

Economic Monitor

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One World, One Wealth

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Justice and Equity

For over 60 years the School of Economic Science has been concerned to discover the causes of poverty and the economic principles upon which free and prosperous societies can be built. The search has been guided by a devotion to truth and a deep and maturing sense of justice.

This approach has led students beyond the immediate and direct field of economics into philosophy – the love of wisdom that explores the depths of human nature and of human relations amongst ourselves and with the universe of which we are part.

There has always been a sense of the inter-connectedness of these things: of human nature with the nature of the universe and of the physical manifestations of nature with an inner spiritual being or intelligence or consciousness which is the common ground of all outer manifestations.

It did not take long to understand that poverty and deprivation are not natural phenomena. They lie neither in the nature of the universe nor in human nature. Rather it would appear that freedom, prosperity, happiness and fulfillment in an abundant self-sustaining universe are what nature offers for humanity.

But the fact of human freedom includes scope for error. Prosperity, happiness and fulfillment are freely, but not unconditionally available to humankind. They depend upon an exercise of human

intelligence, reason, observation, judgment and restraint. Plato was right in deeming poverty to be an increase in a man's desires and not a diminution of his property. He was also right to remark that the only lasting basis for a prosperous state is freedom from avarice and a sense of justice.

A unified field of principle and policy.

It is all very well to have a collection of fine philosophical principles about the nature of man and the universe, but unless they have some application in the field of practical policy, they can be no more than well-meaning platitudes.

With this in mind, some ninety students in the School gathered in September 2002 to address the theme:

"The establishment of justice and equity for the welfare of humanity in the universe now".

The scale of this theme is important. It was not the intention to consider what was in the interests of this or that economy, or economic system, this or that people or nation. The intention

was to consider, in the light of philosophical principles, what practical action in the realms of economic and public policy could be recommended for the welfare of humanity as a whole having regard to the human impact on the universe itself, and this planet in particular.

To give the conference some focus, it was considered that perhaps the most obvious injustice was the extraordinary imbalance in world food production and distribution. We live in a world where the same page of a newspaper can appeal for funds to help 38 million people who face starvation and also report a law suit against a fast food company for not warning its customers that its products may make them obese. A few hours flight can take us from one such place to the other.

The result of the conference was the 'Waterperry Declaration', an attempt to state some applicable principles and the actions which might follow from them. The proposals are not unique, and the principles are not new, but the attempt is to formulate a unified field of philosophical and economic principle and to indicate the economic policy and practical action which might follow from adopting those principles.

The exercise is far from complete, but the dialogue is open to anyone who might care to contribute. The Waterperry Declaration appears on page 2.

Spring 2003 courses and events – see back page

Waterperry Declaration

September 2002

People prosper when justice and equity are honoured. Today a fifth of the world's population lacks the means to feed itself. This injustice and inequity will be resolved when the recognition of our common humanity becomes the foundation of our conduct.

The Problem

There are now 820 million people suffering malnutrition or starvation, whilst elsewhere in the world there are considerable surpluses of food. People go without, even as their own country sends food abroad. Countries import food, even as their own producers slide into poverty.

In some countries, a lack of good government creates conflict or corruption. Together with ecological damage, this makes the poor more vulnerable to disaster. The exploitation of new technologies threatens to upset forever long established relationships between communities and the natural world. The current opening of developing markets to international trade, secures neither prosperity nor social harmony for those living in them. At the heart of all this is the exploitation of political power and of control over resources, combined with an unwillingness to address market failure. Unchecked, it endangers our entire world.

Principles

This planet and its people are one. Our physical environment functions as a single, self-sustaining system, easily capable of supporting the whole human family. Our intellectual and spiritual life forms a single vibrant ocean from which we all draw.

There is therefore no justice at all, unless there is justice for all. Whilst any are in poverty, we are all impoverished. That the actions of some cause the deprivation of others is a poverty of culture for which compassion, justice & equity are the remedy.

Together we all create the atmosphere in which governments, businesses and other organisations operate. We are all

responsible for the state of the world, from the families that comprise our communities, to entire nations and continents. The intentions and attitudes of us all are critical, as they direct our actions.

Justice and equity require that we ensure the opportunity for all humanity, now and in the future, to develop spiritually, intellectually and physically, as conscience and custom direct. In short, we must serve others as we ourselves wish to be served.

Actions

We need to examine our own intentions and actions and ask – are these consistent with this full development of humanity or, although benefiting some, will they harm others or damage the planet? Governments act when their people compel them to do so. Businesses act when their customers, shareholders and employees compel them to do so. We, the people, have the future in our hands.

As stewards, not owners, of the earth's resources, our role is to nurture, not to exploit. We must develop technologies and ways of living which leave no permanent footprint, but rather leave a generous heritage for future generations.

Humanity must recognise that good government is founded on principle and law, not the aggregation of individual human desires. Only through law can the good of all, not the interests of a few, be secured. Principles do not change, but good governance requires that the policies to implement them must be framed according to time and place. Sovereign governments must have this power.

