percent, inflation was only 2.7 percent and unemployment dropped to 5.6 percent… Economists of all parties have fostered popular delusion by overstating the power of their ideas.[1]

> Economic forecasts are dangerous when they are published and believed – but even more dangerous when they are not published and still believed.[2]

> The trouble is the whole exercise is dishonest; economists don't know enough to predict how a tax cut of, say, $35 billion will alter long term growth in a $7 trillion economy.[3]

> Page after page of professional economic journals are filled with mathematical formulas leading the reader from sets of more or less plausible but entirely arbitrary assumptions to precisely stated but irrelevant conclusions.[4]

2. A NATURAL ECONOMIC ORDER

In minimal terms, a natural economic order is one where those who work eat, and those who do not either get the ravens to bring them food[5] or starve. A natural economic order hinges on the production and distribution of *wealth.*

- *Land, labor, and raw materials* produce wealth. Labor produces *capital* if allowed to do so.

[1] Robert J. Samuelson, *Soothsayers on the Decline*, Newsweek February 13, 1995 p. 44.
[2] *A Plague of Forecasters*, The Economist 21st August 1976
[3] Samuelson, art. cit. p. 44
[4] Wassily Leontief, Nobel Prize winner in economics, cited in *The Economist of* 17th July 1982.
[5] 1 Kings 17: 1-6. By "ravens" here are also meant charitable people who feed those who cannot work.

- There are many means to distribute wealth: trade, the law, especially tax law, and an infinite variety of social intercourse: salaries, gifts, offerings, theft, bribery, unjust privilege, fraud, gambling, and countless other means thought out for centuries by people who intend–and regrettably succeed—in living off the work of others.
- All the foregoing is facilitated (or hindered as the case may be) by money, an excellent invention of the human spirit the history of which is better read elsewhere.[6]

Please note that whereas the laws of wealth production are necessarily *physical*, those of wealth distribution are necessarily *moral*, for they are always the consequence of free and responsible (or irresponsible) human decisions. Economic inquiry ends on ascertaining where the wealth produced ends up. The factors of production: land, labor, capital, and money, act now as receptors of distribution.

A natural economic order should square with

1. The truth of things. Truth, defined as "the agreement between the mind and reality,"[7] must be, as in a court of law, whole and unencumbered.
2. Justice as "the constant will to give everyone one's due."[8] It is therefore unjust not only failing to give what is due, but also giving what is not due.

[6] See J.K.Galbraith's *Money*, Houghton Mifflin Co, N.Y. and S. Zarlenga's *The Lost Science of Money*.

[7] The definition is Avicenna's (Ibn Sina, 980-1037); Aquinas made it his own.

[8] The definition is Papinian's, one of Emperor Justinian's jurists. It has stood the test of 15 centuries.

3. Freedom to take economic decisions, at all levels of society.
4. Solidarity. Man's nature as a social animal entails solidarity, i.e. voluntary *dependence*, not to be confused with loss of freedom.
5. Subsidiarity, the transcendent principle that makes freedom and solidarity *converge*. Without it, they diverge: freedom degenerates into liberalism and solidarity into collectivism.

Even a cursory reading of the foregoing tells that present-day economy is not in any sense an "order," even less a "natural" one. It is a disorder of colossal magnitude, the root cause of which is the abdication of State sovereignty: of land to title-deed holders and of money to high finance.

Many people go on believing the Central Bank and Government act as two placid oxen pulling the economic cart, with the people firmly in the driver's seat gently prodding the beasts into taking the cart in the same direction.

The reality is that the people are the ox pulling the cart, the Central Bank is firmly in the driver seat and the Government is the whip in its hand, hitting the ox with sundry taxation. The commercial banks are akin to horseflies prodding the ox by biting its tender parts. The landlords are the cart itself.

The rest of the paper will be devoted to proving the foregoing thesis.

3. THE LAND QUESTION

A landlord is a *de facto* sovereign. He exercises sovereignty by excising a natural resource (land) from common use and then taxing those who need it to work. Since anyone who works, down to the smallest economic operator in urban setting, needs some soil under his feet, he has to pay rent to the holder of the title deed for that particular piece of land. He may go and occupy free land, but the distance from the market adds to his costs whatever he saves by doing so.

Landlord taxation forms his rent, which he exacts in one or both of two ways:

- From tenants, who pay him directly;
- From workers, by withholding their due wages.

In either case he maximizes rent. A pool of unemployed suits the landlord fine, for if either tenants or workers protest, the threat of unemployment makes them submit. This is the main reason why no government throughout the 20th century has succeeded in eliminating unemployment.

Private ownership of land, which at present indissolubly joins the *ius utendi* to the *ius abutendi* (right of use and abuse) has two main effects.

- It depresses agricultural wages. The best land, closest to the places of consumption, gets occupied first, for uses more profitable than agriculture. Hence the margin of cultivation gets pushed farther and farther from such centers, thus forcing producers to rely on a long chain of middlemen to market their products. The fruits of their labor are thus reduced.
- Monetizing as rent all the advantages of social intercourse. At any improvement in infrastructure, social amenities, technology, that entices the workers to stay rather than emigrate, the landlord either increases the rent of his tenants, or depresses the wages of his workers, or both.

The history of landlordism is a long one. Livy's patricians and commons struggled for centuries about

the very points made in this paper: land and money. Whenever the commons threatened revolt, or were in a position to demand reform, the patricians invariably managed to divert their attention towards enemy invasions, not infrequently causing them.[9] In Church history the same question looms larger, from the land grants of Pepin of Heristal (756) to the loss of the Papal States (1870).[10]

The rise of the modern State, begun with the unfortunate decision of dividing the Fathers at the Council of Constance (1415) by nationality, promoted political landlordism, but the sovereignty of the State was soon usurped by private landlords starting with Henry VIII's imprudent decision to sell off confiscated church lands in exchange for title deeds.

The land question is responsible for the perennial, unresolved tension between sovereign,[11] nobles and the plebs, plus phenomena like European colonization, "overpopulation," the mafia, and war as an escape valve from social unrest.

