

Modern Relevance of Vedic Economics : Taxation mainly.

N. Kazanas May 2013

Abstract. In this paper is examined the economic principle of Land Value Taxation. This was enunciated first by the Physiocrats in France (18th cent. CE), by the classical economists (19th cent.) and, particularly, Henry George (USA 1879). However, this was well known in Ancient India . Its various aspects were expressed in the Dharmasūtras, in certain Buddhist texts and even in Kautilya's *Arthaśāstra*. I emphasize the idea that the government should be, as we say today, financed by the surplus product. Simultaneously, care was taken that all householders should have freely a plot of land for habitation and work while the product of their work was regarded as the natural reward of labour. Other ideas are the practice of usury and the care for the environment. All these economic aspects are examined within the broad framework of the dharmic life and the effort towards Self-realization (and supreme happiness) through the four āśramas and the various spiritual practices common in ancient times. As the economic material available from ancient sources is rather scarce, it is supplemented amply by material from modern economists.

1. Can Vedic Economics teach us anything, usefully applicable to modern conditions? Yes, a lot – like all aspects of the Vedic Tradition.

In 1930, 17 years before the actual independence of India from the British, the leaders of the freedom movement decided to appoint the 26th of January as the national day of Independence. The programme for that Sunday (26/1/1930) included a period of prayer during which Mahatma Gandhi requested from all to pledge that all Indians would have freedom and enjoy the fruits of their labour. With actual independence, the Indian Constitution guarantees indeed the civil liberties of all. But what of the fruits of one's labour? Some may enjoy them but not the vast majority. Yet the ancient sages of the Vedic Tradition had a system for a just division of the wealth produced so that the producers did enjoy the fruits of their labour, as we shall see.

In Ancient India, the economy (*vārttā*) did not form a distinct science or sector of life but was an integral aspect of Dharma, which as religion or law or duty regulated daily life and man's relations to other men in society, to the environment and to god(s).

In Kannada's *Vaisheshika* it is said *yat abhyudayaniḥśreyasa-siddhiḥ sa dharma:* 'dharma is success in worldly prosperity (abhyudaya) and in spiritual excellence (niḥśreyasa)'. There are other definitions of *dharma* but all have much the same significance.

The aim of all dharmic practices was to attain man's highest good *śreyas* or *niḥśreyasa* through outer and inner development in skill, virtue, knowledge and spiritual growth. In fact this was the aim of the other two phases, called *artha* 'enrichment' and *kāma* 'desire', the end being *mokṣa* 'full liberation' or 'union with the Absolute *brahman*'.

Even those who do not believe in any metaphysics but think that human life begins at birth and ends at death – even they want to live without too much trouble, unhappiness and suffering and so they

must order their life politically and economically, or would like to have it ordered, so as to have comfort and happiness. Although full emancipation or union with the *brahman* is the axis of the Vedic Tradition, the Tradition gives many guidelines how to arrange society for a trouble-free life. Much of what follows is in Kazanas (2010) where many elements of the economy were examined at length. Here I concentrate on taxation but do examine some other features (§§3-5, 13, 18).

The sources used are mainly the Dharmasāstras of Āpastamba, Gautama, Manu etc; other texts have been consulted also from the *Rgveda* to Buddhist writings and the Epics. The dates for the texts are in my view much earlier than those given in mainstream publications based on the Aryan Invasion / Immigration Theory c1750 BCE, which must now be fully rejected. I have given in brief my and others' evidences for this rejection in Kazanas 2010, much more fully in Kazanas 2009 and with additional linguistic evidence in Kazanas 2012a, and Kazanas 2012b. Many of the Dharmasūtras may well go back to the late third millennium BCE.

2. The aim of liberation was pursued through the four orders or *āśramas* (= *bramacārin* 'student', *gṛhastha* 'householder', *vanaprastha* 'retired in forest' and *sannyāsin* 'full renunciation') with various devotional, meditational, yogic and other practices.

These practices are summed up in the systems Yoga, Vedānta etc. for instance as *ahiṃsā – satya – asteya – brahmacarya – aparigraha* (*Yoga-sūtra* 2.30): non-injury towards all creatures; practising truth; non-stealing; continence or purity; not grasping possessions. All five have economic/social repercussions: avoidance of all actions that might harm others; keeping one's word and honouring one's contracts; not taking what does not belong to one; not adulterating things, relations and laws; not amassing more than what one needs. If people lived by these regulations, no other laws probably would be necessary.