To this end, the following actions are urged:

1. That our universities and schools, and our religious, philosophical and spiritual leaders, use every opportunity to educate and remind the people of the world that we have a single future, which we will build together for better or for worse, for ourselves and those to come;

2. That governments together take the necessary steps to ensure safe and sufficient food for all and to place this above every other political and economic consideration;

3. That the United States of America and the European Union implement immediately their existing commitments to the reduction of food production subsidies and the removal of import quotas; and that they make further rapid progress in this area;

4. That the WTO, IMF and World Bank reassess the universal application of free trade policy as the basis for development, and focus instead on programmes which facilitate local self-sufficiency and local trading;

5. That governments cancel the debt from the Highly Indebted Poor Countries;

6. That governments review their policies on agriculture, energy and transport to ensure they meet the principle of stewardship, and restrain the pattern and levels of consumption of developed nations;

7. That governments in the developed world assist the developing countries to establish the institutions and infrastructure required for good governance, ensuring that these respect local traditions and customs, and are appropriate to the countries' state of development;

8. That the IMF work with the developing nations to implement a programme to enable them to be financially sovereign and recover & maintain control over their currencies, their taxation systems and the use of their natural resources;

9. That governments act to ensure just and equitable access to the key assets of the world – natural resources and knowledge – and in this light review international assumptions about land ownership, intellectual property, and credit;

10. That governments address environmental depletion and pollution through programmes of change with clear aims and targets, and which ensure that polluters pay.

11. That business leaders commit to these principles and actions, and recognise that the future of business depends on them, and is in the balance.

Stewardship in the Modern Age

Donald Lambie explores its meaning

The words 'steward' and 'stewardship' are today not often employed in common parlance and yet in both Old and New Testaments there are several references to them. Is this an outdated concept irrelevant to the modern day or is there something of enduring value which may enlighten the way we act and live together?

The dictionary meaning of 'steward' is 'one who superintends another's estate or farm'. 'Sty' is an enclosure for swine or other domestic animals and 'ward' is a guard or watchman, guarding against deception or danger. This in itself reveals a great deal. Firstly, the steward superintends not his own but another's property or wealth. Being entrusted to do so there is the obvious possibility of him wishing to usurp that wealth and the first duty is to remember to whom it belongs. Secondly the steward must be awake and guard the owner's wealth against danger or loss through deception.

These qualities are expanded in various biblical references to stewards. From Abraham to Herod, the great men all appear to have employed stewards to supervise their affairs. Joseph's steward played an important part in helping to re-unite Joseph with his brothers (Gen.43.19). David appointed stewards 'over all the possession and substance of the king' (1 Chron. 28.1). The words of Jesus are recorded:

"Who then is that faithful and wise steward, whom his lord shall make ruler over his household, to give them their portion of meat in due season?" (Luke 12.42)

This last reference emphasizes the need for faithfulness and wisdom with which to rule the lord's household. The verse is preceded by the story of the servants who are awake and watching when their lord returns, even though it be at an unexpected hour. Thus faithfulness and constant awareness are all important. The wisdom is necessary both to prevent waste or theft, and also to ensure that the master's affairs may thrive and prosper.

In the same gospel there is the story of the unjust steward who had wasted his master's goods. His master called him and said 'give an account of thy stewardship; for thou mayest be no longer steward' (Luke16.2). This illustrates another matter of importance, namely the duty of the

Stewardship enhances the possibility of a better life for everyone.

steward to render an account of his doings. (The story of the steward's adroit response is itself a further fascinating lesson in economics.)

From these references three important aspects of stewardship emerge, namely:

1. The duty of good faith by the steward towards the master.
2. The duty by the steward to exercise wisdom and watchfulness in respect of the master's property.
3. The duty at any time of the steward to account to his master for his actions.

How does this apply to the present day? In English law the concept of a trustee or one who owes a fiduciary duty, i.e. a duty of good faith, to others is well developed. For example, a company director acts as a servant and owes a fiduciary duty towards the shareholders or members of the company, which is his master. The assets of the company are not there for his personal enjoyment or to be manipulated for his own gain. The director is entrusted with the control of the company's assets and affairs and is under a strict duty to use them for the benefit of the company as a whole. Cases where directors either directly embezzle the company's assets or organize matters in such a way that they receive vastly inflated payments (often shortly before the company is

put into liquidation), offend the duty of good faith. A similar duty of good faith is owed in other circumstances e.g. solicitors in relation to their clients and partners in a firm towards each other.

The second duty of wisdom is reflected in the law that a trustee or one who owes a fiduciary duty must use reasonable care and skill in the management of assets under his control. To return to the example of a company director, this is the duty imposed on him and he may be penalized for obviously inept decisions. At the present day litigation is pending against the former directors of the Equitable Life insurance company, the allegations being that negligent decisions were made concerning the benefits to accrue under certain insurance policies which have had detrimental effects on other policy holders. Whether such allegations are true remains to be seen. Likewise the trustees of charitable funds are not allowed to play the equivalent of roulette with them; they are under a duty to invest or deal with those funds with reasonable prudence. Failure to do so can result in a personal liability to make good any loss.

Thirdly, it is well established that a beneficiary under a trust or the person to whom a fiduciary duty is owed may call upon the trustee to give an account of his trusteeship. Elaborate and sophisticated provisions exist to make this possible. The law may be slow but once the wheels turn there is an inexorable efficiency.

Plainly then the concept of stewardship, as defined, is well established in our society. The need to be able to entrust our affairs or property to others is obvious. Without that possibility, individuals would have to spend excessive time and energy physically guarding their wealth whilst living in constant fear of loss. Stewardship enhances the possibility of a better life for everyone.

Given the obvious benefit of stewardship both to individuals and to society as a whole why not take another step? The present generation should regard itself as steward for all

contd..