From none of the above it follows that land ownership is immoral *per se*. Landlords/ladies conscious of the social function of their property have always existed, but admittedly not many.[12] To give on a plate the

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[9] Early History of Rome, from Romulus to the Gallic invasion.

[10] For more than 1000 years the popes had to wear two hats: one as head of the Church and another as king of the Papal States. The interests of the two not always coincided, to put it mildly. Perhaps the most grotesque episode was the war between His Most Christian Majesty Philip II of Spain and Pope Paul IV for the duchy of Paliano in 1555.

[11] This term applies indifferently to erstwhile kings as to modern presidents or what have you.

[12] An outstanding example is Marchioness de Colbert of Barolo, 1791-1854, main benefactress of Don Bosco (1815-88) in Turin. At 53 she wore the cilice of penance under her dress, dedicating herself exclusively to the poor. In her *Memoirs* she

opportunity to live off the work of others and expect the grantee not to make use of it is rather a tall order.

4. THE MONEY QUESTION

The money question goes all the way back to Croesus of Lydia (6th century B.C.), who took the momentous, but baleful decision to stamp lumps of *electrum*, a natural alloy of gold and silver, with his royal seal, thereby guaranteeing the weight of the money units. Two things escaped him:

- The alluvial deposits of electrum (from the river Pactolus in Asia Minor) would not last forever, and that an economy based on the division of labor would fail to develop unless backed by ever new findings of deposits of precious metals;[13]
- Since gold and silver have "intrinsic value," meaning that everybody likes them as metals, whoever is in possession of one such coin will think twice before spending it. The intrinsic *contradiction* between saving and spending gets indissolubly united in the same lump of matter.

wrote, "I must pay for my ancestors' unjust privileges. I must settle accounts for the debts they contracted with the miserable and the exploited." For many years she used to spend three hours daily in the women's prison. She endured insults, humiliations, even beatings, for wanting to teach those poor women. In the end she succeeded in getting the authorities to separate the men's prison from the women's.

[13] Silvio Gesell argues that the decadence of the Roman Empire was due to the superstition that money had to be made of precious metals, the mines of which were already exhausted by Augustus' time. The dearth of money caused the collapse of the division of labor, and with it that of the political organization. *Natural Economic Order* Part 3 Ch. 17.

Needless to say, whoever controls the monetary raw materials controls money as well.

Lycurgus of Sparta (ca. 9th century B.C.) had seen through the scam three centuries earlier, banning gold and thus gaining the admiration and praise of Pythagoras and the reviling of gold buffs. I do not know if Croesus had ever heard of Lycurgus.

The question has not been solved to this day. For all these centuries governments, for as long as they could still do so, issued money as a means of exchange, but they never, ever succeeded in preventing savers and usurers (for the present argument they are the same) from taking money out of circulation for their own purposes. Thus money scarcity, rampant to this day, is the main, though not sole, cause of the economic disorder troubling so many nations, particularly in poor countries.

The dearth of means of exchange gave rise to credit. The first to realize that credit could replace costly (and dangerous) transfers of specie were the Knights Templar. After their expulsion from the Holy Land in 1291 they established an extremely successful network of credit centers in their commanderies throughout Europe, with headquarters in Paris. Of course they did not tell anyone that there was no gold "backing" their pieces of paper, and that was their undoing. King Philip the Fair, in cahoots with the first Avignon Pope Clement V, destroyed the Order and ransacked the commanderies in search of the phantom treasure. In one of history's ironies, pope and king died within the same year as Grandmaster de Molay (1314).

King Philip's (and Croesus') superstition is alive and well. Most people still labor under the same delusion (confusion if you wish), calling "money" both cash and credit. It is true that cash for 100 dollars (pounds, yen etc.) purchases the same goods and services as a check for the same amount, but a check is an instrument of *credit*: all it does is transfer *information* from one account to another, *once*. Cash, on the other hand, transfers goods/services for the value of 100 units *every time it changes hands*. In the hypothesis, unlikely but not impossible, that 100 units of cash were to change hands three times a day for a whole year, *the same note* for 100 units would move goods and services in excess of 100,000 units. This is the meaning of *liquidity*, which cash, but not credit, enjoys.[14]

This has never happened. The cost throughout history has been, literally, rivers of blood. What follows will give an idea, however sketchy, of the real situation.

What enriches a select few at the expense of many is not Government intervention, for the simple reason that Governments have no say over the issue of money except for coins, on which the State exacts a paltry seigniorage (profit from rating nominal above intrinsic value). The production of money has been left to private interests (banking) since Waterloo (1815), when the private banking sector completed its usurping the issuing of means of exchange from the State.[15] And that is precisely what enriches the select few: they are those who control money as store of value, depriving of its use those who need it as a means of exchange, unless, of course, the latter pay them a tribute called "interest."

Few people know, and perhaps will get scandalized on knowing, that the institution of the Central Bank is the

[14] The above should not be construed as a condemnation of the check or of electronic money, which moves much like it. If neither existed, the dearth of liquidity would be far more biting than it is.

[15] The beginning of that usurpation was the foundation of the Bank of England in 1694; Napoleon, conscious that the ruin of France had been the work of Necker and associates, wanted France free of debt, hence the Continental System. He tried military resistance, and failed.

second plank of Marx's 1848 manifesto. The "prince of muddleheads," as Henry George dubbed him, advocated, in his own words, "Centralization of wealth in the hands of the State by means of a national bank with an exclusive monopoly."

The institution has spread from one country to another since.[16] Central Banks issue money as dictated by the World Bank. Present-day policy allows the so-called Group of 12 to have a relatively abundant supply of money, and the rest of the world to survive as best it can by "borrowing" from "donors," meaning that poor countries' Central Banks issue no more local currency than matches the quantities "borrowed." The rationale behind this policy has never been explained. Its effects can be read in Hernando de Soto's *The Mystery of Capital:* the assets of the world's poor, with a total value of 9.3 *trillion* dollars, are like a gigantic engine, seized because of lack of lubricant. This dearth of money keeps poor countries in a permanent state of deflation, with all the social problems entailed.[17]

The commercial banks (in all countries) fill the gap, but they do not issue cash: they create credit, and only for the "credit-worthy," i.e. the select few. They, not "government intervention" "enrich the select few at the expense of the many."

