DISSENT & DEVELOPMENT IN THE CULTURAL RENEWAL OF BALKAN COMMUNITIES

Abstract

Western governments and the International Monetary Fund deployed “austerity” policies in response to the financial crisis of 2008. The authors explain that, far from laying the foundations for sustainable growth, the austerity strategy is deepening the crisis by eroding social cohesion without delivering full employment. Austerity is a method for short-term management of chaos in the markets, with the high costs carried by the most vulnerable sections of society. The authors elaborate a financial model that would restructure the pricing mechanisms in both the public and private sectors on principles designed to diminish the cyclical booms and busts that are driven by the misallocation of what Alfred Marshall called the “public value”. Fiscal policy is identified as the one viable strategy for restructuring the economies of Eastern Europe. Transition to a new financial settlement would empower people and their enterprises to work towards balanced growth while simultaneously renewing their communities. This model is grounded in the classical thesis that, to achieve

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optimum use of all productive endowments (land, labour and capital), people should pay for the benefits which they receive from society. The practical effect would be to socialise economic rents, which enables policy-makers to privatise earned incomes and the profits from saving and investing. Abolishing taxes that damage the health and wealth of nations is identified as the central remedy for pathologies that will otherwise remain as dangerous flashpoints for populations under stress.

**Key words**: austerity; excess burden; economic rent; public value.

1. **AT THE CROSSROADS OF HISTORY**

There are few cases in history where a conscious decision was made to replace the key structural pillars of the economy. In the past, people did not have the depth of knowledge to choose from a range of options. Evolutionary development is ordinarily executed on an incremental basis: small steps at a time, at a slow enough pace for people to keep control over the way they live. Ruptures of the kind that were telescoped into a very short period of time, as happened with the end of the USSR, have few precedents in history. The decision to switch from a command economy to the free market model within the space of five years was exceptional.

Eastern Europe was richly endowed in its resources – land, labour and capital – so there was no need for the transition to be painful. But insufficient care was taken to restructure the economy in a way that fulfilled people’s needs and expectations. The process, therefore, was not so much a transition (which implies a controlled sequence of changes) as a savage rupture. The end of the command economy came with what, in essence, was a redistribution of the most valuable assets on the basis of an unethical carve-up. It was not an adaptation to a more efficient way of living, in which all members of the population shared in the benefits. It was an excursion into the predatory appropriation of those resources that could give a quick return to “vulture capitalism”. Now, 20 years after the breakup, a new strategy is needed. The first challenge is to arrest further decline; then, to stimulate growth, with beneficial results not just in the “long run” but starting immediately.

2. **CRITIQUE OF THE FORCES OF FAILURE**

Our hypothesis is that a set of policies exist that would free people to recover from the economic and cultural losses that have been imposed on them. The model we outline would also contribute to the recovery of the psychological health of populations that have been traumatised. We cannot here explore the psycho-social benefits, but these do need to be born in mind by policy-makers.

Examination of policy choices must begin with an understanding of why people are dissatisfied with the current arrangements. These are faulty even as interim measures,
and they do not point to a better future. Record levels of unemployment and poverty, and the attendant damage to personality and the fabric of communities, is a matter of painful record. But what underpins the deep-seated dis-satisfaction with the measures favoured by policy-makers in the Balkans today? One attempt to address this problem was provided by the president of Croatia. In an interview with the London Financial Times, Ivo Josipovic noted that successive governments of Croatia had failed to modernise the economy and eliminate corruption from the financial system. Part of the problem, he claimed, was the general suspicion of investors.

The biggest obstacle to reform is in our heads. Whenever someone appears as an important investor, there is a reaction in society that ‘he’s coming to make a profit here and we can’t allow that’. This is probably a legacy from the former political system, socialism (Barber 2014).

Attributing current problems to the ideological prejudices of the people in general is problematic. Opposition to “investors” stems from a 20-year experience of property privatisation that has enriched a few people (the “oligarchs”) while rendering many people destitute. From the perspective of working people who saw their factories loaded with debts, the capital assets removed and the enterprises then terminated as “bankrupt”, privatisation was a mechanism for asset-stripping. That process was legitimised under the new constitutions of Russia and other former members of the Soviet Union under the auspices of the Washington consensus (Hodžić, 2014).