Stewardship contd...

the many good things that have been received from the past and act with good faith and wisdom for the increased benefit of future generations. Even more importantly mankind as a whole may be regarded as a steward, entrusted to watch over and care for creation. The same principles apply. First, the need for good faith, to remember that "The earth is the Lord's and the fullness thereof: the world and they that dwell therein." (Psalm24.1). Secondly, the duty to act with wisdom and skill so that prosperity may be enjoyed by all, without plunder, waste or theft. Finally the duty to account, remembering that whatever actions have been undertaken will have their consequences and that an account will have to be given for those consequences.

Such principles of stewardship, trust and faith are in every sense practical and beneficial. They exist in our religious and philosophic traditions and are enshrined and protected in our legal system. Despite all this, the temptation to usurp and claim what is not rightfully our own is ever present. The principle of stewardship is relevant to this age as it works to guard against such dangers and helps to ensure universal freedom and prosperity. Such a principle can be strengthened by being remembered and consciously applied where appropriate by everyone in the daily affairs of life.

Donald Lambie

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London Looks at LVT

Urban Regeneration Conference

City Hall, London - 24th Oct 2002

Organised by the Henry George Foundation and the Campaign for Land Value Taxation and hosted by Transport for London at London's new City Hall, this conference brought together a very impressive and perhaps unprecedented gathering of London property and transport professionals who are also land value taxation (LVT) enthusiasts, recent converts or interested sceptics.

Bob Kiley, the Transport Commissioner for London, spoke of the pressing need to improve capacity and quality in all forms of London's public transport system to cope with an estimated growth of 700,000 in London's population by 2016. Crossrail would itself cost £10 billion. Two more orbital rail lines were needed. 'Farebox revenue' could not generate the sums required. His preference was for 'tax incremental financing' (TIF) a modest variant of LVT which has proved successful in the USA to fund infrastructure projects. Under such a scheme, business rate payers who are likely to enjoy a land value increase once the project is completed pledge a modest percentage of that increase to fund the project in the first place. This percentage is then only in fact paid over once the project is complete and the land value increase is realised. Mr Kiley ruefully conceded that at present he has no power to implement this unless central government permits him. London devolution has proved 'stillborn' because there has been no financial devolution. The Treasury continues to dictate the methods by which funds are raised.

Tony Vickers, former Chief Executive of the Henry George Foundation UK, advocated the benefits of another incremental scheme which takes several steps towards LVT – namely Business

Improvement Districts (BIDs). These involve local business ratepayers (if a majority agree) imposing a supplementary rate/contribution on themselves to pay for improvements to their business district. The business ratepayers would control the priorities on which the supplementary rate was spent. Plans were already well advanced for pilot schemes in Liverpool and London. Central government was interested. Mr Vickers pointed out that BIDs offered a way to begin to demonstrate the principle that district improvement for all should be paid for by those best placed (literally) to reap the land value benefits from it rather than such benefit being creamed off into private hands. Such a scheme had already achieved significant business district improvement in the centre of Pittsburgh.

Other speakers included Darren Johnson, leader of the Green Party on the GLA and Dr Tim Jenkins of Friends of the Earth who both indicated that their organisations are increasingly persuaded of the merits of LVT. Political interest and political will is, perhaps, growing.

Dr Roy Douglas of Surrey University gave an excellent exposition of the principles and fairness of LVT. Mr Ted Gwartney, City Tax Assessor for Bridgeport, Connecticut, explained a variety of methods of land valuation. Dave Wetzel, Vice Chair of Transport for London, opened and closed the conference with vivid examples from his own experience as a Hounslow Councillor of the injustice of prime business sites along the Great West Road permitted under the present system to remain idle, rot and pay no rates while other businesses struggled to find and afford business premises.

Richard Barnes

US Farm Subsidies

Meta Cushing assesses the damage

At the UN hunger conference in Rome, developing countries pointed to huge subsidies for American farmers as one of the biggest obstacles to creating vital opportunities for their own farms and enabling their populations to climb out of poverty.

The US, Europe and Japan spend \$350 billion each year on agricultural subsidies to their farmers (seven times as much as global aid to poor countries), creating gluts that lower commodity prices and erode the living standard of the world's poorest people.

Now there is the \$180 billion Farm Security and Rural Investment Act 2002, representing a complete retreat from the 1996 Freedom to Farm Act, where the US sought to institute a free market in agriculture by replacing traditional subsidies to farmers with a fixed but declining level of transition payments.

In brief, the 400 plus page Farm Bill authorizes \$173.5 billion in subsidies for a ten-year period, \$73 billion for 2002-2007 alone. This represents an increase of 70 percent over previous levels of existing subsidies for soya beans, wheat and corn; and new subsidies for peanuts, lentils, chickpeas and dairy farms. In addition, previously abandoned subsidies for honey, wool and mohair have been restored.

Mark Malloch Brown, head of the UN Development Program, estimates that farm subsidies cost poor countries about \$50 billion a year in lost agricultural exports. Apart from direct economic impact, there is the loss of trust and credibility on global and regional free trade negotiations in the international arena.

Moreover, there are long-term environmental problems caused by the overproduction that subsidies foster. Although the Farm Act of 2002 increases spending on conservation programs by more than 40 percent over the next 10 years, any positive environmental benefits of conservation programs could be overwhelmed by the negative effects of overproduction and high intensity farming encouraged by government subsidies.