3. What belongs to one is one's property. *Manusmṛti* states seven lawful *dharmya* modes of obtaining *āgama* property/wealth *vitta*: *dāya* inheritance; *lābha* receiving as donation or finding in the ground; *kṛaya* purchase; *jaya* conquest or gambling; *prayoga* lending at interest or return to any investment; *satpratigraha* gifts from good people; *karmayoga* work generally (10.115). Gautama gives almost identical modes in 10.39-42.

Manu alone of all ancient lawbooks says that a field belongs to the person who first clears it of wild-growth – with the analogy of a deer belonging to the hunter who first pierced it with a dart (M9.44).

In the 17th century John Locke stated (*2nd Treatise Concerning Civil Government* §26,31) the same principle.

4. However, Locke makes a distinction, where Manu does not. Locke distinguishes between land and things produced: “*Though the earth ... be common to all men, yet every man has a property in his own person: this nobody has a right to but himself. The labour of his body and the work of his hands, we may say, are properly his. Whatever he removes out of the state that nature hath provided ... he hath mixed his labour with and joined to it something that is his own, and thereby makes it his property. Man has by his labour removed the thing from the common state placed by nature and so excludes the common right of other people ... at least when there is enough and as good left in common for others*”.

William Blackstone, the great legal mind of 18th century Britain, stated “The earth and all things therein are the general property of mankind, from the immediate gift of the Creator” (1769: 1.1).

Thus, land is different from products generated from it with labour, like metal ore, stones, wild animals or plants: land cannot be produced nor be removed from its natural place by any amount of work.

This differentiation is not made clearly by Manu but other sources in the Vedic Tradition do distinguish land.

5. We must distinguish also between possession and ownership. It is one thing to possess land for habitation and/or work and another to own it and so have the right of sale or alienation.

Being a goddess, Earth/land could not be owned or sold.

In *Śatapatha Brāhmaṇa* it is Yama as *kyatra* ‘rulingpower’ and the Fathers *pitaras* as the clan that give permission to a man to settle on a piece of land; the consent of the clansmen is necessary (7.1.1.3-4). In the same text king Viśvakarman Bhauvana wanted to give land to his priest, whereupon goddess Earth sprang up and reproached him: “No mortal should give me away! Thou wast foolish” (13.7.1.14-5).

Most noteworthy is a passage in the epic *Mahābhārata* (Bk 14 *Aśvamedha*: 10,7,...) where the King gives land to sage Vyāsa but the latter says this should stay with the King and does not take it! We find a similar situation in the other epic, the *Rāmāyaṇa*, in Bk I *Bālakāṇḍa*, ch 13, where again, after the *aśvamedha* ‘horse-sacrifice, the king wants to give away land to the brahmin-priests but they refuse it and say he alone should keep and protect it.

We find similar ideas even in the late Buddhist texts: “In *Milindapanha* (The Questions of King Milinda or Menander) we find the following statement; “If a man who has cleared land of wood [*vana*=wood, forest] gets it, people say “this is his land”. But the land is not made by him. It is because he has brought the land into use that he is called the lord/master of the land [*bhūmisāmiko*”]. (See Bongard-Levin 1985: 141.)

Although individuals had exclusive possessions of land for habitation and/or work (as in *Ṛgveda* 8.33.6 where the girl Apalā refers to her father’s cultivated field), the land belongs to the community and

is guarded by the king – as king Pṛthu protects his wife (or daughter) Pṛthivī (Manu 9.44 and *Mahābhārata* 7.69) – who must practice *brahmacarya* ‘contenance, purity’ and *tapas* ‘spiritual exercise’ (*Atharva Veda* 11.5.17). The king may give a piece of land to a new settler but only as representative, and having the consent, of the clansmen of the entire tribe.

Incidentally, what would government be like today, if ministers and other state-officials practiced *brahmacarya* and *tapas*? ...

6. Why is so much importance laid on land belonging to the community? Jaimini of *Pūrva Mīmāṃsā* said: “*The earth...is common to all beings enjoying the fruit of their own labour; it belongs ... to all alike ... There should be left some for everyone*” (6.7.3). Obviously, because man cannot live like birds in the air or fish in the sea; he is a land creature and must have land on which to exist, reside and work.