Besides credit, banks also create confusion, out of which they prosper. They call "loans" what are in effect licenses to print money (credit), and love their clients to

[16] Few economists seem to know, or to care, that the dean of all revolutionists should have been the one behind financial power. It is also odd, to say the least, that the revolutionary mobs of the 19th century never touched banks and bankers.

[17] De Soto does not see it that way. He thinks that the assets should be "legalized," by which he means brought into the framework of State laws. Even if they were, their incorporation into the legal system would not solve the deflationary problem by one iota.

believe that their deposits are "sound" because of the few tons of gold ingots kept in their vaults. And so everybody calls various instruments of credit "money", without thinking that such instruments are for one-shot transactions, without circulating as cash does. This crucial qualitative difference passes undetected thanks to modern thinking, brainwashed into believing that only quantity, not quality, matters.

On their (fake) loans, of course, banks demand interest, but without creating it. Interest must be extracted from the economy of production and exchange, which guarantees that somebody, somewhere, must regularly go bankrupt. A paradox of this arrangement is that the so-called "bad" loans, meaning borrowers who fail to pay interest, are bad for the banks, but good for the economy, for the defaulters don't go bankrupt. The same thing can be said about bank robberies: the economy gets injected with much needed cash, in operations that at times cost a few lives.

The issuing of credit and grand scale money-manipulation has brought into existence what Bernard Lietaer calls "the global casino," i.e. a financial bubble of monstrous proportions utterly unrelated to the economy of production and exchange.[18] In 2001 the bubble was worth $98 *trillion*. Lietaer forecast it to be $140 *trillion* in 2004. Since world production and exchange requires no more than $3 trillion, it is not difficult to imagine what would happen if this nightmarish demand were unleashed onto the consumers' market one good day.[19]

[18] Bernard Lietaer, *The Future of Money*, Century, London 2001.

[19] The recent boom in property sales (August 2004) may well have to do with the imminent bursting of the bubble: those in the know have started investing in land. It can be seen that if the two problems of land and money were solved, these gentlemen could well start eating their worthless papers.

Governments have of course tried to get hold of some of this "money." But their impotence has become manifest in their utter inability to impose even the modest Tobin tax of 0.2 - 0.5% to the trillions that cross borders every day.

That money should consist of "unbecoming" paper notes, as opposed to luscious gold, in the opinion of the Austrian School, is irrelevant. The contradiction "means of exchange v. store of value" persists, and that is why hoarders withdraw money from the market and release it if and when they can exact a tribute known as "interest." Put it another way, demand (backed by money) has an undue advantage over supply, thus making nonsense of the homonymous "law."

Deflation and crises that used to hit the economy as soon as the interest rates dropped below 2% have not happened since Bretton Woods (1944), because Keynes (1883-1946) convinced Central Banks to replace hoarded notes with freshly printed ones. A built-in unreliability is thus a symptom of the impotence of governments to control the hoards. If at times there is too much money, and at times too little, it depends on who decides to disgorge, when and what for. That is why, as Guido Hülsmann of the von Mises Institute correctly remarks, "Most people and even most economists have no clue."[20]

Were money still made of precious metals, since no government can make gold or silver, the outcome would be far worse. The demonetization of silver in 1872 (in Germany) was certainly due to intervention, but not by Bismarck. The interventionists were the hoarders of gold, worried that abundant silver could improve the lot of the working classes. Prosperous workers would not

[20] *Nicholas Oresme and the First Monetary Treatise, Mises Daily Article* 18 May 2004

quite agree to being exploited in the interest of landlordism and usury. Scarce gold assured control.

The money question joins the land question in causing the class war, international war, unemployment, political assassinations,[21] poverty, underdevelopment, lack of housing and infrastructure, concentration of energy sources, scarcity in the midst of plenty and a host of other evils that plague the world undetected and therefore unchallenged.[22]

5. THE IMPOTENT STATE

Unable to beat either the land or the money power, the impotent State joined them. Modern taxation began in earnest. As James Robertson puts it:

> After paradise lost, you can almost imagine Satan sitting down with Beelzebub, Moloch, Belial and the rest of his cabinet, to design the most damaging tax system they could persuade the human race to adopt. Could they have done much better than what we have now?[23]

The hallmark of modern taxation is *injustice*, whichever of its features one considers. As George Bernard Shaw once remarked, "A government which

[21] Napoleon, Lincoln, Czar Nicholas II, Trujillo, Kennedy, Somoza, Torrijos and Roldós are good examples.

[22] Underdeveloped countries remain underdeveloped, among other causes, because their politicians see poverty as a source of power. Handing a paltry sum to poor people ensures votes; doing the same with prosperous people would reap insults and scorn.

[23] *The Alternative Mansion House Speech*, 4th September 2000. Robertson@tp2000.demon.co.uk. Robertson was adviser to Prime Minister MacMillan during the famous "wind of change" speech.

robs Peter to pay Paul can always depend on the support of Paul."[24]

The modern State robs Peter in five basic ways.

Customs and Excise is the modern version of robber barons plundering traders. The art of doing so consists in not taking more than will entice the trader to change route. It criminalizes the basic human trading instinct. It acts as a brake on the economy. Henry George remarked that goods spent many more weeks in customs warehouses than in crossing the ocean. Today air transport has dramatically reduced the crossing time, but only for goods to spend more time in customs warehouses. On top of that, a plethora of officials check, authorize, deny, verify, control, stop, and variously exercise power over any unfortunate who does not know the ropes. Not a few of them, on realizing their discretionary powers, demand bribes, thus diverting the fruits of someone else's labor to themselves.

Indirect taxation hits consumption in all its forms. "*Non olet*," Vespasian is reputed to have said on smelling the money accruing to the exchequer from a tax on public urinals. Modern indirect taxation dates from Restoration England in mid 17th century, when the landlords then in power shifted the tax basis from their property onto the consumables of the poor. The practice continues to this day. Gasoline (in Britain) is punitively taxed at 75% of its selling price.