The new US Farm Bill will raise subsidy payments to the country's biggest grain and cotton farmers while promoting farm practices which depend on excessive use of inorganic fertilizer and pesticides. USDA chemical reports show that farms apply 40 billion pounds of fertilizer and about 500 million pounds of pesticides every year. (EWG data) Soil erosion and chemical runoff into nearby waterways leads to additional taxpayer and industrial costs

Farm policy that encourages overproduction contributes to decline in grassland ecosystems and much bird and other wildlife species that depend on them. According to 1998 EPA data, agricultural pollution is the leading cause of water quality impairment in lakes, streams and rivers. It is the fifth leading cause of water quality impairment in estuaries.

Most scientists agree that agricultural run off from mid-western US farms is the main cause of a "dead zone" along the Louisiana Coast in the Gulf of Mexico, where the sea is devoid of life to about ten feet below the water's surface. Covering an area of 8,500 square miles (22,000 square kilometers), the "dead zone" is caused by excess nitrogen run off into the Mississippi River. The EPA states that run-off accounts for 90% of the nitrates entering into the Gulf.

In the spring, when algae bloom, they are poisoned by nitrogen and phosphorous that has washed down the Mississippi. The algae sink to the bottom and are decomposed by bacteria. The bacteria then use up the oxygen around them, so fish and shrimp and other forms of aquatic life swim off in search of oxygen, or die, a condition called hypoxia.

The ecological impact of the US farm economy far exceeds its fiscal size. The farm economy accounts for just 1% of the GDP (US Bureau of Economic Analysis). Yet polluted farm run off causes 60% of degradation to US rivers and streams, 30% to lakes and 13% along the coasts (EPA, 2000). Farm fertilizers contribute 50% of this pollution; livestock manure another 15% and municipal and industrial sources account for 11% (EMS American

Rivers) EPA monitoring found traces of farm herbicides in every drinking water source in seven Corn Belt states.

Harvard University's Center for International Development reports that subsidies lead us to "waste twice" - once on crop subsidies and again to clean up the environmental damage. Merely implementing alternative farm practices would reduce soil erosion 9% nationwide, cut pesticide spending 3% and put 74 million acres under better stewardship. The creation of physical chemical buffers to treat polluted farm runoff via permanent habitat restoration of many millions more wetland and riparian acres as well as alternative farming methods designed to enhance could be encouraged via green payments.

In the recently published World Development Report from the World Bank, the authors describe sustainable development as. . "enhancing human well-being through time".. stating that environmental problems are "at their root, social problems. The distribution of assets and of the costs and benefits of different policies, as well as the role of trust, are all critical to the ability of societies to develop competent rules and institutions to address environment, social and economic problems."

Defining society's assets as more than merely land, labor, capital and property rights, the report includes the rule of law, transparency and even trust as assets, and argues that the poor must have much greater access to assets for sustainable growth in the world and to avoid social unrest

Harm from subsidies in agriculture is chronic, global and mercantile. Environmentalists and pro-poor country advocates are natural allies on this question. The dramatic and shortsighted increase in US subsidies from the Farm Bill makes this policy vulnerable as never before. US farm policy reform would drive reform in all nations.

Integrating environmental and trade policies would create a climate of equity worldwide, producing new assets, well being for humanity and respect for Nature which feeds us.

Meta Cushing

Good globalisation

Sebastian Munden reviews the possibilities

Although there are many different cultures of capitalism, that form called "globalisation" is essentially "Americanisation". Its values and behaviors are driven by the powerful global finance industry drives the values and behaviours of American Capitalism, with its systematic and prescriptive creed of laissez-faire and lionisation of individuals and their unimpeded rights.

It is increasingly clear that the systematic forced-fitting of this narrow ideology to both established and emerging economies around the world has not always improved their economic success, and is causing increasing social tension. It has also caused a schism between the wealthiest few and a relatively destitute many that has given rise to an increasingly violent opposition to the unquestioned spread of US capitalism. The worst of it is that the policies currently being advocated are not the policies that grew the developed world into the powerful economy it now is.

In order to avert continuing suffering and unnecessary risks to world peace, the global finance industry and the economic policies it demands have to be reformed. Countries must be released from the straight jacket of narrow ideologically driven prescriptions, to allow attention to be given to the specific conditions of each situation, and care taken for the broader welfare of humanity.

Can one size fit all

The US model of capitalism – standardising, scientific, individualistic, deregulated and driven by financial interests – is being pushed to the four corners of the earth as the price for participation in the global economy, with the expectation of a rapid increase in wealth to follow. Where both western European and Asian capitalism essentially promote a different balance between individual rights and public good, the reality is that neither has had any noticeable influence on the direction of global capitalism. Enlightened improvements of American and therefore global capitalism are the most likely way to influence the future.

Ever since their creation in 1944, the Washington based IMF and World Bank, heavily influenced by the 'Washington consensus', have been virtually sole agents for the deployment of economic policy throughout the global economy. Consequently, the monetary and economic policies demanded by the

At the level of people the system isn't working.

US financial industry are the driving forces of globalisation.

But in 1999, World Bank president, James Wolfensohn, reported that "at the level of people, the system isn't working."

Jeff Faux and Larry Mishel of the Economic Policy Institute elaborate: "We all know that he means the system isn't providing most of the world's citizens a better material life". We might add that there is no evidence of a positive contribution to intellectual or spiritual life either.