Most of the former socialist countries were not presented with a choice. Policy-makers automatically turned to western advisers, who were not interested in presenting policy options. Academic advisors like Jeffrey Sachs offered a package of “shock therapy” policies that were sanctioned by the conventional wisdom in Brussels, London and Washington (Harrison 2008). We would therefore caution against the advice now offered by President Josipovic, that “help [from the European Union and the International Monetary Fund] could be welcome”. For it is no secret that the EU is running most of Europe into a protracted depression as a result of its tax policies (Gaffney 2013).

The Balkan countries are blessed with highly educated populations. We believe that, if they could be sympathetically aligned with the rich natural endowments of the region, they are capable of evolving a model of change that would guide the transition without the influence of foreign agencies. EU governments and their financial agencies, we must recall, are not capable of securing the full employment and prosperity of their own people; why would their intervention in the Balkan countries be more successful?

Our hypothesis, then, may be stated in the following terms. The popular dissent to which the president of Croatia draws attention originates not with an irrational dislike of profit-seeking. The public’s dissent is a rational response to the pathologies that flow from the financial policies favoured by the ruling orthodoxy. Problems that surface in the economy are not intrinsic to the market system; they are symptoms of what happens
when people are able to arbitrage the defects in the pricing policies favoured by governments.

3. THE ETHICAL PRICING PARADIGM (EPP)

The model of reform we outline here takes into account two realities. First, the need for people to believe in a better future: hope. A fresh start needs to be grounded in a political philosophy that would be perceived as fair, one that offered the freedom to work for a better future without having to combat power and privilege in the workplace. Second, the need for immediate relief: material deprivation tempts people into violence. Reforms, while yielding short-term benefits, need to be based on mechanisms that drive change in the direction if sustainable long-term growth. There is one model only that fulfils the needs of people today. It is anchored in a financial policy that is endorsed as optimal by both scientific theory and the empirical record. We call this model the Ethical Pricing Paradigm (EPP). This states that people should keep what they produce, and they should pay for the benefits they receive.

Can it really be that simple? Can full employment be restored, productivity raised, natural habitats conserved and social solidarity nurtured by a revenue-raising mechanism that frees people to keep all of the wages of their labour, while funding the full cost of the services they receive from private and public service providers? The evidence points towards affirmative answers on all these points.

Currently, pricing policies employed by western governments do not conform to this paradigm. National income is distributed in response to two antagonistically related pricing policies:

- **In the public sector**, governments collect most of their revenue with taxes. Taxes are arbitrary exactions on incomes and assets, and on sales and other “taxable events”. Except in the rare cases where revenue is hypothecated, what is paid is not symmetrically related to the volume and quality of services received by the taxpayer.

- **In the private sector**, buying and selling is conducted on the basis of the obligation to fund the full cost of producing the goods or services which people wish to consume. The outcome of such negotiations in private markets is not optimum, however. But the reason for this is not that favourite scapegoat, “market failure”. The choices that people make are distorted by the costs that are added to prices by taxes. Thus, arbitrary constraints (imposed by the public sector’s pricing policy) are imposed on consumption, saving and investment.

The single most important outcome from the switch to EPP may be summarised in terms of two impacts:

- **In the public sector**, wise investment in public goods would be self-funding. Services like education, or infrastructure like highways, or civil administration like the enforcement of law and order or public health, fire protection or pollution control, all
combine to increase productivity by at least as much as the cost of providing those services.

One exhaustively studied example is the extension of London’s Jubilee underground railway. Eleven new stations were added, linking a central mainline railway station with the new financial centre at Canary Wharf. The cost of excavating the tunnel and installing the tracks was £3.4bn. The uplift in the value of the locations around all the stations was £14bn (Harrison 2006:64-82). *There was no need to burden wages with taxes to pay for that infrastructure!*

- *In the private sector,* the gross distortions caused by the financial burden of taxation would be eliminated. Consider, for example, what happens in the market for labour. At present, a section of the workforce is not employable: their productivity levels are not high enough to justify both their wages and the taxes that an employer has to pay if he hires them. By eliminating the tax burden, the “marginal” worker discovers that there is a market for his services. The labour market is cleared: full employment becomes the norm.

By eliminating taxes, and relying on EPP, involuntary unemployment would become a phenomenon of history. Productivity would rise above the levels that were previously constrained by taxation.

If we treat EPP as a hypothesis, we need to ask two questions:

1. Can we demonstrate that EPP offers a robust approach to transition out of the deadlock in which the Balkan countries find themselves?
2. Can the self-funding fiscal mechanism provide sufficient revenue to pay for all the public services needed by a modern nation?