Then, Nārada states : “*A householder’s dwelling and his field are considered as the two fundamentals of his existence. Therefore let not the king upset either of them; for that is the root of householders*” (11.42). Indeed, if the king and his government did not ensure the safety of the householder’s access to land for habitation and work to obtain food and other means for living, he would be failing in his primary duty (above §5, end; Manu 7.2 *sarvasya... parirakṣaṇam* ‘protection of the whole realm’). Thus from Manu 8.237 and Baudhāyana 3.1.17 we learn that a belt of land around the village or town was left unoccupied and held communally: “on all sides of a village [*grāma*] let there be a space-reserve of 100 *dhanus* [= about 200 yards] or three *śamyā* throws [*śamyā* = a short stick thrown for measurement]; three times that extent round a town [*nagara*]”; compare also *Yājñavalkya-smṛti* 167 (100 *dhanus* round a village and 200 round a town). There, the new householder, or a hermit, took up his dwelling building his house or occupying an empty one. (Also, *Āpastamba* 2.22.8-9.)

Today governments fail abysmally in that they do not ensure that people have easy access to land. It is not necessary today that land should be given freely or cheaply to people, nor that there should be redistribution of land. Easy access for all who want it could be ensured, as we see below, through a specific mode of taxation.

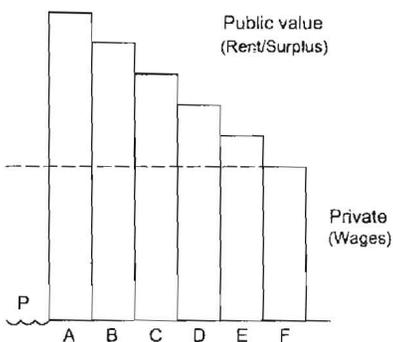
7. Taxation provides the revenue for the king’s (=government’s) expenses – both to maintain himself and perform his duties towards the people. The different texts give different modes/systems of taxation, most of them haphazard and often unjust. These are like the modern prevalent systems that weigh heavily upon private enterprise, initiative and work in general: the more you work, produce and earn, the more tax you pay.

Adam Smith formulated four canons for taxation: a) the collection of taxes should not cost much; b) they should be certain, not arbitrary; c) they should be collated at taxpayers’ convenience; d) all

should pay in proportion to their ability and means (*Wealth of Nations* 5.2.2.1). Henry George 100 years later agreed with the first three but for the fourth wanted the tax to fall not on production but on the surplus (1879:408). We shall see below what the surplus is.

Manu gives an important principle that aims at justice and care of the taxpayer: “*After due consideration, the king should so always arrange the taxes in his realm that both he himself and the performer of work receive their just reward*” (7.128). Manu does not elaborate how this is to be effected. Although Gautama does give a good hint, we must consult some economists of the 19th and 20th cent. in the West to see how the two sides receive their just reward.

8. Beginning with the aggregate supply function, $Z=\Phi(N)$, in Keynes (1936), but then following Alfred Marshall, professor of Political Economy at Cambridge (1890 *Principles of Economics* ch 5.3-4), Henry George (1879) and others, the late Dr R. Burgess, director of the Economic Study Association in London, divided the value of land, and by extension of production, into private value and public value. Private is the value that is due to man’s labour, as when a farmer cultivates a field in a remote region with few of the advantages found in central areas. Public value is due to the advantages that accrue to central areas because of public services (roads, water-supply, drainage etc) and nearby markets, rail or sea transport etc, thanks to the development of the community. (See his *Public Revenue without Taxation* London, Shephard-Walwyn, 1993.)



Diag. 1

In our diagram P is a port and A-F are zones of productive units having the same size and using same labour and capital. Obviously those farthest from the centre (Port) enjoy fewer advantages and therefore produce less. Other economists used (and use) the terms (economic) Rent for the public value and Wages for the private, which is the reward of labour and capital. (Often the reward of capital is termed ‘Interest’ but since capital – tools, buildings, machinery etc – is said to be external extension(s) of man’s faculties, I include it under Private Value.) Rent or public value is also termed ‘surplus’ or ‘sitevalue’.

The public or site value or rent or surplus is obviously the excess product of the more advantageous locations over and above the less productive ones at the margin of production (whether agricultural, industrial, commercial, financial and other enterprises). At the margin F are usually farmlands. Here, in the zone F we have the natural reward of Labour. Adam Smith opens a discussion “Of the Wages of Labour” in the beginning of Ch 8 of Bk 1 (*Wealth of Nations* 1776) and writes: “The produce of labour is the natural recompense or wages of labour. In that original state of things, which

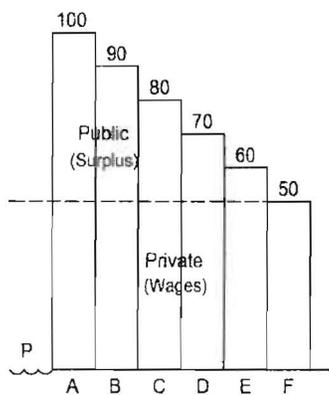
precedes both the appropriation of land and the accumulation of stock [=capital, i.e. tools, vehicles, machinery, buildings and money], the whole produce of labour belongs to the labourer.”