They cite evidence that the assets of the world's 358 billionaires exceeded the combined incomes of 45 percent of the world's population. The deregulation of global financial markets has enriched a world-wide class of financiers and investors, and a few others a little further down the income scale, but:

"As trade and financial markets have been flung open, incomes have risen not faster but slower. Equality among nations has not improved, with many of the poorest nations suffering an absolute decline in incomes. Within nations, inequality seems to have worsened. The data are rough, but it is noteworthy that where the measurements of income distribution are most reliable, the trend is towards more inequality."

The analysis shows that rapid

deregulation and liberalisation of the global economy isn't working. The insistence that a string of failures all stemmed from an inadequate mix of essentially the right policy ingredients has been disproved by disasters in countries whose leaders and policies were previously called exemplary: Mexico, Thailand, Indonesia, Korea, Brazil, and now Argentina. Faux and Mishel observe:

"Most of the booming growth rates seemed to have been driven by speculative movements of short-term capital that inflated local assets, making large numbers of people feel rich – for a while. When their bubbles imploded, the same countries were denounced by the policy elites for something called 'crony capitalism' – a year earlier, the term had been 'business-friendly environment'."

As Hernando De Soto, Peruvian author of *The Mystery of Capital*, puts it:

"Capitalism has lost its way in developing and former communist nations. It is not equitable. It is out of touch with those who should be its largest constituency, and instead of being a cause that offers opportunity for all, capitalism appears increasingly as the leitmotif of a self-serving guild of businessmen and their technocracies."

A higher principle

The inescapable conclusion seems to be that few commentators and fewer countries are happy with the way globalisation is developing. A higher principle is required that works beyond the increasingly materialistic culture that produced it.

The higher principle would require acknowledgement of the true and interdependent nature of the people of "one world" with two core tasks. First, the better leadership of the global financial system to reduce seismic shocks and detect and deal with malpractice. Secondly, overcoming the alienation of large majorities of the world's people with different levels of prosperity, training, and aspiration.

This was exactly the route pursued successfully by the United States and other established economies as they evolved. Their solution was a

progressive release of regulation at a pace that allowed the new seedlings to flourish rather than be trampled under foot.

Better leadership of the global system

There is no shortage of suggestions for better leadership. Paul Volcker identifies ways to regulate global capital floods into small countries that overprice the assets and then cause the bubble to burst as short-term investors rush off to the next country. George Soros suggests IMF reform. He identifies two issues with the IMF's current constitution. Firstly that it can only intervene after a crisis rather than avert it, and secondly that it bails out lenders so they tend to over-lend without sensing risk. These are exactly the kind of issue that the United States and European Union grapple with inside a continental economy.

Faux and Mishel recommend a slowdown in the liberalisation process. They suggest forgiving debts rather than bailing out lenders and strengthening the policies that support the poor until they are at least in balance with those that protect the international investment community. IMF reform would feature in their program. Their model? None other than the development of the US economy.

"We need to apply the hard-earned lessons of national economic development to the global market-place. For example, when the USA was transformed from a series of regional markets to a continental economy, it had to create continental institutions to keep the economy in balance – for instance, a central bank, financial regulations, crop insurance, labor and environmental protections, social insurance, and so on. The result was a sustained, broadly shared prosperity. ... The global market-place has no such institution to keep it balanced. So-called free trade agreements are really protections for global investors, while leaving workers, farmers and small business people to the mercies of a rigged market. Neither is the IMF a central bank charged with nurturing global growth and stability. It is, rather, a shallow-pockets lender, dependent on loans from its member countries and partnerships with private banks. It conditions its loans to troubled nations with austerity policies aimed at giving debt repayment through exports priority over domestic growth. And,

along with US financial authorities, it has a tendency to rescue dictatorships, big banks and others who are 'too big to fail'."

Former World Bank Chief Economist Joseph Stiglitz sets out a clear

The key to overcoming alienation is engagement.

reform agenda for the IMF. Deploring the routine application of the same theoretical prescriptions to widely differing situations with only the most cursory consultation he describes how rigid monetary policies and enforced high-speed liberalisation destroy the viability of an economy at the very time that care is most needed. He demonstrates that the mission of the IMF has been subverted from economic kick-starter (focusing on job and wealth creation for the country) to lobbyist for finance capital (focusing on inflation and protection of investments). The best served client has become the lender, not the country.

Stiglitz identifies some specific problems:

- Trade liberalisation accompanied by high interest rates destroys jobs and causes unemployment especially among the very poorest
- Financial market liberalisation without adequate regulation leads to higher interest rates not lower, creates volatility, and prevents poor farmers and traders from taking loans for seeds, fertiliser or stock that might get them out of poverty
- Privatisation, without regulation and competition policies, leads to private monopolies charging higher consumer prices not lower

All of which achieve exactly the opposite of what the Washington textbook says it should.

Stiglitz also demonstrates that the so-called 'trickle-down' theory - money poured in at the top helps those right down at the bottom of society – is totally misguided and untrue. This view is supported by Mohammad Yunus, founder of the Grameen Bank and the micro-credit movement:

"People assumed that a magic quantum of investment would generate enough economic activity to somehow eliminate hunger and poverty. So neither the donors nor the recipients actually bothered about how the poor live. Donor assistance was aimed at eye-catching physical structures – bridges, giant prestige factories, and dams. ...Self-help projects were dismissed as 'boy-scout' projects".