4. **ATCOR & EBCOR: THE CLASSICAL FORMULATION**

The theoretical basis for EPP was elaborated by the classical economists, beginning with the French Physiocrats early in the 18th century. They influenced the Scottish moral philosopher Adam Smith. The fiscal base of a nation, they explained, was the rent that is paid for the use of land. This body of work highlighted two issues which post-classical economists fail to document in relation to the way national income is created and distributed.

First, the ATCOR thesis - *All Taxes Come out of Rent.* This may also be called “the Physiocratic theory of tax incidence” (Padover 1967).

If we “follow the money” in the markets, a pattern of behaviour is revealed that would astonish today’s policy-makers and their expert consultants. Tax revenue that is supposedly extracted from “wages” and “profits” is actually extracted from the aggregate flow of the nation’s rents. If this is correct, then a government that sought to raise its revenue directly from rents would discover that the fiscal base was sufficiently buoyant to fund all the public services that add to the productive capacity of the population. But is it correct to claim that all taxes come out of rents, either directly or indirectly?
In *The Wealth of Nations*, Adam Smith followed the English philosopher John Locke in noting that, ultimately, through the cumulative interaction of market transactions, taxes levied on wages are at the expense of rents that would otherwise be pocketed by landlords. Smith discusses this process in Bk. V, Ch. 2, Pt. 2, Art. III. He notes that a tax on wages raises the cost of employing people. The effect of this is startling. The employer, consequently, “should pay less rent to the landlord. The final payment of this rise of wages, therefore, would in this case fall upon the landlord….In all cases a direct tax upon the wages of labour must, in the long-run, occasion both a greater reduction in the rent of land, and a greater rise in the price of manufactured goods, than would have followed from the proper assessment of a sum equal to the produce of the tax, partly upon the rent of land, and partly upon consumable commodities”. Such taxes, he wrote, were “Absurd and destructive”.  

In other words: the shift from taxes on labour and capital, to collecting revenue directly from a nation’s rents, is a practical fiscal strategy. There would be no shortfall in the revenue needed to discharge government responsibilities.

But if the revenue is coming from rent anyway, why go to the trouble of changing current fiscal practices? The answer is to be found in Adam Smith’s treatment of the EBCOR thesis - Excess Burden comes out of Rent.

Neo-classical economists acknowledge that taxes impose a cost, or loss (the “excess burden”) that distorts incentives to work, save and invest. There is no consensus on the scale of this excess burden. Furthermore, governments fail to publish audited accounts that disclose the losses that they impose on their people. However, there is no controversy over the process that results in those losses. Adam Smith explores this issue in relation to the impact in the labour market. He acknowledges that, under certain conditions, taxes on wages may not result in a proportionate increase in an employer’s wage bill. Why?

…because [those taxes] have generally occasioned a considerable fall in the demand for labour. The declension of industry, the decrease of employment for the poor, the diminution of the annual produce of the land and labour of the country, have generally been the effects of such taxes. In consequence of them, however, the price of labour must always be higher than it otherwise would have been in the actual state of the demand: and this enhancement of price, together with the profit of those who advise it, must always be finally paid by the landlords and consumers [emphasis added].

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Adam Smith was emphatic on the need for the Land Tax to fund public services. Those who benefited should pay for the public services out of the rents of land.2

Before leaving Adam Smith, however, we must note that the Land “Tax” is not a tax at all. Under EPP, the annual rental payment is proportionate to the benefits received from the services that are available at the locations which people select as the place where they wish to live or work.

5. BUILDING A NEW ECONOMY

Does the empirical evidence support the EPP hypothesis? The model is not treated seriously in the academic literature. Distinguished economists, some of them Nobel laureates, claim that rent is an insufficient proportion of national income, so the theoretically optimum policy can be ignored. Others even suggest that the policy is not practical “because it is difficult to separate the value of land from the value of the buildings on it” (Hall and Rabushka 2007:167).3 Against such objections, however, other Nobel laureates have endorsed the policy as both practical and desirable. In an Open Letter to Mikhail Gorbachev, for example, it was forcefully supported by 24 economists and property professionals, among them four Nobel laureates: Robert Solow, Franco Modigliani, James Tobin and William Vickrey (Noyes 1991: 225-230). The Open Letter explained why this fiscal tool was appropriate for post-Soviet Russia. Other Nobel laureates who have recently scrutinised and fulsomely endorsed the rent-as-public-revenue policy are James Mirrlees (2011) and Joseph Stiglitz (2012).