This public value/rent/surplus is according to most economists the most appropriate object of taxation, as this method would leave untouched the private value or wages (=the reward of labour) and would not cause distortions like unemployment and inflation or bureaucracy and corruption. (See §11, below.)

In the Private Value or Wages I include the reward for capital. Apart from money which is used to pay for the expenses of a productive unit, capital is mainly tools, buildings, machinery, vehicles and the like, used for the production of more wealth. All instruments so used are in fact external extensions of man’s natural members and functions like hands and handling, eyes and seeing, mind and thinking. A hammer and the biggest crane are in effect extensions of man’s hands; a microscope and the biggest telescope are extensions of man’s eyes; and so on. Money is an external extension of man’s trust and trustworthiness. For this reason the primary division is kept simple: public and private or surplus and wages.

It is also obvious that the locations/sites in the central areas with the bigger public value or rent/surplus (A, B) will fetch a greater price than those at the margin (E, F). Therefore one need tax only the site values (according to their estimated annual rental value). And this is called LVT for Land Value Taxation. Marginal sites, having no surplus will pay no tax, naturally.

LVT refers to the value of vacant, unimproved land, i.e. the surface of the plot, the site itself, without the cultivations on it, buildings or mines or other material effects of human labour.



Diag. 2

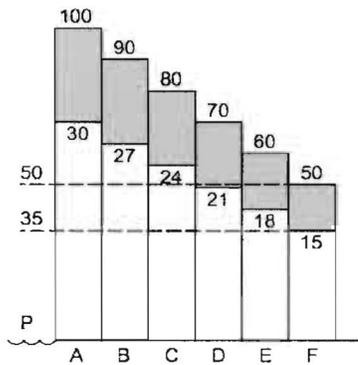
9. Let us now explore further this mode of taxation.

This is the situation in Diag 1. In Diag 2 we assign, all fictitiously and for simplicity, some magnitudes for the production in each zone of enterprises. Remember that we assume the sites are equal in size and use equal labour and capital so that the surplus is clearly due only to their location in the community (or country) enjoying greater or lesser advantages in relation to the centre, near the Port P.

The product 50 (on F) enjoys the least advantages and is therefore considered to be the natural reward of labour thus setting a general level of Wages throughout the community, allowing for variations according to skill and specialization.

The figures 100, 90 etc represent, as was said (not only the output but also) the value of the sites. And it is this value that provides the basis for the tax LVT.

10. Before going to LVT, let us examine briefly the incidence of current tax-systems and the result.



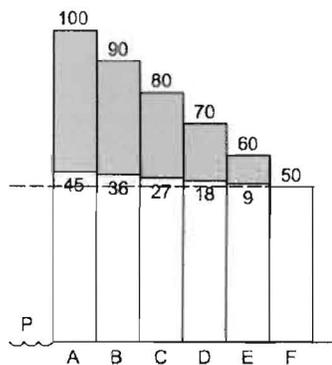
Diag. 3

Let us assume a total of taxes, direct and indirect, at 30% on all production - again for simplicity's sake. This is shown on diagram 3.

The first thing we notice is that the level of wages (reward of labour or private value) falls down to 35, instead of 50. Now labour does not receive its natural reward, defined according to Locke, Smith and others! There is, in fact, more surplus now, created artificially by taxation (65 in A instead of 50, 55 in B instead of 40 and so on)!

A second observable fact is that sites E and F are now left with much less income and would, as is customary today, need help from the government in the form of subsidies and cheap/free education, medical care and the like. This in practice means more taxation!

Thus is created a vicious circle: poverty caused by taxation requires welfare services, which require more taxation, which causes more poverty and so on. In addition, this taxation causes many distortions in the economy (inflation, unemployment) and, of course, contributes to the business/economic cycle of boom-bust.



Diag. 4

11. Let us now tax the surplus only.

As we said earlier, the surplus is reflected in the value of sites per se, that is the surface of the ground ignoring buildings, cultivations, mines and other works made by man, as in Diag. 4

With LVT the sites of the zone F are left untaxed. These are usually agricultural and/or pastoral. Thus, a tax, say 9 (=about 5.5%), is imposed on sites E (value 60), 18 on D (value 70) and so on.

