

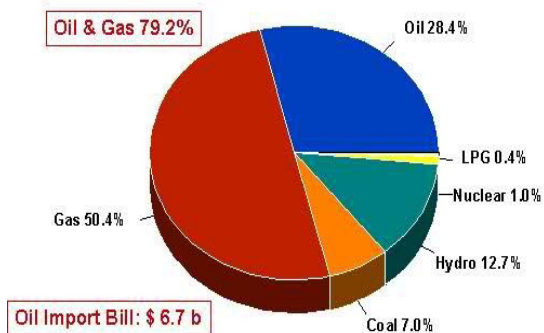
Economic Rent, Fiat Money and Natural Resources Value in Pakistan



A Geonomic Outlook (2016-2026)

The geonomic view of a social system focuses on the dynamic interplay of physical assets and human ingenuity on a given territory and its political economy. It is surely not a post mortem approach to scientific research as it is concerned with the workings of the living body economic and its critical paths (choices) of growth. In medical terms, the real life conditions of the patient do matter and any remedy has to consider the physical psychology of human adaptation/learning, i.e. surgery and drugs are decisive acute interventions, but health is about sustaining a chronic hologram of dynamic efficiency to cope with the hardships of human existence under the selection pressures of this planetary globe.

Taking a first view on such parameters as energy efficiency (EE) and energy return on energy invested (ERoEI), it becomes very clear that Pakistani future policy stands at crossroads, where knowledge is about predictability and wisdom about outcome. While EE is a total input-output measure that physically accounts for the reduction of inevitable loss in an energy processing system, the ERoEI is an econo-physical accounting unit, with hydro-power yielding 100% return (coal=80; nuclear=50; oil=25; gas=20; 15=wind; under 10=alternative sources of energy; these are optimal estimations). Human societies are energy transduction systems and the developmental imperative calls for an optimal ERoEI and EE.



The recent Pakistani consumption diagram of the last 5 years shows an 80% petroleum/gas dependency; we will later on assess the economic impact of this energy path, but we have to research and study some more empirical key facts. Our investigation will also attack the burning questions of riba, gharar and zakat in a modernizing social economy and the technical compatibility of Islami ethics, individual freedom and market economics. Pakistan has left the traditional subsistence economy forever and practices today a mixed economy approach which may not be applicable for future development in the context of a global economy.

As about 5% of a population of over 180 million does own 75% from the land value (rent) of natural resources and roughly half of the working people live from agricultural labor (wages), a more profound view on the intertwining of the core monopolies (land, money/interest, taxation) becomes inevitable. Basic data of the land taxation system, the land deal (grabbing) politics, industrial urbanization, and commercial monetarization reveal empirical facts of an economic substructure that needs macro-prudent reform towards a social market system which will really benefit a diverse nation of Muslim peoples.

A resource rich and poorly managed country like Pakistan owes it to its young (60% are under the age of 25) and poor people (25% below the poverty line) to build the mixed and indigenous energy capacities for advanced economic development; the current GDP ratio is agriculture (25%), industry (25%) and trade/services (50%). Textiles, food, pharmaceuticals, construction materials and paper products are among the top export goods; over 30% of the territorial surface is already arable land and among the special land resources are coal, gas, petroleum, iron ore, gold, copper, gemstone, uranium, salt, and limestone. Hydroelectric and wind power are waiting for better utilization, and coal could become the real game-changer.

Monetary loopholes and land grabbing can be stopped by the progressive introduction of land value taxation, thus simplifying the current fragmentation of 37 governmental agencies to levy over 70 separate taxes on goods and services. The 5% reserve requirement of the central bank seems definitely not to be an effective measure to contain riba plus gharar and to reinforce zakat for the health and education of the average citizens. It is exactly this systemic combination of economic rent collection (from the land value of natural resources=unearned income) and commercial fiat monetarization of asset holding/hoarding that steers the flow of total wealth creation into the pockets of a small elite; it is like water management, an economic problem of irrigation for more fertile soils. The body politic must learn to let the body economic work in spontaneous, productive and innovative manner; labor and entrepreneurship are the prime movers of every successful country on this globe and not landownership.

The transition period from state capitalism to a market-based social economy, guided by an Islami ethics, is mainly a management problem, i.e. the economic conversion of existing knowledge into market value. If the land value of natural resources is taxed properly by certain physical variables, the private commercialization of fiat money is still an important legal issue for a Muslim nation where monetary loopholes (riba/gharar) for landownership could be turned socially into zakat. Such a social market orientation will also cease the need for foreign aid of all kinds which is an additional distortion of the country's productive capacities; however, it will turn Pakistan into a vibrant geophysical hub of investment and innovation for South Asia by gradually including and transforming its huge informal economic sector activities.