(Banker to the Poor)

As Yunus points out, creation of self-employment through micro credit has few of the environmental issues of big-ticket capital projects and is less susceptible to funds disappearing into the wrong pockets or to the profits leaving the country.

A clear case for reform of the IMF has been made by almost every shade of opinion. The issue will be the principles on which a reformed IMF should operate, and the practicalities of a global overseer to identify where private interest and corporate interests or legality part company. What is clear is that the right level to tackle it is, as Wolfensohn put it, "at the level of people."

Overcoming alienation

The key to overcoming alienation is engagement: to include people with a clear vision of a better life for themselves and their families. Many people see global capital as a system for a few very wealthy billionaires driven by their demands and servicing their desires. And not without reason. The mission is, in the words of Thomas Friedman, "the democratisation of globalisation".

Hernando de Soto asserts that the main reason capitalism struggles to take root in ex-communist and developing countries is that people have forgotten the legal building blocks of the system in the US and Western Europe. Fundamentally, access to credit or capital empowers people to start enterprises, whatever the scale. This provides the best balance between a sense of self-reliance and self-worth and a reasonably steady or realistic income. De Soto observes that "formal property records and titles thus represent our shared concept of what is economically meaningful about any asset."

The common situation in most of the

contd...

Good globalisation contd...

third world or former communist countries is that 50% to 80% of economic activity is extra-legal, that is outside the taxed and legally regulated economy. However, De Soto urges us not to jump to conclusions:

"Most people do not resort to the extra-legal sector because it is a tax haven but because existing law, however elegantly written, does not address their needs or aspirations. In Peru, where my team designed the program for bringing small extra-legal entrepreneurs into the legal system, some 276,000 of those entrepreneurs recorded their businesses voluntarily in new registry offices we set up to accommodate them – with no promises of tax reductions. Their underground businesses had paid no taxes at all. Four years later tax revenues from formerly extra-legal businesses totalled USD 1.2 billion."

During the 19th century, US Federal Law had to recognise, after the fact, many pre-legal property rights that had evolved within individual communities. This was vital to provide the people with the security in their property required to grow their businesses further.

It follows that to avert continuing suffering and unnecessary risks to world peace, the global finance industry and the economic policies it demands have to be reformed. Countries must be released from the straight jacket of narrow ideologically driven prescriptions, to allow attention to be given to the specific conditions of each situation, and care taken for the broader welfare of humanity. In economic terms care is credit. To enable this change for the better, reforms have to take place at the source of the problem – the institutions of US Capitalism itself especially the IMF WTO and World Bank. This is where serious work should be focused to improve the level of understanding and overcome the "conventional wisdom" which is the main obstacle to fresh observations, and specific country-relevant solutions.

Sebastian Munden

Dear Editor...

Dear Sir,

Your review of Kevin Cahill's well researched and important book, *Who Owns Britain*, repeats his misleading thesis that this country is run or at least heavily influenced by a small clique of powerful landowners. He points out that 59 million people live on 6 million acres and that 40 million acres are owned by 189,000 families.

Is this surprising? Who are these families? They are mostly farmers who need several hundred acres to produce our food and are very ill-paid for their work. Divide 40 million by 189,000 and you come up with 211 acres – the size of a small farm. The 59 million on the 6 million acres live quite comfortably at around ten homes to the acre.

Of course these figures are misleading and there are great estates which Cahill diligently lists. But these estates often support historic houses open to the public which need vast sums for maintenance (new roofs can cost millions). The idea that these landowners are all as rich and powerful as Cahill thinks is wrong. Now that they will be excluded from the House of Lords they have no political clout there and the last time the House of Commons had a majority of landowners was in 1885. So forget this idea of them "united as a single, ruthless, secret society".

Kevin Cahill makes much of what he calls the 40,000 millionaire agricultural landowners who own 28,180,212 acres (i.e. averaging 704 acres each). Some are of course millionaires because of the European Union's idiotic agricultural subsidies, but mostly we are looking at unrealistic

capital figures. The income of an average farm would not justify a million pound price tag. What we are seeing is possible development gain and the fact that there is a nice Georgian house on the farm. In the home counties, city millionaires, who think nothing of paying £2 million for a house in Kensington are happy to pay a similar sum for a country house. If the price was related to the actual farm income few of the 40,000 would be millionaires. Real prices related to real incomes happen in the cities, in particular the City of London where Cahill says land values disappear off the scale.

Kevin Cahill is somewhat over obsessed with the aristocracy, painstakingly pointing out that most of them went to Eton which he calls the landowner's school. His tally of the richest aristocrats includes Sheik Mohammed bin Rashid al Maktoum who is obviously a newcomer to the UK landed gentry.

Nevertheless, as Ian Mason points out in his review, there is real injustice over landownership, and although Cahill gives Henry George a passing mention or two, he doesn't grasp that his Land Value Taxation could solve the problem. What he does emphasise is the failure of the Land Registry to do its job of actually registering all landownership (by 2011 according to its brief but unlikely to happen). Let us hope that at least Mr Blair ensures that this does get done and that the Chancellor sees the light about LVT.

Yours faithfully,

Geoffrey Lee

Bridging the Divide

Leonie Humphreys on the power of property rights

Many organisations and individuals today are desperately seeking solutions to global problems, from social injustice to environmental pollution. They all have specialist knowledge on specific issues. Governments too have their concerns and this year's Earth Summit in Johannesburg aimed to build on the sustainable development initiatives of Agenda 21 and the Kyoto Protocol on Climate Change. Yet even the widespread understanding that the need for reform is now urgent did not enable any real breakthroughs and most concerned groups were deeply disappointed by the results.

