

Henry George Newsletter

High School Edition

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SCOTTISH ISLANDERS WAKE UP AS LAIRDS

In Scotland, half the land in private hands belongs to just 350 people. Private estates make up about 80% of the country. Owners of such large estates are called lairds (the Scottish pronunciation of the English word lord) and between them they own 1,500 estates. The other 20% of the land is used by the common people of Scotland. Many of the lairds are absentee landowners; these include foreign investors, pop stars, and wealthy English suburbanites who use the Scottish land they own for their vacation homes or as speculative investments. Scotland has the highest concentration of landlordism in the world.

In 1999, for the first time in 300 years, the English Parliament granted Scotland the right to convene its own Parliament. The new Parliament has made land reform an early priority. One new piece of legislation recently introduced allows tenant farmers the right to purchase their plots of land when they want. It also gives rural communities the right to purchase estates when they come on the market. It also empowers groups of 20 families or more to compel a landlord to sell them the land they work.

Before the law was past, however, residents of the Isle of Gigha, off the west coast of Scotland, were able to purchase the land they have worked for generations. Most of the money for the purchase came from public monies from the Scottish Land Fund. Now, it's up to the islanders to make their island a successful enterprise. The Island of Gigha is a sort of test case for the future solutions to the issue of land ownership through Scotland.

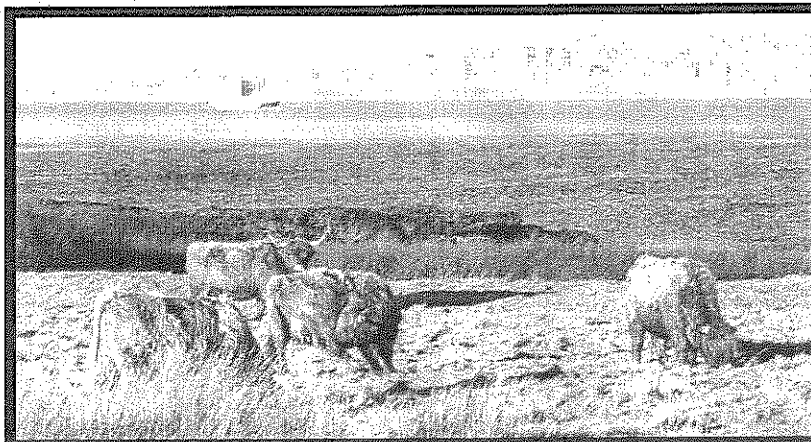
This article can be used with our American History lesson # 15, *Forty Acres and a Mule*, and # 20, *Land Our National Heritage*. Also, Economic Studies lesson # 2, *The Factors of Production*, #9, *Laws of Distribution* and # 12, *The Law of Rent* (see back page of this issue for an excerpt).

BRAZILIAN SLUMS PROVE LOCATION REIGNS SUPREME

Ask any real estate agent and he or she will tell you: the three magic words of their profession are 'location, location, location'. As land becomes more in demand, the rental value of land rises,

forcing many people closer to the margin; previously less-valuable land begins to be desirable.

Political Economists describe what they call a *law of rent*, a theory of how natural law operates regarding the supply and demand of land, first described by the



Highland Sheep Graze on the Isle of Gigha

British economist David Ricardo in the 18th century.

The law of rent states that the economic rent of a piece of land is determined by comparing that land's productive capacity with that of the least productive land in use. Land, unlike capital or labor, is in fixed supply. Economic rent is based upon the fact that there are differences in the productivity of pieces of available land. In our society, land can be productive because of its location; it's nearness to routes of transportation, and/or to other areas of productivity.

In Sao Paulo, Brazil, many middle class families are finding land in urban slums becoming desirable. Because of its proximity to Sao Paulo's downtown business district, land in the slum areas of the city is rising in economic value. Many people cite the savings in transportation costs alone as being worth the move. As this is becoming recognized as a growing trend, many people are buying small plots of land in the slums, speculating that the value of the land will continue to rise.

This article can be used in conjunction with American History lesson # 14, *The Homestead Act*, # 9, *John Jacob Astor, America's Wealthiest Man*, and # 18, *The Reform Period and Henry George*. Also, Economic Studies # 12, *The Law of Rent*.

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Free Lesson Materials for High School Teachers

Scottish Islanders Wake Up As Lairds

by Warren Hoge

ISLE OF GIGHA, Scotland - Half of Scottish land in private hands belongs to just 350 people, and 1,500 private estates account for 80 percent of the country.