The claim that a direct levy on the economy’s net income (technically called economic rent) is difficult to implement is exposed as vacuous by overwhelming empirical evidence. A few cases will confirm the empirical basis of the policy.

● Under British rule, the colony of Hong Kong did not privatise land. It leased the land to users, and drew a large proportion of its revenue from rent (Harrison 1998). The outcome is the freest, most dynamic, fiscally responsible economy in the world today, according to annual evaluations by the Wall Street Journal (see the Index of Economic Freedom at http://www.heritage.org/index/).

● How did Taiwan become the first Asian Tiger? The nationalist party (the Kuomintang, which advocated the economic policies of Sun Yat-sen) fled to the island of Formosa to escape the communist forces. They instituted the land-to-the-

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2 Smith was fearless in the way he characterized the people who captured the nation’s rents. He refers to “the indolence of landowners”. For his assessment of landowners, see Harrison (2012: 37-38, 58-59).
3 One of the best textbooks on property valuation is by Australian practitioner J.F.N. Murray. He explained the disconnect between valuation and economic theory in these terms: “The theory of valuation is a pragmatic extension of economic theories relating to value and price, but it is remarkable to find that there is an almost complete dissociation between economic theory and the theory of valuation, although the latter from the materialistic viewpoint stands in the forefront of the social sciences” (1969: 79-80).
tiller policy, and enacted the land tax. Taiwan rapidly became an industrial hot-house which eclipsed the model favoured by Chairman Mao (Harrison 1983: 226-229).

- When British citizens migrated to Australia and New Zealand in the 19th century, they were challenged by vast open spaces. They constructed a modern urban economy by investing in infrastructure that was funded out of the rents which were created by those public goods (such as highways and railways). The methodology employed to separate the value of land from buildings may be reviewed on the website of the Value General of New South Wales: [http://www.lpi.nsw.gov.au/land_valuation/](http://www.lpi.nsw.gov.au/land_valuation/)

- Denmark’s farmers studied *Progress and Poverty*, written by the American social reformer Henry George (1879), in their folk schools. The virtues of the Land-Value Tax (Sandilands 1986: 4-15) attracted them. The fiscal system was reformed in 1926. Today, a member-country of the European Union employs sophisticated computer technology to assist in the regular reappraisal of land values to raise revenue (Lefmann and Larsen [2000: Ch. 10]; Müller and Mørch-Lassen [1989]).

With the exception of Hong Kong, the governments of these countries have yielded to the pressures from rent-seeking property owners and speculators to reduce the proportion of revenue collected *directly* from rent. The important point of this history, however (and there are other such cases), is that there are no administrative difficulties associated with directly collecting rent as public revenue, irrespective of the prevailing regime of property rights.

6. TOO GOOD TO BE TRUE?

The collection of rent as public revenue is acknowledged in the economic literature as optimal. The special characteristics of locations (land is fixed in supply, for example) renders rent as a unique source of revenue. Strictly speaking, however, the policy is not neutral. Professor Nicolaus Tideman characterizes this financial mechanism as “better than neutral” (Tideman 1999). It provides positive incentives. One example may be observed in the housing market.

Under current fiscal rules, owners are free to speculate in the future increase in land values by holding land vacant. This shrinks the supply of land even when the sites are needed for residential purposes. This artificially reduces the supply and raises the price of housing. The supply of dwellings is curtailed so that land owners may reap a larger unearned gain in the future. But what happens if they had to pay an annual location charge for their sites, whether they used the land or not? They would make the land available to users, to cover the cost of rental payments to the public agencies that provided the services which made the locations valuable.
The EPP financial reform, then, is practical in both theoretical and empirical terms. But what is the order-of-magnitude of the gains that would be achieved from switching to rent as the source of public revenue?

Because of the catch-up effect, countries like Croatia and Bosnia and Herzegovina would experience remarkable rates of growth. The transformation of expectations would attract the investors of capital who wanted to work with labour to create the value-adding activities that yielded untaxed profits. This is what happened in post-communist China, where annual rates of growth in GDP exceeded 10% for about 20 years (they are now levelling down to something like 7% a year).