A modern and technical reform of the land management system, concerning public administration, market monetarization and natural resources, is one of the key strategies for securing a stable economic future for Pakistan. The management system for land resources is an ancient Indian legacy of sub-continental cultural heritage, and first written records are 500 years old, in terms of surveyor metric, social order and legal inheritance; this territorial accounting technique was hierarchized (from Patwari circle up to the Bureau of Revenue) by the British colonial empire experts, with the migration control aim to check settlement policy. However, the ownership information in the land register system is not correct or very reliable which the many legal disputes show; in our times, geo-informatics and remote sensing will definitely be very helpful to elaborate the existing data collections for the efficient computation of land value taxation. The Gini coefficient for landownership in Pakistan is currently 0.80 high and the price of land is, for example in Punjab, rising faster than rent; the average income of a Mauzah seems to determine the plot value per acre as a general economic tendency, besides some vital physical key variables. Setting the rural household population at an estimated 40%, the ownership system reads: 10% own more than 12 acres, 20% own between 5-12 acres, 45% own less than 5 acres and 25% are landless people. Rapid industrial urbanization, progressive population growth and economic integration of regional peripheries will add fuel on fire: investing into the human resources of people via improved education and health will only pay if the value creation chain from natural resource ownership (land value, in agricultural and real estate terms), over human resources to technical resources, will be monetized in social market direction to allow for a fairer allocation of goods, services and income. It is this monetization of land value as banking collateral for all kinds of credit and loans that translates or transfers income and asset disparities from generation to generation, i.e. earning economic rent for no performance or return to the body economic and maximizing private profit over property, credit and interest.

The industrial transformation from a land-based to a money-based economy and the technical transition to world integration into the global finance system results in heavy domestic stress on the living chances (money or wheat) of a growing population and expresses itself in such economic indicators as foreign exchange reserves, balance of payments and inflation as monetary phenomena. The Pakistani money multiplier works with a quantitative capacity of about equal to 20, the taxation base (max. 9% of GDP) of the state is very thin and needs to be deepened, e.g. via land value taxation which must not be the only (single) tax. The poverty and unemployment indexes seem statistically to be a proportional reflection of economic rent-seeking, progressive fiat monetarization and privatized natural resource monopolies in the country and are reinforced by ineffective government. However, concerning poverty alleviation, Pakistan fares relatively better than its Indian neighbor which may be due to the moral obligations of Islami ethics. In any case, the global monetary crisis has reinforced these domestic economic imbalances of food, fuel and finance; because of its physical corridor position in South Asia, the public introduction of a geonomic system for the political economy will result in more social stability for all citizens, i.e. a truly Islami social market system could emerge. The viewpoint from the physics of social systems can save us a lot of ideological detours; if the social produce of land value is collected as public revenue, any given territorial state can build up a market economy that benefits its inhabitants by labor, entrepreneurship and capital formation via optimal resource allocation. This is a rational and moral imperative to multiply living chances, but sound monetary tools have to be applied in such a modernizing economy and social state. The physical observation of socio-economic systems, in historical and empirical terms, is not the art of textual exegesis, but a natural science of human societies.

The economic project of the Pak-Chinese corridor will most probably teach much more than just logistic trade. China wants (1) to sustain control over its currency production and (2) collect land rent (e. g. started already in Shanghai) to keep a growing revenue base for state funding of public investments/innovations; knowledgeable central governance (3) and new industrial policy (4) are accompanying this policy learning process. The erroneous or pathological economic path of the 'Western' model, i.e. to allow private banks to starve the public economy of credit-money, will not be chosen in order to avoid the sharp boom/bust cycles and austerity programs that are already destabilizing Europe and America. It will try to tax the land, not the people, and to maintain issuing governmental debt-free money, thus balancing efficiency and equity, producing more needed capital from capital. The rental value of land (and buildings) will be sufficient to finance all public revenue as recent pilot projects are showing. This is a profound lecture in the economics of institutions and transaction costs; rent will go to the public society, wages and interest will go to the private individuals or groups who really earned their share of wealth; the socially destructive ab-use of land site location and other

natural resources will be legally stopped, because land is fixed in supply and demand is the only determinant of land rent. The Chinese privatization of real estate and natural resources will be checked via land value taxation and banks cannot earn interest for rising mortgage loans, i.e. the government is not forced to tax income and sales productivity; this debt control checks also the cost of living for labor as private-public balance; natural resource and locational values are taxed, and wages, capital and sales remain untaxed. Consequently, the 'Western' path is not a kind of universal economic law, but a wrong policy decision of influential groups in the last 20 years; Chinese policy-makers seem to have understood the Friedmanite dictum of the least bad tax. This alternative model of growth can keep the promise of about 5% in a sustainable manner (Utlub il 'ilma wa law fis-Sin/Seek knowledge even in China). It becomes very clear that this dual mischief of fiat monetary tools and the financial accumulation of unearned income via land rent values is responsible for the regressive stagnation of economic productivity in countries that follow this erroneous 'Western' policy model of pathological accounting.

