Thesis ♯2

Human rights and the Welfare State are abused to consolidate the power of those who are enriched by the culture of entitlements. Shorn of corresponding obligations, that culture corrodes morality, hollows out family life and degrades the economy. To reverse social decline, the statecraft that legitimises "transfer incomes" must be challenged, to emancipate people so that all may live by their labour. The integrity of public property rights needs to be restored, and the social contract revised to affirm personal responsibilities. Evolutionary progress is not possible when people are denied the right to create their own authentic culture.

The Cheating State

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Contents

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GREED is not embedded in the DNA of society. In its cultural form, it has *become* the DNA of what is now a globalized civilization, the triumphant achievement of a statecraft that manipulated people's minds and manners to the point where most people do not recognize that they have been co-opted into a routine process of cheating.

Institutionalized greed was incubated in Europe in the 16th century. It mutated over the following centuries, and was transplanted through colonization. In the late 20th century, the cultural virus captured post-Soviet Russia, and is now being seeded in China.

As individuals, we are all susceptible to over-indulge ourselves. I am not referring to that kind of behaviour. The greed that is authorised by statecraft is the art of living off the labour of others. Slavery, one of its rudimentary forms, was outlawed once its beneficiaries realised that there was a more efficient way to cheat people of the fruits of their labour. Today, the statecraft of greed is continuously schooled into the minds of the young, to create a new generation of acolytes.

There are two ways to demonstrate that greed has rendered society dysfunctional. The first would be to compile a dossier of indictments. Files on individual cases from countries like Greece, Italy and Spain would be thick with evidence drawn from politics, business, the media, and so on. The problem with this approach is that those who would not want to face the awful truth about their societies would rationalise the corruption as the failings of individuals, rather than symptomatic of a structural flaw in their culture. They would settle for the prosecution of individuals as "rogues", believing that this would cleanse the system. That is the favoured ending to Hollywood movies: blame a few villains rather than accept the need for fundamental changes to the pillars that support our communities.

More effective is the forensic examination of the law, and of institutions, and the collective psychology of the population, to excavate the sources of systematic corruption. This reveals the processes by which people are lured into greedy behaviour, the kind that causes people to cheat.

Thesis ♯2

Human rights and the Welfare State are abused to consolidate the power of those who are enriched by the culture of entitlements. Shorn of corresponding obligations, that culture corrodes morality, hollows out family life and degrades the economy. To reverse social decline, the statecraft that legitimises "transfer incomes" must be challenged, to emancipate people so that all may live by their labour. The integrity of public property rights needs to be restored, and the social contract revised to affirm personal responsibilities. Evolutionary progress is not possible when people are denied the right to create their own authentic culture.

This approach identifies the solutions that would erase the propensity to cheat. But how may we recognise the kinds of behaviour that encourage cheating? Tony Blair, the man with a mission to change society, had no doubts about the answer to that question.

"The Basis of Civic Society"

For his first public speech following his election as Britain's Prime Minister, Tony Blair chose as his audience a group of unemployed youngsters. Speaking on June 3, 1997, on a social housing estate in South London, he said:

"The basis of this modern civic society is an ethic of mutual responsibility or duty. It is something for something. A society where we play by the rules. ***You only take out if you put in.*** That's the bargain."

To what extent does Blair's proposition represent reality? We may arrive at an answer by reflecting on the following cases, culled from the British media. What do they have in common?

- Mark Hawthorn (alter-ego: Tilly) was gaoled for six months in June 2013 after claiming £84,000 in disability benefits while performing as a drag queen.
- Julija Freiberga claimed £33,000 in state benefits while unemployed. As a landlady, she drew £60,000 a year in rent from her six properties. She was gaoled for 16 months (Rayner 2012).
- Christine Fitzgibbon claimed £1,500 a month in state hand-outs while her husband ran a £7m drugs empire. She was gaoled for seven years after admitting money laundering (Shan 2013).
- Tracey Shellard, claiming she was too fat to work, received £100,000 in benefits after shedding 19 stone. The judge called her a "lying scrounger" and sentenced her to a 12-month suspended prison sentence (Narain 2013).
- The cash-strapped Earl of Cardigan, custodian of a 4,500 acre estate, received £71 a week Jobseekers Allowance while he was searching for work. The Earl (David Brudenell-Bruce) was in legal dispute with his trustees over the handling of the financial affairs of his ancient estate (Clarke 2013).
- Tenants of the Duke of Northumberland complained that they were faced with increases in their rents in some cases of up to 98%. The Duke, reported to be worth £320m, owned about 132,000 acres, including the castle at Alnwick, which featured as Hogwarts in the Harry Potter films. A spokesman for the Duke argued that rents reflected market conditions (Harding 2013).