Income tax hits production. Its introduction (by Lloyd George in 1909) in progressive form is not even a century old. As the State has the duty of protecting life

[24] George Bernard Shaw, *Everybody's Political What's What?,* chapter 30, p. 256 (1944) cited in Respectfully Quoted: A Dictionary of Quotations Requested from the Congressional Research Service. Washington D.C.: Library of Congress, 1989; Bartleby.com, 2003. www.bartleby.com/73/. [December 6, 2004]

and property, it has the right to tax life and property. It can be argued (as I do) that income tax is a form of poll tax, therefore counterbalanced by services such as defense, justice, and law and order. It is therefore the less unjust of the taxes of the modern State. It would be more just (and increase revenue to boot) if it were exacted on a flat rate instead of a progressive one.[25]

Value Added Tax hits transactions. It is by all accounts the most unjust and counterproductive, not to say absurd, tax ever devised. It is not even new. 16th century Spain had VAT: it used to be called *alcabala*. It did not last because the Spanish State quickly found out that the cost of collection exceeded the amount collected, thus ruining the economy. Modern bureaucrats know this, but to hide the fraud they saddle compliance costs on producers and traders without paying them. To force people to work without pay is the arrival point of Von Hayek's 1944 *The Road to Serfdom*.

The latest idea to fill the coffers of the State is *legal gambling*. Never mind the increase in crime, bankruptcies, divorce, and child abuse, with a social cost that would offset any amount of revenue collected. To allow Native Americans to pander to the vices of gamblers by running casinos is to dissolve the last feeble ties they still have with the land. Benevolently, let us call it economic myopia. Malevolently, one could well call it covert genocide.

State intervention, a foe of the Austrian School, is the intervention of an impotent State, forced to implement the catch-22 situation described above.

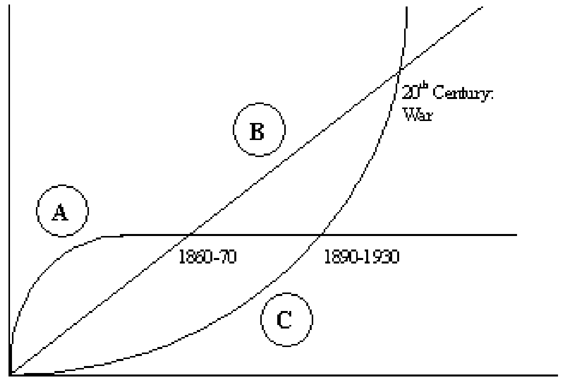
[25] The State harbors the illusion that by taxing income progressively it hits the rich more than the poor. In reality, the rich can afford clever lawyers who help them avoid punitive income tax rates.

The Austrian School was anticipated by the Italian economist Maffeo Pantaleoni (1857-1924), who remarked some 100 years ago that

> Governments have taken to what is called State Socialism and Paternalism, or general tutorship of citizens, creating innumerable State monopolies, privileges; laming private efficiency, destroying speculative commerce and industry, turning into crimes absolutely necessary ways of doing business… Everywhere, more or less, Governments pay a corrupted Press, forming public opinion… Public opinion should be awakened to the economic value of Governmental honesty. Private dishonesty is repressed by courts of law. Unfortunately there are no prisons for statesmen and political bodies.[26]

Graphically, the economic disorder gripping the world can be expressed as:[27]

[26] Daniele Varè, *The Two Impostors*, 1949. John Murray, p.65.
[27] The graph comes from *Inflation and Interest Free Money* by Margrit Kennedy, New Society Publishers, p. 19. Dates are added.



Curve A responds to natural growth, i.e. the growth of living things. It depends on the cycles of nature: water, oxygen, carbon etc. Agriculture and derived industries follow, or should follow, that curve: fast growth at the beginning soon reaching zero growth (equilibrium).

Straight line B represents industrial growth. It overtook agricultural growth for the first time in the decade 1860-70, both in America and England, followed by the rest of industrialized countries.

Curve C is the exponential of compound interest, pushed inexorably by usury, dictated in turn by the form of money in use since Croesus, with the concomitant, permanent confusion between means of exchange and of saving.

The decades 1890-1930 marked the intersection of compound interest with agriculture. The effects have been dramatic not to say tragic. For instance:

- The rape of the great North and South American prairies. Millions of tons of grain below cost were dumped on the European markets, ruining

the small farmers and forcing millions of them to migrate. In the 1930s nature wreaked its vengeance on America with the "dust bowls": 400 million acres of exhausted land went with the wind (Steinbeck's *Grapes of Wrath*).
- The replacement of Chilean nitrates at the end of the Great War with synthetic ones. Now forced into continuous, relentless growth by compound interest C, synthetic nitrates function as explosives in wartime and as fertilizers in peacetime. Any good farmer knows that the only rational practice is to feed the *microflora of the soil* with compost made of natural fertilizers. This in turn feeds the roots of the crops in the time and manner established by nature. But for the past 90 or so years the industry has succeeded in forcing the artificial feeding of crops. Quantitative production has been spectacular, but its quality proportionally deficient, unable to sustain the health of livestock and humans. Natural fertilizers are either not produced or they are destroyed, thus giving work to the "unemployed."
- The invention of the flat-disk mill. This neatly separates nutritious germ from protein-rich bran and plain starch of the wheat grain. The first two sell at exorbitant price instead of going into ordinary bread as they used to. A prisoner on bread and water could survive in ante-flat disk mill days. Today he wouldn't.
- The disappearance of the family farm by foreclosure, and its replacement with cash crop culture, which increasingly depressed soil fertility.

When exponential C intersects straight line B, it is the economy of war. Production is now in function of destruction, so as to give employment and pay interest on debt. In 1945 Raul Follereau[28] asked both Roosevelt and Stalin for the cash corresponding to the cost of a bomber on behalf of his lepers, but in vain. He did not realize the true interests of the two belligerents. An aircraft shot down or crashed meant thousands of jobs in the war industry, which had bailed the US out of the Great Depression.

This very practice is in full swing. The war industries produce, the merchants of death sell their products to "governments" of underdeveloped countries, and these make an excellent use of them (economically speaking, i.e. death and destruction) for the "developed" countries to solve the problem of industrial unemployment.