Pakistan's economy and state can be reformed by profound institutional re-thinking via property rights/obligations, principal change agents and transaction costs. Every political and economic system does implicate internal and external costs; the lecture of all command economic experiments is that there will be no more sand in the desert, but any political market system of an economy needs efficient and effective institutions to function rationally and ethically. Otherwise, the invisible hand of the 'free market' will empty the pockets of the majority of citizens and a small minority will collect and capture all earnings basket for basket. Like in psychology or medicine, empirical knowledge (predictability) and wisdom (outcome) in economics do recommend a step-by-step-therapy as there is no easy walk in reality; in physical reality, death, disease and disaster are painful and preventive remedies are about the right direction, not about speedy treatments. Decisive institutional tools for Pakistan will be the A) central state bank, B) the bureau of statistics, and C) the (federal) board of revenue; geonomic thought proposes to levy a single tax on natural resources and locational values, which are a result of common effort, and to un-tax wages, capital and sales, which result from real productive effort. This is a country-specific economic problem as all physical habitats are different, and economics is actually based on physical facts like, for example, property and ownership which are being expanded via monetary tools and legal contracts as the study of economic history reveals; however, the transition period from a land-based to a money-based economy increases the demand for cultural literacy and technical skills, thus opening up new opportunities for the masses of people on a given territory, if the responsible leaders and managers pass 'Hayek's test' for a good economist (A=demand for commodities is not demand for labor; B=markets inform a posteriori; C=specialize to generalize).

The key technical variables for economic success of Pakistan read: A) energy management (energy efficiency); B) land management (land value taxation); C) money management (public investment/ liquidity). Private speculators who will try to get a piece of the cake will anyway jump into the economic arena, but the before mentioned measures will be preventive and strong enough to limit the damage on the common interest of productive labor and entrepreneurship; a maximum of production and a free flow of trade was envisioned by Mohammad Ali Jinnah (July 1, 1948) and this is in reach, if the aforementioned institutions do economize their transaction potential via advanced management techniques. The constitution of Pakistan is in full accord with these economic and legal steps as they comply with both democratic and theocratic principles of the Islamic Republic.

CONCLUSION

The effective and efficient management of energy, land and money is the triple future problem of the Pakistani economy. Land value management, taxation of economic rent from natural resources and locational value, is seen as the basic key strategy for public revenue and investment (e.g. infrastructure; education ; health); government issued debt-free fiat money is a pre-requisite for attacking the triple problem successfully. A mixed energy policy, focusing the ERoEI on domestic resources, is the 3rd tactical component of this methodical problem-solving. Concerning land value taxation and sovereign money, some important lessons can be learned from the Chinese and not from the 'Western' path of money-based market economics, i.e. a sufficient monetary quantity is needed for expanding the productive capacity of a nation and not private financial asset/wealth maximization via monetary tools. This economic strategy will also narrow the doors for monetary loopholes, land grabbing and similar speculative gambles; the resources fee=economic rent will be captured by the community (tax jurisdiction), and it is not a tax on productive labor and capital, thus economic stability and growth will be achieved via balancing efficiency and equity.

Key terms: taxation; land, energy, money: economic growth

JEL: P5

Abstract: Higher economic efficiency for Pakistan is bound to reform the land value taxation system; the proposed strategic economic program will propel the country and the population into a new future of efficiency and equity, making it a favorable destination of investment and innovation. In a nutshell, Pakistan can become an economic success story, if economic rent=resource fees will

be captured by the common interest. Otherwise, it will follow the 'Western path' of public decline and private wealth maximization.

A GEONOMIC SYNOPSIS:

Land is created by nature, finite and cannot be moved. It is critical to life; a common good and cannot be used to produce more land. Capital can be used to produce more capital; it is infinite, created by people and can be moved.

$P-R=W+I$ (not= $P=R+W+I$)=1.

The neo-classical formula (in brackets) does not capture economic life, the geonomic formula ($P-R=W+I$) does (production= P ; R =rent; W =wages; I =interest).

$l=f(x/r)$ and $p=t(x/e)$; t =time/ p =production/ x =monetary volume/ e =energy/ r =reserve requirement/ f =wave frequency/ l =wave length (the essentials of monetary excess explained in 2 formulae)=2.

In this money-based economy: money/quantifies/energy; energy/quantifies/time; time/quantifies/production=3.

This is the basic operation mode of a money-based economy (1, 2, 3).

George, H (1898/1992). The Science of Political Economy. NY: RSF.

www.politiceconomy.org

Written by:

Stephen I. TERNYIK
Social Science Economist (-1985).

And dedicated to:

The Dr. Zohra Azam Research Centre/The PFI/Islamabad.