With this mode of taxation the government obtains its taxes, but the level of the natural reward of labour does not diminish. Now the wage-earners are not impoverished as in §10, Diag. 3, and do not require so much help from public funds in the form of subsidies and welfare services.

Please note that Diagramme 4 shows the collection of land values only. The marginal locations F, which are usually farmlands, sow no surplus and therefore pay no tax. One may well wonder why anyone should work on sites A, B etc when in the end the reward is (almost) the same as that on F. But this is precisely the point. The tax is on land values, not on production. In the two Diagrammes we postulate the same size of land and the same amount of labour and capital used. If the entrepreneur on site B, say, works longer hours and/or employes more capital, his reward will increase as production increases. But the increased production will not be taxed since the tax is on the land value only. Therefore he has strong incentive to work much more intensely with more capital knowing that his additional reward will not be taxed.

The numbers used are quite arbitrary, of course. What should be grasped is the general principle of how LVT works.

Very important is the fact that the evaluation and collection of the tax from the surplus or Public Value costs much less than the current complex system with its multitude of charges on earnings, profits, imported or luxury goods etc, etc.

Some economists like R. Burgess (1993) do not regard this charge on land values as a tax at all but the natural reward of the government or the return to the community of the product that is due to the existence and development of the community. As Smith puts it - "*Nothing can be more reasonable than that a fund which owes its existence to the good government of the state should be taxed . . . towards the support of that government*" (1776: 5.2.2.1).

12. Thousands of years before now, lawgiver Gautama ordained that the king should live on the surplus: *adhikena vṛtti* 'his revenue or means of life should be through the surplus' (10.30; one should consult sūtras 24-9 which are all on taxation and the king's function). This may sound strange but only because our thinking has been conditioned by the arbitrary tax rates of 1/6th or 1/8th etc. given in the sources. There is more, however.

Taxing the surplus or public value has many advantages. It is a simple and easy method since land values everywhere are easily ascertainable by assessors. It is also just in that the individual, or the enterprise, receives his, or its, own product and the community receives back what it has contributed by its existence and advancement in knowledge, technology, services etc. Then, this tax, unlike all other taxes (on incomes, profits, goods and services etc), cannot be shifted onto the ultimate consumer through augmented prices. But also, no landowner can afford to hold (for whatever reason) his land out of use

since he will have to render the tax even if the land is not being used; so landowners will have to use their lands fully or sell/rent/give them to someone else who will do so.

This idea appears in a rule by Āpastamba: “If any person holding land does not exert himself and hence bears no produce, he shall, if rich, be made to pay what ought to have been produced” *kṣetram parigrhyotthānābhāvāt phalābhāve yat samṛddhas sa bhavi tad apahāryaḥ* (2.2.28.1). Taxation is not on actual but on estimated production or on the capacity of the piece of land; so the site is put into full use.

However, note the consideration and compassion implicit in the conditional “if rich” (*samṛiddhas*). For if, because of poor rainfall or other calamitous accident production is below expectation, then the producer would be unable to pay, especially in the ancient agricultural economies. Note too that in many translations of Āpastamba’s formulation (and other codes) the payment is said to be made to the landowner. I have examined all such relevant passages but there is no “landowner” *kṣetraswamī* in the original: this is found in later commentators and, unfortunately, translators include it because, obviously, they don’t understand what the lawgivers are saying! (Instances of such mistranslations are given in Kazanas 2010; one example is by Olivelle 2000; another by Pullela 2003, stanza 158.) The payment is to the king and it is tax, as corroborated by another ancient authority, in the next paragraph.

A similar measure is found in Kauṭilya’s *Arthaśāstra* : If settlers on new lands do not produce enough according to the estimated capacity of the sites, they shall lose their sites to others and shall make good the loss of taxes to the State (2.1ff). And there were assessors/valuers to oversee this situation.

Consider also this rule of Manu: “If [the corps are destroyed by] the husbandman’s fault, the fine shall amount to 10 times the King’s share; but the fine [shall be] only half of that amount if [the fault] was of the servants without the farmer’s knowledge” (8.243). The bracketed words are from the commentators (not in the original) but are here justified by the preceding and subsequent stanzas. The law concerns loss of tax; so the farmer must pay a fine. This is most important: the land must be used, and the cultivator must work, to full capacity! In sharp contrast today, because there is taxation only on production, not on land-value, much land, urban and agricultural, is held out of use; in many cases the occupiers get government subsidies!