Then someone notices that those at the receiving end are hungry, and that they walk hundreds of kilometers in search of food, shelter, and instruction. Good-hearted do-gooders send thousands of tons of foodstuffs and essentials. "Developed" countries solve (partly of course) the problem of agricultural unemployment.

All of this is followed by "expert" personnel going to help *in situ*. Unemployment decreases accordingly.

It is evident that peace is the last things that such a setup wants. The real problem is usury, and for as long as this hidden enemy is not faced and defeated, there will be no programs, however backed by good will and put into practice by good people, that can turn things around.

All the so-called "industrialized" or "developed" countries have reached this stage. Whether they opt for using war materiel themselves, or for selling such stuff elsewhere, the immorality of the exercise should be obvious, but those who pocket "fat dividends" from the

[28] (1903-77). Follereau discovered that leprosy was curable, and cheaply. He has several foundations named after him.

industry are understandably unwilling to take a close look at what the toys of death do, especially if it is not their children who are involved. I will provide a single example: the child-soldier.

The 12-year old with his AK 47 across the shoulders is, in fact, "the most efficient fighting machine ever devised" in the opinion of a Sudanese military commander. Why?

- Recruiting is simplicity itself: he is kidnapped by a band of age mates at the orders of an adult soldier, and if he tries to resist or get away, his age mates cut him to pieces there and then, so as to dissuade others from imitating him;
- Training is equally simple: six months are more than enough for him to handle lethal weapons and to learn basic military tactics;
- Obedience is blind: still below the age of judgment, he doesn't think much of darting into the fray without thinking, or of committing the most revolting atrocities without blinking;
- The target he offers is minimal: he is difficult to spot and therefore to hit;
- If he falls dead, digging his grave requires minimum effort;
- Finding a replacement is equally simple: in the meantime a woman will have produced, suckled and brought up another one to take his place.

Chickens come home to roost if and when the 12-year old survives the ordeal, reaches the age of judgment, … and understands. Then there follow sleepless nights, desperate weeping, nightmares, and (rarely) suicide. In any case he will be a traumatized adult for life, irritable and antisocial. Many will remain in permanent exile: they dare not return to their native villages, where the survivors remember his atrocities.

But what does usury care? Thanks to him the shareholders of death will have pocketed their "fat dividends".

6. SOLUTIONS

Academe

One would expect, wouldn't one, that university faculties, tenured professors, prestigious textbooks, journals of great erudition, and thousands upon thousands of doctoral theses (published or not) not to speak of the Nobel Prize Committee, should notice the above predicaments, however cursorily.

But the academic world moves in another wavelength, driven by a false definition of economics and by various schools at loggerheads with reality first and with each other as a consequence.

The term "political economy," defined as "the study of production and distribution of wealth" has surreptitiously been replaced with the term "economics," defined as "the allocation of scarce resources."

This apparently innocuous definition hides not one but two traps. First: what is a "scarce" resource? Second, who is going to "allocate?"

There is no such thing as a scarce resource. Human ingenuity has always managed to find substitutes to anything made artificially scarce by human greed, which is what usually happens. Oil is a case in point. In 1850 whale oil, until then the chief product for domestic lighting, quadrupled in price, not because it was "scarce," but because its distributors had cornered the market and wanted to make a kill. By then someone had noticed that a black stuff oozing from the ground could be used as a substitute, and the modern oil industry took off, turning whale oil into a historical curiosity. But the story has not ended. Russian deep drilling, starting with a 20 000m well in the Kola Peninsula in the 1960s, has proved that there is as much oil as one wants provided one is willing to drill very deep, and therefore expensively. With this technique Vietnam is now an oil producing country, which it was not supposed to be. Further, old oil wells thought to have been exhausted, have been observed to refill from the depths of the earth. This is of course unwelcome news for the giant oil corporations, but sooner or later, as J. K. Galbraith puts it, "conventional wisdom is put paid by the march of events."

The innuendo of the "allocation" is that only the "experts," those in the know, can "allocate." True, for as long as land and money monopoly stay as they are. When people wake up, as they are doing before our very eyes, the economy will take off as it should, i.e. on the two wings of Free Land and Free Money.

The Nobel Prize is a joke in its own right. Some recipients are awarded the prize not for what they know, but for what they can say. Joe Stiglitz, mentioned at the beginning, is a case in point. James L. Phelan, berating the WB/IMF, quotes:

> So what would Stiglitz recommend in place of the usual WB/IMF fare? He proposed radical land reform, an attack at the heart of 'landlordism', on the usurious rents charged by the propertied oligarchies worldwide, typically 50% of a tenant's crops. This is, alas, a more delicate subject. It's easier simply to have faith that constant economic growth will deliver us from the difficult issues of land tenure and access to income-bearing assets. This very political program is understandably not on the WB/IMF's list of chores, since as Stiglitz reminds us "if you challenge land ownership,

> that would be a change in the power of the elites". That's not high on their agenda.[29]

Not all Nobel winners are of the same mettle as Stiglitz. Some even believe in their theories. Robert Merton and Myron Scholes, the 1997 recipients, lost 1.25 trillion dollars in the Stock Exchange in 1998, applying the very calculations that had won them the Nobel Prize. The money had come from Central bankers believing in the magic "model", but who had to be bailed out by American taxpayer via the Fed.

Bernard Maris of the University of Paris lashed out:

> From Milton Friedman, the guru of the super-liberals, to Modigliani, they are the incompetents of the peremptory, repeaters of recipes they know to be wrong, major-domos of the powerful. They dare not say that there is no such thing as a theory of liberalism, of efficiency, of competition. It's all utopia, as totalitarian as Stalinism was.[30]

Tribal

Land belongs to the tribe communally. Money is unnecessary. "How can you buy or sell the sky, the warmth of the land? The idea is strange to us. If we do not own the freshness of the air and the sparkle of the water, how can you buy them?"[31]

[29] Personal note from Harry Pollard, Henry George School of LA, 28th November 2001.
[30] M. Blondet, *Open letter to the gurus of the economy who take us for imbeciles*, Avvenire, 18-4-2000.
[31] Attributed to Chief Seattle, Suquamish Tribe, 1854. Courtesy of Jeffrey Smith (geonomist@juno.com)

This view has one drawback: population growth eventually makes it impossible. If population growth happens, as it did in America, by massive foreign immigration, only violence can "solve" the problem, and only in bloodshed.