One study which tracked the transitional process was undertaken by Professor Tideman and his colleagues at Virginia Polytechnic Institute and State University. They calculated what would happen if the excess burden of taxes was reduced by shifting taxes from labour and capital onto land and by replacing progressive taxes with proportional taxes. They employed a dynamic general equilibrium model to generate estimates of the magnitudes arising from the reduction in excess burden in the United States. They wanted to know what would happen if revenue was raised incrementally from land-rents rather than five existing broad-based taxes, and if the current progressive income tax was replaced with a flat tax. This was their conclusion:

The net benefit as a percentage of NDP is 14.6% in the first year and 26.2% after 30 years. In real 2000 dollars, this is $1,308 billion in the first year and $4,008 billion in the 31st year (Tideman 1999:435).

The number of American households in 2000 (the first year of the model) was 103.2m. The model predicted that the number of household in 2030 would be 135.7m. This implied that each household would be better off by $12,674 in 2000, and by $29,529 in 2030 (both numbers are expressed in dollars of the year 2000). The numbers can be translated into today's dollars as follows. The consumer Price Index for 2000 was 172.2 (http://www.bls.gov/cpi/cpid00av.pdf). The consumer price index in September 2014 was 238.031 (http://www.bls.gov/cpi/cpid1409.pdf). The ratio of these two numbers is 1.3823. Thus, multiplying the gains per household by this number, we get $17,520 per family for the first year, in today's dollars, and $40,817 per family for the 31st year, in today's dollars. In pound sterling terms, the equivalent annual benefits are £10,875 per family in the first year (in September 2014 pounds) and (30 years later) benefits of £25,337.

The benefits arising from the shift in revenue off wages and capital, and onto land, are always positive. However, we need to draw attention to one of the weaknesses in the reasoning that is applied by economists to their calculations of the deadweight losses from conventional taxes. They apply the theoretical
apparatus of pure marginal analysis (one example is Harberger [1974]). The effect of this is to seriously understate the full extent of the damage caused by taxes. Resolving such theoretical issues must be a priority. European and American governments are besieged with protests from citizens who intuitively know that they are enduring problems associated with the way their elected representatives raise their revenue. Those problems are symptoms of the revenue structure: poverty, unaffordable housing, cyclical booms and busts and the other ruptures to the market economy that can be traced back to the choice of fiscal policies. People mistakenly assume, however, that these problems are related to how much is raised by taxes, rather than how they are raised.

The graduated income tax, for example, which is supposed to redistribute income to low-income families, is said by some lobbyists to be incapable of achieving its goals. Despite 60 years of Welfare State policies for redistributing income, the levels of poverty and unemployment in Western Europe remain unacceptable. Others propose the exemption of savings from income taxes, or just taxing what they call “consumption”, while exempting other income, in the debate on how to restructure the tax regime. One modern twist is the proposal for a flat tax on incomes (Hall and Rabushka 2007). Advocates write as though they want to rid the income tax of progressive brackets that tax higher incomes at higher rates. Thus they would replace the “progressive” income tax with a “flat” tax. Curiously, however, they would treat the purchase of land as “investing”, i.e. “not-consum ing”, on the grounds that such “investment” takes the form of creating capital. Under cover of this “main point”, however, they would let taxpayers deduct savings and/or investing from taxable income, making the “income tax” resemble a universal sales tax. Then, under this cover, they are able to define the purchase of land as “investing”. The consequence, of course, would be to raise rents (or its capitalized form, the selling price of land), and thus render many more small- and medium-sized businesses uneconomic. The effect of this fiscal mess is to systematically favour the maximization of rents that are not taxed.4

The scientific and empirical knowledge is now available to construct a fiscal system that serves the common good while simultaneously empowering individual citizens to make the best use of their creative energies. Central to that financial system is the reservation of rent as public revenue. The revenue from this source ought to be supplemented not by a flat-tax on income; rather, the additional revenues should come out of user charges. Thus constructed, the gains would be even greater than those predicted by Tideman and his colleagues. For the USA, the gains measured by GDP (a seriously defective measure) would be of the order of $7.5 trillion. This estimate is by one of the present authors (Gaffney) who, while generally supporting

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4 In the US, the cost of purchasing land cannot be deducted from income tax liability. This is a legacy from policy-makers (mainly Warren Worth Bailey and Henry George, Jr.) who drafted the original tax rules in 1913-16 (Brownlee 1985:173-210).
the findings of Tideman et al., believes their methods and assumptions underestimate the quantum leaps that a shift to the EPP model would cause, and the speed with which the cause would take effect (Gaffney’s voluminous literature on the ATCOR thesis may be access from www.masongaffey.org). Historical instances in support of the more generous assessment of gains arising from a restructuring of the fiscal system are analysed in New Life in Old Cities (Gaffney 2006).