Other peoples, also, who lived in closer harmony with natural rhythms, observed the same measure. J. Cicarelli writes that Indians in America had to fulfill certain obligations and use land to the full to secure continued possession: “Possessory rights lapsed if cultivation ceased or was suspended even for a single season “ (2012: 91).

13. Three more aspects should be mentioned.

The first concerns loans and interest. The subject of usury is not mentioned in the *Rgveda* and *Atharvaveda* nor in Āpastamba's lawbook. Money-lending and interest would arise only when money, a common currency, is used in trade and other economic transactions. Āpastamba refers to 'barter' and 'trade' *vanijyā, vinimaya, vi-ava-har-* but mentions no money, buying or selling (1.20.10-16). The verb *vi-kṛt* is used but it could mean simply 'offer for exchange', as in many other contexts. Gautama, who is much later, does mention usury for Vaiśyas (10.49) and interest-rates (*vṛddhi*, 12.29). Interest is generally an unnecessary claim on wealth – except only where there is inflation and then the rate should relate to the inflation. But often interest itself is a cause of inflation. It was not for nothing that lending at interest was forbidden among Jews and in early Christianity as well.

The second aspect concerns care for the environment. Vasiṣṭha (19.11-12), Manu (9.279, 281-285), Bṛhaspati (19.25-29) and Nārada (11.15) give many guidelines to safeguard a natural environment keeping land in good condition, roads free and waters clean. Thus Vasiṣṭha declares that the King (=government) "should not injure fruit-bearing trees except in order to extend cultivation" (19.12). Yājñavalkya and others ordain severe penalties for those who damage watertanks, reservoirs and any water-supply generally; also bridges and temple – property (2.278, 297; 5.174; also *Arthaśāstra* 2.1.38-39 and throughout 3.8). Also maintenance of public parks and forests; protection of wild life (elephants etc). Consider also Bṛhaspati's sūtra 19.26: "A privy, a fireplace, a pit or receptacle for leavings of food and other [rubbish] must never be made close to the house of another man".

The third is about government expenditure. Apart from environmental care, there is naturally the administration and defence of the realm, even in primitive or less sophisticated States. The king (=government) must be frugal and just, punishing corrupt officials (Manu 7.87-8, 121-4; Yājñavalkya 1.337; etc). Furthermore, the lawgivers recommend welfare, provided for all those who cannot take care of themselves – orphans, widows, aged, infirm etc. (See Gautama 10.48; Manu 8.27-8; *Arthaśāstra* 2.1; also *Rgveda* 10.117 and *Atharvaveda* 3.245 with their implications.)

14. Many economists today admit the virtues of LVT and promote it through the media and the Internet. There are staunch opponents as well, landowners and land-speculators – understandably.

Much indebted to the French "Physiocrats" of the 18th cent (Quesnay, Turgot, Condorcet), Adam Smith, the "father" of modern Economics, wrote that ground-rents (=public value) are "the species of revenue which can best bear to have a peculiar tax imposed upon them", whereas all other taxes are shifted onto consumers through inflated prices of commodities and services and cause various distortions (1776: 5.2.2.1-3). Since then, all economists agree that LVT is an equitable tax (T. Paine, J. S. Mill, J. Galbraith, R. Lipsey, M. Friedman, P. Samuelson *et al*) and some state unequivocally that it alone should provide public revenue (R. Burgess, F. Harisson, M. Hudson, J. Stiglitz *et al*). See for

example: T. Paine (1797) – “it is the value of the improvement only, and not the earth itself that is individual property. Every proprietor of ... land owes to the community the ground-rent” (p 418, *Agrarian Justice* in M. Philip, ed, 1995). See also p 524 in Atkinson A. and Stiglitz J. 1980: LVT is not distortionary and the only tax necessary to finance public welfare services. Even Marx had postulated as first measure for the establishment of the proletarian democracy the collection of all rent/surplus for public expenditure (*Communist Manifesto* Section B, end).

LVT has been partly implemented with excellent results in places like Hong Kong, Australia, Denmark etc and some States in America like Pennsylvania and California.

15. Here I present various regions in the USA where the LVT was implemented with highly beneficial results. In §16 I examine other countries.

a) In 1906 the growing town of San Francisco was destroyed almost totally by a big earthquake and then fire. Yet it was reborn out of the ruins and ashes to become the most important city in the west coast – growing and spreading neatly and uniformly unlike most other cities that developed in a haphazard and untidy manner.