Population growth eventually imposes division of labor, and with it a monetary economy. Progress inevitably does away with the tribal setup.

Feudalism

Land belongs to the elite: nobles and the high clergy, who enjoy the *ius utendi.* They are prevented from exercising the *ius abutendi* by separating the two rights. The nobles shoulder the costs of defense and administration, and the church those of social welfare: worship, education, health, orphan homes, hostelry, etc., out of their rent.

The European feudal system lasted a good seven centuries. Its drawback was that it entailed serfdom. While not a slave, and lightly taxed, the tenant was nevertheless bound to the soil, enjoying virtually no freedom.

Feudal monetary policy was entirely dependent on the superstition that money must have "intrinsic value." The discovery that money could be managed, first by decreasing the gold content of the bracteates (1050-1350) and then by diluting it with copper in the Schilderlings (1400-1485) permitted a revival of trade, but hastened the demise of feudalism.[32]

[32] The bracteates were periodically recalled and re-issued with the same nominal value but lighter in weight. The Schinderlings were reissued with the same weight, but less gold content. In either case they were very successful attempts at increasing liquidity, and with it mobility. Feudalism's philosophy of a static society did not survive the attempt.

Capitalism: the title deed

With the end of the feudal system, the "sacrosanct" title deed guaranteed land tenure. Serfs became tenants, but the increasing demands for rent forced them off the land. Their only option was to move to the common lands where such existed, or to work for a pittance on the landlord's property. When the landlords enclosed the common lands, towards the end of the 18th century, the starving masses burgeoned around the cities, just in time for the Industrial Revolution to save them from starvation, but at what social cost we all know.

It was at that time when Adam Smith (1723-90) published *The Wealth of Nations*. Here is, in his own words, how he perceived the land question.

> As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which when land was in common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must then pay for the licence to gather them; and he must give up to the landlord a portion of what his labour either collects or produces.[33]

Here is British pragmatism at its best. It works; therefore ask no further questions. Maybe it is not out of

[33] *The Wealth of Nations*, The Penguin English Library pp. 152-53.

place to mention that as Smith was writing his *magnum opus* he was enjoying a generous pension from (the rent of) the Scottish Duke of Buccleuch. It would have been impolitic to bite the hand that fed him. Never mind that the infamous Scottish clearances were taking place at the same time, with villages set on fire and people thrown out of their ancestral land to make room for sheep, which of course maximized the lairds' rent.

Modern economists of the liberal school do not repeat Smith's words. They do mention land at the beginning of the economics course as one of the factors of production. Then they say "abracadabra" and land transmogrifies into capital.[34]

The Social Question burst in all its virulence in the 19th century, forcing the workers towards new lands. The militarily strong British and Germans expropriated African tribes; the militarily weak Irish and Italians went to try their luck in the Americas. The real situation was described by Henry George in 1887:

> There are… three parties of production, and always a fourth and generally a fifth relating to distribution. In addition to A the employing capitalist, and B the employed labourer, there are C the landowner, D the tax collector and generally E, the representative of monopolies not that of land. What A and B can divide between them is not the product of their joint effort, but the product which C, D, and E leave to them.[35]

What George called "E the representative of monopolies not that of land" is in reality the power of

[34] Mason Gaffney and Fred Harrison, *The Corruption of Economics*, Shepheard Walwyn 1994.
[35] *The Standard*, 31st December 1887.

usury, better identified by Gesell a generation later. It is important to remark that capitalism intertwines the two monopolies of land and money more closely than any other economic system. High interest rates are indissolubly linked to land monopoly. When land, instead of being widely distributed, is grabbed by a powerful minority, land becomes the most profitable type of investment, with returns guaranteed by population and public infrastructure growing *around* the property. That is also why high finance is a declared enemy of agriculture. They see farming as a threat to their own activities, and rightly so. Food is a form of money. Subsistence agriculture and barter are two of the three factors (the other is bills of exchange) that prevent usury from raising its claims higher than it can. That is also why money manipulation has successfully driven millions of small farmers out of their land throughout the 20th century.[36] The title deed is not as innocuous as it sounds. Kenya, East Africa, still witnesses "tenant wars" with real bloodshed, and not only in the urban, but also in the rural areas for the 40 years since independence.

Agrarian Reform and Distributism

Land ownership is by nature aggregating; natural differences in ability and attitude always end up in the latifundium, i.e. the large estate cultivated by serfs at a subsistence wage. This is one of the reasons for the

[36] The relation between interest, cash, barter, bills of exchange and subsistence agriculture is fully spelled out in Gesell's *Natural Economic Order* Part 3. Interest cannot rise beyond the level at which people judge that it is not worth paying it and return to either barter or subsistence. In a monetary economy, bills of exchange cause goods and services to move without interest, but they are cumbersome and at times untrustworthy. An economic operator makes up his mind whether to pay interest or to adopt one of these solutions.

100% failure of agrarian reforms, wherever and whenever such have been carried out. Latin America abounds in examples, from Mexico to Argentina and Chile. That is also why Chesterton's[37] dream of a society where resources (especially land) are equitably distributed never took off.

Other reason for failure are that the redistributed land is always far away from the centers of consumption, which diverts wages into middlemen's pockets; farmers need seed and machinery, which force them into debt; hence it is a matter of time before their piece of land is once again aggregated to that of a big landowner.

Ecclesial

The pontifical social documents do not offer cast-iron solutions. They state principles that can serve as pointers for effective action. When they do, it is certain that the solution is free from doctrinal or moral, but not necessarily from economic or political, error.