Even with a common agenda, there remains to be put forward a proposal that unifies the remedies that have been formulated. Many of these are related to specific issues, and are useful in that respect, but fail to reach the underlying causes. Land, or to be more exact the effect of property rights over land and natural resources, provides a potential remedial link between all those concerned about the plight of our planet Earth and its people.

Economic doctrine, now encapsulated in the global economic system called globalisation (global capitalism), is based on economic theories of 'growth' and 'comparative advantage'. The theory of 'comparative advantage' is that the economies of all participants in the international economy will grow as countries specialise in what they are good at providing. They then import what they are less proficient in. The theory is that the resulting growth, brought about by large scale manufacturing and agricultural production techniques, will eventually 'trickle down' to the general populace and result in benefits for the majority. This has become known as the 'trickle down effect'. But in practice many people do not even receive a 'trickle' under our global economic system and instead are exploited and abused (along with the environment). Further institutionalisation of this process appears in the form of World Trade

Organisation rules for international trade and the IMF and World Bank 'structural adjustment programmes' for developing countries having difficulty in repaying loans they were encouraged to obtain in order to develop.

The beauty
of the remedy
lies in its
local effect.

Despite this, economic theories do also contain a potential solution to global inequity and injustice. This lies in understanding the fundamentally accepted, and usually unquestioned basis of all economic analysis, namely property rights and their profound effect on economic activity. The result of granting unqualified property rights over land and natural resources is to deliver, as a by-product of these rights, the wealth or value obtained from natural advantages, government expenditure and communal activity generally, and individual work in particular, into the hands of the private owners of such property rights. These now materialise to the greatest extent as trans-national corporations and banks which collect what appears to be a surplus in the form of dividends and interest on loans.

But it is not a real surplus. It is the product of the labour of those who work in the productive enterprise and of all the advantages which are conferred by the nature and characteristics of the privately owned location at which the production takes place.

This is the basis or causal factor in our global economic system which has thus far been all but ignored. It needs to be understood that the privatisation of wealth derived from the community as a whole is a major contributor to the whole process of globalisation: and with the wealth goes

the power. Understanding this offers a method of remedying the situation at a causal level, for if communities and nations decide to shift the system for raising public revenue from those which constantly drain the productive process, particularly for small, local or marginal enterprises, to the values which derive from location associated with property rights, a fair playing field for all could be established. This can be achieved by replacing taxes which at present have a regressive effect on businesses by a tax on the annual rental value of land.

The beauty of this remedy lies in its local effect. Collected and used locally the revenue yielded by such a tax could re-empower local communities in a democratic way, and redress the balance between social and corporate power.

Many case studies exist to illustrate this phenomenon. One is *Taken for a Ride*, written by property developer Don Riley, who investigated and personally benefited from the increase in land values resulting from government investment in the extension of London Underground's Jubilee line. Examples of Land Value Taxation exist in countries such as Denmark and Australia (Sydney). Further research is being undertaken into increases of land values and other related issues, in particular a trial valuation for a pilot scheme of Land Value Taxation in Liverpool, with other city councils such as Oxford also indicating their interest in such trials.

Governments and organisations alike, whose intent lies in dealing with global social and environmental problems could unite to support this causal remedy and act in unison to ensure that nations and communities understand these issues and implement the appropriate remedial strategies. Economic justice, equity and truly sustainable lifestyles can then become not merely an end product on their wish lists, but a manifestation for all humanity.

Leonie Humphreys

The World We're In:

by Will Hutton,
Little, Brown, 409 pages, £17.99

Will Hutton's *The World We're In* distinguishes between two cultures – American 'conservatism' and European 'liberalism'. With the Soviet socialist option is no longer available, here, we are told, is where the choice for Britain lies. This book is an interesting and polemical attempt to direct that choice towards the European model. The possibility of the United Kingdom finding its own culture is barely considered. We are too small to go it alone and Mr Hutton's fear is that without Britain in Europe, the American version might win for these two cultures are at war.

The distinction (says Mr Hutton) is rooted in two different philosophies regarding property rights. The European tradition founded on the feudal system and noblesse oblige regards property rights as carrying obligations. This leads to the idea of a community to be served by and to serve all. It is sometimes known as the 'social contract'.

Unfortunately the same philosophy gave rise to religious persecution so the Pilgrim Fathers sailed to the new world where they were not subject to any feudal duties. Therefore, property rights are regarded as carrying no obligations. John Locke the English 17th century philosopher gives this approach intellectual respectability by arguing that every man has a property in his own person. "There is nobody has any right to it but himself. The labour of his body, and the work of his hands we may say are properly his".

One might suppose that this was a self-evident truth to the settler who carved his farm out of nature against all the odds. (Henry George espoused the same philosophy arguing only that land, not being the product of labour, could not therefore constitute property.) Locke's view leads to the primacy of the individual with his 'inalienable right to the pursuit of happiness' implying no necessary reference to the happiness of others.

This distinction appears in the ownership of modern economic enterprises. In the American version companies are owned by shareholders whose interest is restricted entirely to

the price at which their shares can be bought and sold. This has led to the aim of all economic activity becoming the maintenance and increase of shareholder value. In the 90s Chief Executive Officers have been appointed with their remuneration tied to the share price. The work force is grist to this particular mill having a large part of its remuneration in share options and its pension fund invested in corporation equity. This approach has its risks as the recent cases of Enron, WorldCom and Xerox show.