At that time there was no financial help from the Federal government. There was no income from oil or gas as in other regions. The municipal authorities could not impose taxes and engage in purchases and sales nor did they control the waters of Sierra and sell it to other regions as happens today. There was no navigation to speak of since the Panama Canal had not yet been constructed. There were not today’s bridges. The fine beaches were in the south, timber production in the north, vines away in Napa and fruits in San Jose. The Universities were in Berkeley, Sacramento and other cities. In the east rose a mountain wall where mining was coming at an end while underground lay the seismic zone of Saint Andrew. The town was full of drunken sailors, cowboys and miners; illegal immigrants, asiatic mafias and other criminals – and frequent public scandals.

Yet it recovered and developed apace thanks to LVT. The tax was imposed on bare lands (almost all buildings had been destroyed). This forced all landowners to bring into production their holdings. Until 1910 the population increased by 22% and until 1920 by the same percentage. There were spaces for parks, squares and wide avenues, spreading beautifully in every direction without vacant or ruined neighborhoods. Thus it became the foremost city for financial, commercial, industrial and cultural activities in the whole west coast of the USA.

b) In Pennsylvania, many regions have implemented LVT to collect revenue for the municipal authorities. Harrisburg, the capital, imposed a tax on land six times higher than that on buildings since 1975. In the next 20 years the population increased by 10% and the unbuilt plots (and vacant buildings), held by speculators, were reduced from 4200 to less than 500.

The town Fairhope was established with 25 people (!) in 1894 in County Baldwin near Alabama. In 2000 it had just over 17000 inhabitants. But LVT brings in sufficient funds to build schools, a public library, parks, aqueducts and other public amenities.

c) Many other examples are documented in Rybeck 2011.

Let us now look at some countries around the world.

16. a) LVT was imposed in Hong Kong since 1843, when it was a British colony. Many economists refer to the exceptional results this measure had right up to 1997 when the colony was given to China. This mode of taxation allowed 44% of all people working not to pay income-tax while the rest paid only up to 15% of their gross income.

b) In 1949 LVT was implemented in Taiwan (then Formosa) with article 143 of its Constitution. It was there that Chiang Kai Sek sought refuge with his soldiers and right-wing followers after his defeat by Mao Tse Toung. The general was continuing the tradition set up by Sun Yat Sen, the first leader and founder of the Chinese Democracy at the beginning of the 20th century, who held that “The tax on land values as the only means for financing government expenditure is right, reasonable and just”.

In 20 years, from 1950 to 1972 the difference between rich and poor diminished by 50%. Then, by 1990 this small country from a big importer became a big exporter and its GDP rose from \$1.2 billion to \$150 billion USD. Its agricultural production fell from 33% of the GDP to 0.5%. The revenue from LVT increased by 600.000% – and no, it is not a misprint or other error (Li 1988).

c) In Denmark LVT for municipal revenue varies from 1.6% up to 3.4% of the annual rental worth of the land. It was first applied in 1912. The valuation takes place every two years. When landowners disagree with this estimate they go to court: in 2002 there was a record of 10 such cases! The civil employees engaged in this work is 212 and they cover 1.9 million properties recorded in the National Register. The State collects about €1.3 billion per year while the cost of the collection is €20 million (=1.5% of the revenue).

(For many more cases like Abu Dhabi, Australia, Esthonia, New Zealand, Singapore etc, see Andelson 2000, Jeusen 2010 and Lyons 2011.)

17. At present there is a movement to introduce LVT in Ireland (Lyons 2011; also Gurdgiev 2009).

Many articles have in recent years appeared on the Internet and in newspapers like *The Financial Times* and *The Guardian* promoting the issue of LVT. See e.g. *The Guardian* 18/11/11 article by Kate Allen and 18/9/12 article by P. Inman. Also a Tory Reform Group on Twitter 8/2/12 article on Conservative MP Nick Boles by D. Gowan. See also article by Samuel Brittan “Tax England’s green and pleasant land” in *Financial Times* 23/2/12; etc etc.