Rerum Novarum (1891), citing St Thomas, makes the first point:

> Man should not consider his outward possessions as his own, but as common to all, so as to share them without difficulty when others are in need. Whence the Apostle says, command the rich of this world… to give with ease, to communicate.[38]

[37] 1874-1936. G.K. Chesterton was a journalist. Until his death he used the income from his books to subsidise his petty project: the journal *G.K. Weekly* where with Hilaire Belloc (1870-1953) he pushed the idea of a Distributist society. Both were aware of the inequalities of the modern economy.
[38] *Rerum Novarum* 24.

Private property, therefore, of land as much as of money, ought to fulfill a social function as well as cater for the owner's prosperity.

A second useful pointer can be read in *Quadragesimo Anno* (1931):

> It is an injustice, a grave evil and a disturbance of right order, for a larger and higher association to arrogate to itself functions that can be performed efficiently by smaller and lower societies… Let those in power… be convinced that the more faithfully this principle of subsidiary function be followed… the happier and more prosperous the condition of the commonwealth [will be].

Yet agrarian reform is what Pope Leo XIII recommended.

> If a workman's wages be sufficient… he will not find it difficult… to put by a little property… this …question cannot be solved except by assuming as a principle that private ownership must be held sacred and inviolable. The law, therefore, should favour ownership, and its policy should be to induce as many of the people as possible to become owners.[39]

But workmen's wages are insufficient not because of the greedy employer, but because of his acting as a broker of wages from workers to landlords and usurers. Leo XIII's assertion that "labour needs capital and capital labour," is true, but incapable of raising wages. Throughout the 20th century, wages have always risen at

[39] *Rerum Novarum*, 50.

the expense of other wages, never at that of rent or of interest.

This was paradoxically shown by Henry Ford (1869-1947), a non-Catholic. Free from debt, he quintupled the minimum wage and paid his workers salaries with which they could buy the cars they were producing.

Failure to solve the social question has opened the way for transnational corporations to dominate world economy with their policy of globalization.

Socialism

All land belongs to the State, and every citizen is a State employee. This solution is due to the facile Marxian assumption that the exploitation of labor is due to private ownership of the means of production. Socialists of all hues still believe that, oblivious to the resounding failure of the 70-year long Soviet experiment.

Land nationalization not only makes a serf of every citizen, but also renders money nearly useless. In Soviet Russia workers' salaries could not buy anything, and the only market that worked was the so-called "black" market.

Austrian School

The Austrian school abhors State intervention, but stands by the equation land = capital, under the spell of the abracadabra of the liberal school.

Everybody assumes, even the Austrian School, which is very vocal against it, that the issuing of money is a State duty and responsibility. Jörg Guido Hülsmann, of the von Mises institute writes:

> The production of money should best be left to the free market. Government interventionism does not improve monetary exchanges; it

> merely enriches a select few at the expense of all other money users. And on the aesthetic side, the disaster is of course complete: rather than deal with beautiful silver and gold coins, the citizens are compelled by law to hold unbecoming paper notes.[40]

Amazingly, even *The Economist* has taken to reviling paper money:

> Since [1971] the world has relied on "fiat money", so called because it is created by government fiat and is backed only by the promises of central bankers to protect the value of their currencies. It is the value of those promises that some are now questioning.[41]

Neither of the two pays attention to the problem of its hoarding, due to the intrinsic contradiction still operating since the days of Croesus. That they of the "unbecoming paper notes" and "beautiful silver and gold coins" should still pay no attention to either George or Gesell is mystifying to say the least.

Henry George's Free Land

Two things should be clear by now:

- There is no solving the social, or any other economic question, without tackling both land and money together.

[40] *Morality and Economic Law: Towards a Reconciliation. Mises Daily Article* 05th April 2004.
[41] *Heading for a fall, by fiat? The Economist* 28th February 2004 p. 82.

- Any solution must stand or fall by the principles of truth, justice, freedom, solidarity, and subsidiarity.

The principle of subsidiarity is not a general one. It is a particular case of the much more general Catholic ethical principle of *and-and*, which in ethical issues replaces the *either-or* characteristic of the other sciences.

Subsidiarity makes it possible for freedom and solidarity to *converge*. With the land question, what needs to converge is the institution of private property with the social function that *Rerum Novarum* recommends for it.

But transcendent principles of this nature are by no means easy to identify, for they are not amenable to logical induction. By logic one gets nowhere.

It must be admitted that the human mind, seeking truth by means of orderly thinking, gets disconcerted at this. It is no consolation to say that the logic of such solutions stands out most clearly *after* having identified and applied the transcendent principle, but *not before*.

That explains the clash, unnecessary but historical, between the doctrine of *Rerum Novarum* and that of Henry George.

The two doctrines were assumed to be contradictory, but no one checked that either of the two would have to be right and the other wrong and vice versa.

George proposed that bare land, regardless of development, be used as a tax base. The fruits of the landlord's labor would accrue to him 100%, whereas the rent of bare land, caused by the economic activities of the community *around it*, would go to the community as public revenue and infrastructures.

It can be seen that George's proposal is a good practical way of applying the principles of *Rerum*

Novarum. The two doctrines are therefore *sub-contraries*, i.e. both true.

The proof was the ease with which Archbishop Satolli re-instated excommunicated Fr Edward McGlynn in 1892.[42]

Satolli asked the priest to draft, as concisely as possible, the principles of Georgism to be examined by a panel of experts from which any personal friend of McGlynn had been excluded. The panel (Catholic University of America, Washington) unanimously agreed that Georgism contained nothing offending against faith or morals.

Next the panel asked McGlynn whether he accepted the doctrine of *Rerum Novarum*. The priest read the encyclical and unhesitatingly signed his agreement. Knowing his mettle, there is no doubt that he would not have signed had he objected even to a minor point.

Georgism was thus unofficially condemned and unofficially reinstated.

The above does not mean that George's so-called "single tax" is the only way to make private property absolve its social function. There are other ways. What counts is the principle: by shifting the tax basis from value *added* by human exertion to value *subtracted* from land, everything falls to its appointed place, i.e.:

- Truth: the State reasserts the sovereignty usurped by the institution of allodialism (freehold land);
- Justice: Industry is rewarded, laziness and parasitism prevented or punished;

[42] Dr Edward McGlynn (1837-1900) became an enthusiastic supporter of Henry George while the latter was away in Europe. When asked to withdraw his support from George' candidacy to the New York mayoral election of 1886, he was excommunicated.