The door to Aladdin’s Cave opens as the virtuous influences embed themselves ever deeper into the economy. For economic rent, which Alfred Marshall defined as “public value” (Marshall 1920:433), would increase. Under the burden of conventional taxes, the damage to productivity has the effect of shrinking the net income (the public value) in the economy. Rent is at the core of the growth mechanism that has been called the 1st Law of Social Dynamics (Harrison 2012). The correct use of the flow of rent revenue enriches not just the material condition of the population; it fructifies the resources available for investment in the spiritual, moral and aesthetic layers of life, the qualities that define humanity.

CONCLUSION

Western governments are struggling with the depression that began in 2008. Conventionally applied monetary and fiscal policies have failed to stabilise the chaos which, ultimately, tax policies were responsible for creating.

Armed with the Ethical Pricing Paradigm, the peoples of the Balkans have the resources and imagination to solve their problems without the need for intervention from external sources. Psychologically, this alternative financial system would appeal to people who have retained a strong sense of community. Current resistance to free market economics, as observed by President Josipovic, does not originate with the risks associated with competition. Animosity directed at “investors” may be best explained by the rent-seeking behaviour which incubates corruption in commerce and civil administration. Corruption, when it emerges on a socially significant scale, deprives political and legal institutions of their moral authority.

Where ethnic and religious differences have been used to rupture previously peaceful communities, the notion of equal shares in the riches that flow from the services provided by both nature and society would exercise a re-unifying influence. The willingness to work for inter-ethnic harmony would, in turn, generate significant spill-over benefits. Mutual respect translates into a more intensive level of co-operation, which raises personal living standards and the rental income that is available to fund even more, and better quality, public services. Stiglitz hints at these benefits when he writes that “rents…can be collected not just on land, but on the value of natural resources like oil, gas,
minerals, and coal...A stiff tax on all such rents would not only reduce inequality but also reduce incentives to engage in the kind of rent-seeking activities that distort our economy and our democracy” (2012: 212-213; emphasis added). The effect would also be to smooth the land-related boom/bust cycles. This was most recently affirmed by Martin Wolf, the chief economic writer of the London Financial Times, who states:

A properly constructed tax on land value...would not only be just, since it would appropriate to society gains that are generated by the investment of others, including the state, not by the effort of the individual beneficiary; it would also play a powerful role in ameliorating the speculation in land values that lies at the heart of each and every property-related credit boom (Wolf 2014:335).

The scientific validation of the rent-as-public-revenue thesis could be supported by reference to the sacred texts of all three monotheistic religions (Hebrew, Christian and Islamic). This would take us beyond the scope of our review, but it is important to bear in mind that EPP is not a simple economic theory; its elements flow from the spiritual consciousness of humanity.

A political consensus that activated the EPP programme would release the power of the people to rebuild their communities with minimal direct regulatory intervention from government. The beneficial effects would be quickly realised through the markets, if people were convinced that government was serious about phasing in the policy. Employees and investors would not wait for policy-makers to complete their reforms! That is the genius of the “market”. Arbitraging the flaws in the current tax system would disappear as people realised that the incentives would shift in favour of value-adding enterprise.

The “euthanasia of the rentier” would occur, according to J.M. Keynes, because Interest today rewards no genuine sacrifice, any more than does the rent of land....But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital (1936: 376).

Keynes was not correct to assume that the asphyxiation of those who claimed interest on their capital would occur naturally with the passage of time. The present tax regime automatically creates an artificial scarcity of both land and capital. The latter effect arises from the waste of capital that is encouraged by the speculation in land that causes, simultaneously, the over-investment (and under-use) of capital on the urban fringe, and the under-investment (and over-use) of capital in the centre of cities. This is the consequence of the extensive urban sprawl caused by land speculation. Capital is locked up and under-used in highways that need not have been built; new schools and hospital are constructed to serve thinly-populated outer
districts, while inner city facilities fall into disuse (Gaffney 2009). The outcome is a crisis of capitalism that is not the fault of capital. It is a crisis that arises from the misuse of nature’s resources and the services provided by society, and from the abuse of the revenue-raising powers of government.

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