All these cases involve the transfer of incomes to those who claimed the right to be supported by the labour of others. The first four cases are of individuals who abused the law. The second two cases are of income transfers within the law.

The concept of income transfers is defined in the *Dictionary of Free Market Economics* as "A transfer of resources, usually funds to recipients of assistance or subsidies, <u>*not in exchange for any service"*</u>. This redistribution of money is mandated by government (Foldvary 1998: 281-2). Economic rent, which is claimed by the owners of land, is the primary example of a transfer payment. Land which commands an economic rent costs nothing to produce "and the whole of its earnings are economic surplus" (Seldon and Pennance 1976: 115).

To stress the point that rents, as pure income transfers, are not *earned*, John Kay (co-author of a textbook on taxation with Mervyn King, who was to become Governor of the Bank of England), summarised the economic reality in these terms in his article in the *Financial Times* on December 27, 2009:

> *You can become wealthy by creating wealth or by appropriating the wealth created by other people. When the appropriation of the wealth is illegal it is called theft or fraud. When it is legal economists call it rent-seeking*.

The Welfare State sanctions income transfers as a safety net for people denied the opportunity to earn their living. Legitimate claimants on the public purse are supported by taxpayers in work. But there is a clear distinction between them and aristocrats who are the beneficiaries of vast landed estates. Both groups enjoy income that is transferred from others. But those who claim benefits from the Welfare State are expected to get back into work to earn their living – whereupon the benefits cease – while those who live off rents may do so in perpetuity, protected by the law of the land. We need to take a closer look at what is meant by a "transfer payment".

Most people who benefit from income transfers in the form of rents are not criminals. They are co-opted into cheating by a statecraft that sponsors greed. One victim of the institutionalised process is Martin Wolf, the chief economic commentator of the *Financial Times*. He computed the gains he made out of the labours of others and explained how he has been enriched to the tune of nearly a million pounds for doing precisely nothing:

> *In 1984, I bought my London house. I estimate that the land on which it sits was worth £100,000 in today's prices. Today, the value is perhaps ten times as great. All of that vast increment is the fruit of no effort of mine. It is the reward of owning a location that the efforts of others made valuable, reinforced by a restrictive planning regime and generous tax treatment – property taxes are low and gains tax-free* (Wolf 2010).

Wolf's case illustrates what has happened to most households. How did this state of affairs arise?

The post-war social settlement known as the Welfare State was the price that the culture of greed was willing to pay to preserve itself. Europe faced a dangerous period of transition. The deferential values of the feudal aristocracy were buried in the trenches of the First World War. By the 1940s, the people of Europe wanted a new way of living. The Welfare State provided the political cover that was necessary if the transfer of income to land owners was to be preserved. A second strand to the survival of the culture of the aristocracy was the expansion of the rent-seeking class. The strategy was successful. In Britain, for example, by the time Margaret Thatcher was elected Prime Minister in 1979, 85% of total personal wealth was owned by the top 20%. *Inheritance – not the creation of new wealth – was the major determinant of wealth inequality* (Harbury and Hitchens, 1979: 9, 136). Post-war generations were not endowed with a "level playing field", either in education or work.

Blair followed the Thatcher years. He enjoyed a decade in power, with a political mandate to reverse the forces that cheated the unemployed youths to whom he directed his lesson in civics. Instead, he and his Chancellor, Gordon Brown, consolidated the forces that drive the get-rich land-led boom/busts (cf their "light touch" regulation of banks). They contributed to the organised chaos that undermines families and their homes. Blair's policy failures opened the door for the formal attack on "benefit cheats", the mantra of the Tory/Liberal Coalition that replaced the Blair/Brown era. The 2008 financial crisis provided the economic cover for the austerity policies that are unpicking the Welfare State. The banking scams provoked popular anger, but social activists failed to isolate the core problem. The culture of cheating will continue unchallenged for so long as people fail to recognise the deception in Blair's dictum: "*You only take out if you put in".*

Corporate Cheating

How cheating affects the destinies of nations is illustrated by Paul Collier, a professor of economics at the University of Oxford. Rent-seeking, he notes, is the technical term "for ways, including violence, to acquire ownership. Basic economics predicts that the value of natural assets, which technically are unearned 'rents', will be matched by the efforts to 'seek' those rents" (Collier 2010:18). He cites two examples.