- Freedom: all have now access to land if they so choose;
- Solidarity: the canon collected from occupancy defrays public expenditure (not necessarily 100% as George thought, but enough to abolish the most unjust forms of taxation);
- Subsidiarity: the institution of private property, indissolubly joined to its social function, can no longer be the cause of social disorder as in the past.

Silvio Gesell's Free Money

The money hoards mentioned here and there are not those of petty savers. Aside from today's financial bubble, Microsoft boasts a hoard of 56 *billion* dollars in cash, to survive, as they aver, a full year of zero sales. Lord Weinstock "had a pile of several billions of pounds in cash at the bank."[43]

If "several" means ± 7, he could have paid for the Channel Tunnel single-handed at the original estimate.

Such hoardings are fully legal, but as immoral as maliciously siphoning off oil from an engine to make it seize. Gesell, unlike Tobin, zeroed in on the hoards rather than on the transactions.

He proposed to tax liquidity at 5 to 6% annually, to force cash into circulation by preventing it from acting as a means of saving. At 6%, for instance, the Microsoft hoard would fetch the public coffers some $330 million a year.

His method was not only to separate gold from money, but also to separate the currency unit from the object representing it. With the unit at a constant purchasing power, the paper representing it would depreciate at a certain rate, expiring after one year from

[43] 1925-2002. Obituary, The Economist 27th July 2002.

the date of issue.[44] Validating stamps would keep its purchasing power during the time of circulation.

He staked his bet not on the quantity theory of money but on its velocity of circulation: a small amount changing hands repeatedly and fast would have the same effect as a large amount behaving like credit, i.e. changing hands once and then disappearing.

In 1932, in the thick of the Great Depression, practice confirmed theory. Mayor Unterguggenberger (1884-1936) of Wörgl (Austria) moved 2.5 million Austrian Schilling worth of goods and services with a paltry issue of 5 300 units of *Work Certificates*. Wörgl incurred the ire of the Austrian National Bank, which quashed the experiment after 14 months of proving to the whole world that the Depression could be beaten.

The necessary monetary reform would also meet the requirements of

- Truth: the contradiction built in the present form of money would disappear, as would the confusion between money and credit (M2…to M4);
- Justice: interest would slowly fall to 0%. Living off the work of others would no longer be possible;
- Freedom: every type of work, including housework, would be rewarded, thus giving women the choice to stay home or work outside;
- Solidarity: lending at 0% would be more profitable than hoarding at – 6%. Trust and friendship would necessarily increase;

[44] Gesell's proposed rate was 0.1% per month, or 5.2% per year. Other rates are possible. The important factor is that the rate chosen should be neither so low as to encourage hoarding, nor so high as to discourage acceptance.

- Subsidiarity: charity would supplement rather than replace justice as up to now.

As Victor Hugo (1802-85) remarked 150 years ago, "Nothing is more powerful than an idea whose time has come."

7. CONCLUSION

Metaphors don't prove anything, but help one understand. I like to compare the economy to a bird, which everyone, from "experts" to common folk, assumes to be flightless because nobody has ever seen it fly. And nobody ever saw it fly because in truth it never flew.

But it does not follow that our bird does not fly because it has no wings. Its wings are stuck to the body by captured land and double-faced money. Since a flightless bird is easier to control than a flying one, the vested interests that know the real nature of the bird have done everything possible to keep the existence of the wings concealed. By and large they have succeeded, and for millennia at that.

Ever since economics became a science (of sorts) its practitioners have concentrated not on the wings that they failed to see (or deliberately concealed, it's not up to me to judge), but on the bird's legs, beak, feathers and so forth. They have reinforced and streamlined all that gear, but it is obvious that without freeing the wings the bird will never fly, which is what it is supposed to do.

As Gesell says in the closing sentence of his magnum opus, "There is no economic problem that Free Land and Free Money cannot solve."

Translated into day-to-day economic terms, land grabbers and money hoarders have succeeded in living off the work of others by denying them the fruits of their labor. Attempting policies that leave in place the primary injustice have not succeeded, and never will. But there is a great disparity between the two questions.

The land question cannot be solved in the absence of political will. Landowners have always managed to influence political decisions, either directly by being themselves in power, or indirectly by lobbying for tariff and other policies that sustain their rents.

The good news is that money reform, unlike land, can start from the grassroots. The 20 000-plus communities round the world are proving this before our very eyes. The moment they agree on the same standard, usury will become a historical curiosity.[45]

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[45] Elsewhere I have suggested the school teaching period as monetary standard.

MOVING MONETARY REFORM TO THE "FRONT BURNER"[1]

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Abstract
Entering the 3rd Millennium we face both great danger and opportunity. Unheard of wealth concentrates into very few, largely undeserving hands. Even in America, the richest country on Earth, people work harder and produce more than ever, yet increasingly fall into debt and bankruptcy, while predators plunder society by merely shuffling papers. Major corporations concentrate on profiting by misusing the money system, rather than with production. Such corruption is not sustainable or justifiable. The American Monetary Institute holds that the structure of the money system itself is at the root of the corruption and we promote reform to bring our monetary system into harmony with the nature of money. There is a growing awareness of the urgent need for reform away from privately issued money toward more public control of money systems; away from a religious adherence to questionable economic theory, toward

[1] (This paper is drawn from speeches by Director Stephen Zarlenga to the U.S. Treasury in December, 2003, titled *The Lost Science of Money – A Solution to the States Fiscal Crises*; to monetary reformers at England's House of Lords in May 2004, titled *The Lost Science of Money & Monetary Justice: Using Publicly Created Money to Fund Public Projects*; and to the Bromsgrove Monetary Conference in October, 2004, titled *The War of Private vs. Public Control of Society's Money Power – The Order of Battle: Adam Smith vs. Aristotle.* These talks can be read in full at http://www.monetary.org All quotations are fully referenced in my book: Stephen Zarlenga, *The Lost Science of Money: The Mythology of Money – the Story of Power*, hereafter referred to as LSM.)

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