There are some 14 reasons for the renewed interest in LVT and these are the very advantages which this tax has:

1. Land cannot be hidden: its possessor, magnitude and worth are easily ascertainable by all. No deception (and corruption) can easily arise.
2. The collection of this land-tax is much less costly.
3. LVT cannot be shifted onto the consumer through increased prices and so does not produce distortions in the economy.
4. Labour is in no way burdened since it is not the land-holders' efforts that give value to the specific plot but the development of the community.
5. Unused pieces of land by necessity will be used in production since they shall have to pay the tax.
6. Speculation in land (holding it out of use to cause increase of value) will stop.
7. Monies thrown in land-speculation will by necessity be directed to commerce, industry and other truly productive enterprises.
8. As new sites and fresh capital enter into production, the new enterprises will absorb new workers and unemployment will diminish dramatically.
9. Monopolies and oligopolies lose their unhealthy hold on the economy and spaces are opened up for new productive units.
10. There is true, healthy antagonism in a truly free market based on labour and initiative instead of the power given by the control of land and natural resources.
11. There is decentralization from the capital and large cities as other centres rapidly develop near natural resources and junctions of transport.
12. Whoever wishes may use additional labour and capital and have a larger income which will not be taxed since only land-values are taxed, not production.
13. The private incomes will increase and so public welfare expenditure will decrease accordingly.
14. Justly the state will collect from the general production the public values which itself creates and will not repress industry and initiative with the current mode of taxation.

18. The most important teaching of Vedic Economics, as for instance in Āpastamba's Lawbook, is that a man should pursue disciplines pertaining to Self-realisation (*adhy-ātmikān yogān* 1.22). These disciplines consist in good deeds like liberality *dāna*, in restraining negative feelings like anger, envy,

malice etc, and in intellectual, devotional, meditational and various other yogic practices, like the five *yamas* enunciated in §2.

It is generally thought that we need to find a good, effective system of economy which will have no booms and busts, no poverty and injustice. This is a very naïve notion. A system consists of laws, rules and regulations, implemented and followed by human beings. A fine system will succeed and remain in operation only so long as the people concerned are themselves “fine” and observe these regulations; if they want to satisfy their own desires, they will bend and break the fine regulations and the system will collapse. It is human beings, the citizens, that are important – their character and behaviour. For instance, the five *yamas* (*ahimsā-satya-asteya-brahmacarya-aparigraha*) do constitute excellent rules of conduct and have been known for millennia. (In the Christian and Judaic traditions they correspond to five commandments: thou shalt not kill, bear false witness, steal, adulterate and covet others’ possessions!) If people followed them fully, an effective economic system, good and just, would have prevailed. But this did not happen. Corruption, trouble and injustice have appeared because the good laws were not followed and people allowed ambition and greed to govern their behaviour. If people are greedy and dishonest they shall corrupt the finest constitutions, the best laws and justest economic systems.

For a just and happy society, people must be educated thoroughly in honesty, truthfulness and goodness. Socialism, capitalism, (neo-)liberalism and similar politico-economical systems will not avoid corruption and injustice if people are not trained from childhood in ethical conduct. The keynsian economics with government intervention (=welfare state) proved totally inadequate with its chronic inflation and unemployment climaxing in the unforeseen deep crisis of 1973-4. Communist regimes collapsed (Russia, Romania, etc) or have moved towards a market economy (China, Cuba) or continue with a repressive regime (North Korea). Thus communist regimes have failed utterly. In the West all highly developed economies suffer from inflation, unemployment and periodic depressions and sometimes, as now, intense crises, while scandals of varied magnitude erupt with increasing frequency. Economic pundits whether of neoliberal (=neoconservative, really) or socialist mentality failed abysmally to foresee the crises of 1929, 1973 and 2008. In fact, in all cases they thought the economy was doing well (Ferguson 2012 ch 2-3; Roubini & Mim 2010, *passim*). Some few like Rajan, Roubini, Stiglitz and others, did warn of an eventual crush, but not of the year. To my knowledge, only three rather unknown economists, Foldvary, Gaffney (Americans) and Harrison (British) actually foresaw independently back in 1997/8 the collapse starting in 2007 and exploding in 2008. Not surprising, all three advocate LVT and based their prediction on an examination of the building/construction/housing cycle and the business cycle – thought by them to have an average duration of 18 years. Be it noted that the connection between the two cycles was made by A.A. Hansen of Harvard back in 1941, **but no economist pays attention to the first cycle!** Consequently all mainstream theories and systems suffer from a basic inadequacy, i.e. the omission of the correct valuation of land’s role in the overall economy.

To my mind the only effective system is the application of Ethics with utmost diligence.

Of all behavioural courses, the one leading to Selfrealisation is said to be the most important. *Ātmalābhān-na paraṃ vidyate* 'Nothing is found higher than Self-realisation' states Āpastamba (1.22.2).

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Correspondence adress:

Dir. Dr. Nicholas Kazanas

E-Mail: nkazanas@omilosmeleton.gr