- The government of gold-rich Mongolia was informed by a mining company that, because of the high investment costs of extraction, the investors needed a tax holiday of eight years. This was granted. The company exhausted the gold seam in seven years.
- Chile went for years without receiving a single cent in rents from its copper mines. The mining corporations declared large revenues which they offset with large expenses.

But why blame the corporations? They are free to capture resource rents because sovereign governments are derelict in their duty of care towards their people and their common wealth. Botswana forestalled a rip-off, but only thanks to the 11th hour intervention of a lawyer. Just in time, he realised that the government was about to lose a large part of its diamond rents under the terms of a contract that favoured the mining company (Harrison 2008).

The systemic scale of the rent rip-off is illuminated by policies powerfully advocated by the European Union.

Structural funds These tax-funded transfers are supposed to endow marginalised communities with infrastructure (like highways) that alleviate poverty. But through the cut-and-thrust of competition, the net benefits are captured by land owners (or those who are able to intercede in the political process to pocket the financial transfers). Most of the cases of political corruption in the EU "South" – Greece, Italy, Spain, Ireland – can be traced back to deals in land.

Agricultural subsidies About 40% of the EU budget go to the farm sector. Intention: raise living standards of farmers. Most of the money does not end up in wages. In the UK, for example, the average salary of a full-time hill farmer is £12,600 – half the national average income. Meanwhile, the price of farmland has risen to record heights. Land owners capture the subsidies transferred from taxpayers. To conceal the financial reality, major beneficiaries, like the Prince of Wales, use tenant farmers as sob stories to jack up the subsidies even further (Box 1).

Box 1: A Generous Prince?

Charles, Prince of Wales – the next King of England – has donated £50,000 from one of his charitable foundations to help struggling farmers, some of whom now rely on food parcels to survive. Meanwhile, his estate is making tens of millions of pounds in profits from farmland rents and commercial developments on green fields without having to pay capital gains tax. In 2012, the prince drew £18.3m from the Duchy of Cornwall's rents. Charles regularly pronounces on the hardships of farmers and the need for "green" policies to protect the environment, while pocketing the subsidies from urban taxpayers.

The Culture of Corruption

To camouflage the historic injustice of land grabs that originated the culture of income transfers, apologists for the *status quo* focus on those who cheat the Welfare State. Newspapers routinely publish information about the scale of the "scrounging". One report explained that a person earning £100,000 a year contributed almost £550,000 to the state welfare system over his working life (Watts 2013). Implication: salary earners were subsidising the life-styles of layabouts. No calculation was offered to reveal how taxpayer-funded services raise the capital price of the homes owned by the top earners who, over their working lifetime, reap a fortune in net gains, all of it unearned – classic cases of incomes transferred from the working population.

Rent-seeking, such as that which corrupted the banking sector, germinates a corporate culture that favours fraud as a routine way to make profits. Mis-selling of mortgages, rigging of interest rates, sham deals to rip off small businesses… none of this could have happened if it was not sanctioned by a culture grounded in legalised greed.

As working households were squeezed by the depression that followed the land-led boom, the Welfare State leapt into action to protect the bankers. This was welfare writ large, "demonstrated by the lack of suicides and the descent into poverty among the present generation of incompetent greedy bankers compared to those of the crash of 1929. In their relentless demand for yet further hand-outs they show every sign of the welfare dependency they so deplore in the poor" (Rose and Rose 2012:304).

Bankers are the tip of a corrupted culture. Britain, again, serves as a good case study, because it is not regarded as corrupt as countries like Italy and Greece.

Analysis of the fabric of society must begin with the law-makers. Members of Parliament have been exposed for routinely falsifying their expenses. The favoured trick was to "flip" their second homes (the interest on their mortgages having been paid by taxpayers). The politicians understood that a turnover of land-based assets yielded enormous tax-free capital gains.