In the same spirit, as soon as Railtrack formed as a private company, it outsourced its responsibilities, sacked anyone who knew about railways and hired wheeler-dealers to negotiate the lowest prices with outsourcers, arguably affecting rail safety, but with the aim of increasing profits and shareholder value.

As Keynes remarked "When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done."

The philosophy of absolute property rights requires the imposition of taxation which in turn is regarded as at best a necessary evil and at worst theft. Redistributive taxation is especially abhorred being (according to Mr Hutton's sources) payment from hard working whites to feckless blacks.

It also leads to homeowners associations. These are gated communities with their own police forces and other services wherein State (but not Federal) taxes are remitted.

Mr Hutton invites us to compare this short-term approach with the European version. Here the intellectual thrust is towards egalitarianism. Indeed, Mr Hutton's view of civilisation seems to be that it is measured entirely by the degree of economic equality in the form of welfare spending and redistributive taxation. Hence his distaste for 'the American way' where the gap between rich and poor has become vast.

In Europe, share capital plays a relatively small part in the financing of companies which is why their stock exchanges are relatively minor

institutions. Most organisations, and nearly all small ones, are family-owned. Financing comes from commercial banks with whom a long-term relationship is developed with bankers having seats on company boards. Strong regulatory legislation protects the workforce from arbitrary action. Conservatives argue that such arrangements are inflexible, costly and inefficient.

Mr Hutton makes an interesting point about public goods. The conservative view is that they should be kept to a minimum as they cost money for no obvious individual profit. In contrast, for example, in the UK the BBC is financed by a hypothecated tax, the licence fee. In America public-service broadcasting is minimal and poorly financed.

Britain seems to occupy a place somewhere between these two philosophies. It has a highly sophisticated financial system 'the City' yet it also evidences some idea of the social contract: the idea that the suffering of one is vested in the many – witness the welfare state.

Will Hutton is an unashamed European, convinced that Britain's future both culturally and economically lies in Europe: not a United States of Europe, he hastens to add – rather a United Europe of States pursuing a 'third way' whose definition remains vague and elusive but is indicated by Lionel Jospin's phrase 'a market economy but not a market society'.

Mr Hutton recognises the problems of Europe – a corrupt and unaccountable Commission, chronic unemployment and economic strains arising from a community-wide uniform interest rate but argues that it only needs his enthusiasm in all of us to provide the will which will find the way.

Provided one can filter out the special pleading, this book is a must for anyone interested in Europe. Statistics are plentiful although skewed to support his arguments and the historical surveys are masterful. Even convinced Eurosceptics should read it if only to discover the strength of the arguments they must meet in the forthcoming debates.

Michael Gilbert

The First Duty

At the very heart of ecological understanding is appreciation of the interconnectedness of everything. Nothing can really be seen and understood in isolation from everything else, or at least from the things that form its immediate environment and influence it most. This is as true of human society as it is of anything and the global context of modern life requires a view of human society not merely in relation to towns and villages, or even nations and cultures, but as a part of the whole that is all humanity.

Our common humanity makes us all human, makes us all individuals and makes us all members of societies. Our human-ness distinguishes us from the physical environment we live in and on and from the creatures which share it with us. Our human-ness defines our part in the overall scheme, the contribution we can make and the extent of our dependence on each other and on whatever nature offers that we can use.

Human beings are rational beings and our rationality enables and encourages us to examine our world, to understand it in minute detail, to master it and to use it for purposes of our own. Our rationality encourages us to explain the world to ourselves, to our own satisfaction and sometimes for the benefit of our fellows.

But we are also emotional beings, with a quick, instinctive and often apparently irrational connection with the immediate wholeness of things. We are at once mathematical and poetic, reasonable and loving, partial and impartial.

The result of these twin aspects of human being is that we often "see in part only" and have difficulty comprehending the wholeness of things because it defies rational analysis. Our communities and societies develop in different ways, emphasising different aspects of our humanity and relating to our

environment in different ways according to a variety of perceptions and understandings, and according to the mental, spiritual, emotional and physical environment in which they are formed.

Such partiality leads to individualism and to defining ourselves and others with emphasis on differences which easily turn hostile and create misunderstanding. Modern life and modern society demand that such differences are resolved so that misunderstanding can turn to understanding and hostility to friendship.

Using the rational mind to explore and explain this is as necessary as feeling that it is so. Indeed it might be said that this is the reconciliation of the two: the one has the capacity to explain what the other instinctively and immediately feels and knows. Hence our numerous declarations of rights, dependencies and independences. Hence our long expositions, countless books, papers, articles, commissions, conferences and reports. Hence the ceaseless groping of the rational mind for new insight into and understanding of the human condition and the nature of being. Hence also poetry, music, art and meditation in the best of which rational insight and immediate experience are the same.

Perhaps the best we can do is to try to formulate some principles that might find universal acceptance as a foundation upon which vastly different expressions of human society can co-exist. Leading these would be the principle of love - love thy neighbour as thyself. Supporting this (if it needs support) would be a sense of justice which embraces every community and human being, and a sense of duty. Can we, dare we, say that the first duty of every human being is to recognise the oneness, wholeness and interdependence of all things and beings, and to act accordingly in all avenues of life?

Ian Mason

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