From there, the corruption penetrated down to all layers of society…policemen taking bribes from journalists… newspapers breaching people's privacy by hacking into telephones…civil servants fabricating advice to government ministers that cost taxpayers fortunes in wasted investments… The list is a long one. Such cases stem either directly or indirectly from the legalised transfer of other people's earned incomes. To test that claim, we need to trace the chain of causation back to the way in which a nation's rents are mal-distributed. For example, can we link the needless deaths of many patients in Britain's venerated National Health Service (NHS) to the culture of corruption?

In February 2013, three volumes of evidence were published that documented the operating methods at one hospital. Through negligence and managerial dereliction of duty, about 1,200 people had died needlessly. But this was not a failing in just one hospital. Five others fell under suspicion with the claim that as many as 3,000 more patients had died needlessly (Rayner *et al*, 2013). The patients were not victims of random negligence. They died because of a social process.

Although the findings of the official enquiry were treated as evidence of an abuse of the "values" that allegedly prevail in the NHS, the deaths were the direct result of a value system that had been formally articulated by the governments of Tony Blair and Gordon Brown. They set financial and body-count targets against which performance in hospitals would be judged. Consequently, the care of patients was subordinated in favour of statistics that demonstrated value-for-money efficiency. Whistle blowers who registered their concerns were intimidated into silence. Nurses were put under pressure as staffing levels were cut in response to austerity measures adopted after the economy crashed in response to the land-led property boom/bust.

The politicians achieved their goal. Ministers from the Department of Health could stand up in Parliament and claim that, on the basis of clock-watching criteria, progress was being made in the nation's hospitals. This was the value system against which the deaths must be judged. The NHS did achieve its targets. The deaths were the collateral damage of a Predator Culture (Harrison 2010). The deaths were not the results of a few aberrant individuals. They were one of the ripple effects of the culture of rent-seeking, which framed the financial terms on which the public sector was administered.

Risk-free Cheating

Few of us are saints. Most people can be tempted to cheat. We resist for fear of being caught. But the cheating that concerns us is the kind that most people celebrate. When house prices rise, we rejoice, rarely considering the bad fortune of the renting families who subsidise the owners of residential property. The inter-generational effects are again illustrated by the culture of entitlements.

In Britain, the cradle-to-grave entitlements provided by the Welfare State are ring-fenced so as not to prejudice one's capital gains from a lifetime of accumulating the wealth created by others. Take the case of the tax-funded care of elderly people. Those who are capital rich are theoretically supposed to liquidate their residential homes (which they no longer occupy), to defray part of the costs of living in a care home. *Outrageous!* Didn't I work all my life to accumulate that wealth? (No, actually, most of it came from appropriating wealth created by others.) Am I not entitled to bequeath that capital gain to my children? (Yes, under the law: which co-opts children into the culture of cheating, such that the virus is transmitted through the generations.)

Home-owners who seek care home assistance have found a way to protect their property wealth. They are transferring it to their children before they request support from the state. By claiming to have a small sum in the bank, taxpayers will be required to fund the whole cost of their care. Meanwhile, their children walk away with the full value of the asset that could have paid part of the cost of supporting their parents (Dunn 2013).

Home-owners who trick taxpayers into paying for their care do not view themselves as cheats. After all, their motives are sanctioned by politicians such as Britain's deputy prime minister, Nick Clegg. He says that people who "work hard" all their lives should not be forced to sell their homes to pay for their care in old age (Clegg 2013). The statecraft of greed does not censure tactics such as these. Indeed, the fiscal system is expected to enhance the value of land-based assets, even if it is at the expense of those who pay taxes and rent their homes (Box 2).

Box 2: Housing Subsidies

In *Renovating housing policy*, a think-tank reveals the scale of fiscal subsidies to Australia's residential property owners. Governments provide benefits to home owners worth A$36bn a year, or $6,100 on average for each home-owning household. The exemption from the land tax alone is worth $5bn (Kell 2013: 24). Through negative gearing rules and the capital gains discount introduced in 1999, residential property investors gain nearly $7bn a year. Much more government assistance is provided to buy investment properties than to buy a first home. One result: the tax burden on renting families is raised to fund the privileged treatment of residential land owners.

And so, to divert attention from the privileges of those who stash unearned fortunes away in their land banks, a propaganda war is waged against "scroungers". One think-tank, the Institute of Economic Affairs, even urges the UK government to "publish the names of every benefits claimant – and how much we pay them" (Littlewood 2013). Meanwhile, the incomes pocketed by lords of the land are conveniently ignored.

Learn, or Lament

Those who cheat taxpayers with fraudulent claims bring disrepute to a humane system of welfare. But if there is to be a critical re-examination of entitlements, every instance of rent-seeking should be interrogated for its impact on society.

❖ *The state of dependency*

Social psychology is tainted by the something-for-nothing culture. People bias their choices in favour of the quick buck instead of the total satisfaction from creative activity. New generations are schooled into believing that the private appropriation of rent is "normal". Politicians accept the advice of post-classical economists, that rent must not be treated as a unique flow of income in the nation's accounts.

Thus, individuals behave rationally when conform to the incentives provided by the law of the land. So: I may withhold my parcel of land from use, to constrict the supply and raise its price. This may have grievous effects on others (unemployment, unaffordable housing, waste of capital invested in urban sprawl), but my behaviour is driven by incentives sanctioned by the law of the land. We are all consequently trapped in a state of dependency: dependent either on rents from land, or income transfers from the Welfare State.

❖ *The State is weakened*

Public institutions are weakened as governance is compromised by biased fiscal policies. Because the public's pricing mechanism prevents governments from balancing their books, indebtedness is endemic. Sovereignty is compromised by the need to appease creditors, and the public is alienated by the ensuing tax burden: witness the *débâcle* in Washington DC in October 2013, when government was shut down over disputes related to tax and debt policies.

Politics is brought into disrepute as politicians seek refuge in language that deceives. Take the case of unemployment. Politicians prescribe the need to create jobs to stimulate the production of wealth, but investors know that the name of the game is not value-*adding*, but value-*grabbing*. The world's largest property fund spelt out the reality in these terms: "Investors are more and more accepting real estate as a long-term home because it is hard to get yield elsewhere" (Hammond 2013).

❖ *The economy is compromised*

In the West, value-adding enterprises are becoming survivals from a bygone age. The quest for profits is now largely focused on land-based activities that maximise yield from the rents extracted from nature and society. Distortions arising from fiscal incentives reduce the returns to labour and capital and render the economy vulnerable to foreign competition. But foreigners are not to blame: the enemy is within. Take the case of Germany, riding high as Top Dog in the EU. Following the financial crisis of 2008, it endured a residential property price boom that threatens to infect it with the Anglo-American virus: real estate speculation. In some cities, apartment prices rose by more than 25% between 2010 and 2013 (Steen and Ross 2013). Germany's value-for-money ethos is now at the mercy of the get-rich-quick mentality.

Box 3: Ducking Obligations

It was an act of genius: the feudal statecraft of greed separated rights from corresponding responsibilities to protect the entitlement culture evolved by the aristocracy. Lords of the land claimed the right to own the rents generated by peasants without acknowledging an obligation to add an equivalent value to the wealth of the nation.

And so, in the 20th century, the UN human rights doctrine had to remain silent on obligations. This omission was necessary, to avoid public debate about the historical injustice that created institutionalised poverty, vagrancy and land-grabbing conflicts. The patricians' culture of entitlement was blended into the mentality of the people who came to believe that the Welfare State was obliged to subsidise them without eating into their accumulated land-based assets.

❖ *Culture and morality are subverted*

As people grow desperate, the safeguards against cheating are weakened and social solidarity is degraded. People abandon their responsibilities: now, we all want something for nothing (Box 3). One result: short of revenue needed to fulfil obligations, agents of the State strenuously seek to conceal failures. Scapegoats are sought. In Europe, foreigners (because of colour, creed or ethnicity) are targeted in response to despair at the general state of the economy and society.

Petty cheats are now pursued for bilking the public purse. They are publicly vilified as "scroungers". In Britain, Chancellor of the Exchequer George Osborne markets his cuts in welfare benefits as "sound public finance". He announced a freeze of the tax on residential properties (which helps to raise the price of land) while berating "the something-for-nothing culture in our welfare system" (speech in Parliament, June 26, 2013).

The cumulative effect: families, their communities and culture are weakened, while the seriously rich cheats who extract income transfers under the cover of the law of the land continue to adorn themselves in the modern metaphors for garments lined with ermine.

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