Among the lairds are aristocrats, reclusive foreign investors, pop stars, desert sheiks, offshore companies and wealthy people from London's financial sector who live in leafy English suburbs and treat their distant Scottish properties as commodities to be traded on foreign markets or used as hunting retreats for city swells.

This feudal system was set up in the 12th century and reinforced by the infamous Highland Clearances of the early 19th century, which saw farmers burned out of their thatched cottages and packed onto ships for America.

This year may see the end of the system, and this weather-tossed atoll of rock and heather off Scotland's western coast — a place of misty serenity and swirling storms — is leading the way in land reform.

Members of the Scottish Parliament in Edinburgh, the legislature created in 1999 that is the first the country has had in 300 years, said at the outset that land reform would be the body's principal early objective. A bill is now moving through the house that will become law in months.

Not everyone is pleased. Lord Strathclyde, leader of the Conservatives in the House of Lords and the laird of property near Prestwick in western Scotland, said, "Even the Soviet Union never tried something like this."

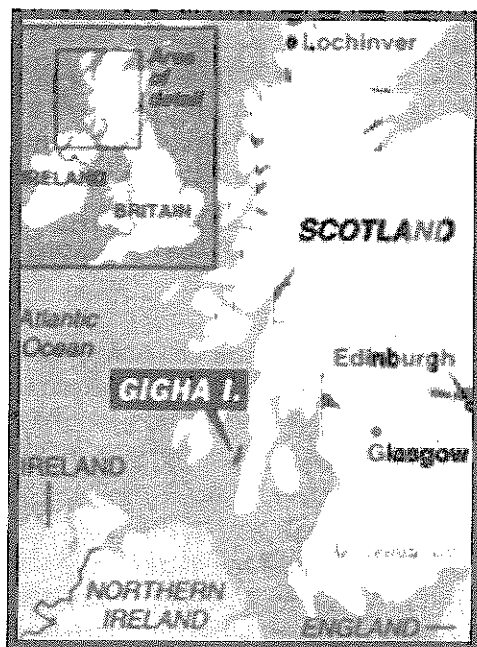
The 110 residents of Gigha (pronounced GHEE-ah) succeeded in buying their island in October without benefit of the new law. But the pattern is one that the bill envisions for future purchases, and the experiment here is consequently being closely scrutinized. Just seven miles long, this island has become a big story.

The price paid was \$5.8 million, but almost all of it came from public money — \$5.1 million from the National Lottery-financed Scottish Land Fund and \$700,000 from the Highlands and Islands Enterprise, an agency promoting regional growth. Even by thrifty Scots standards, the residents got a great deal: they paid only \$3.25 each to

get their island back.

They enjoyed another advantage — a benevolent laird, a retired Scots businessman who turned down several higher bids in the belief that the islanders ought to have a chance to run their island.

Under the arrangement, though, they must pay back \$1.45 million of the purchase price over the next two years as well as figure out how to run their island. In the event they do not make the deadline, the state will have to make up the



difference, and the Scottish government is consequently sending in a development officer to set up a business and management plan.

The island amounts to a test case of a proposed solution to the subject of land ownership, an emotive issue that has vexed the Scots for generations since their country has the highest concentration of landlordism in the world.

Introduced at the end of November, the new legislation will expand a limited land purchase right granted in 1974 to individual tenant farmers known as crofters so that they can buy their plots whenever they want.

It gives rural communities first purchase rights for full estates that come up for sale, a chance to buy profitable fishing, grazing and mineral rights and, in its most controversial passages,

empowers groups of 20 families or more to compel a landlord to sell them the land they work.

Landowners have reacted with class-war anger. Robert Balfour, convener of the Scottish Landowners' Federation, accused the lawmakers of producing an expropriation bill and said, "Why don't they just be honest and say that it's land nationalization and they have a socialist agenda?"

Many Scottish estates have become marginal operations, staying in business only because of lairds who were magnanimous or did not task their properties with making profits. While most Scots believe the antiquated land laws have to change, many worry that the crofting communities lack the resources or talent to make them ongoing operations.

Christine Mineham, a hotel worker who is a member of the Isle of Gigha Heritage Trust, said the group was hoping to attract tourist money with folk concerts and raffles.

William McSparran, head of the trust, said the islanders plan to open a pub, a tearoom and a museum and to turn their homes into bed-and-breakfast enterprises. He also wants to see two shuttered dairies reopen and thinks that by selling Achamore House, a sprawling 19th century manor with eight bedrooms that has been converted to a hotel, residents could avoid permanent indebtedness.

Hype is an alien concept to unassuming highlanders, but Mr. McSparran is adjusting to the promotional realities of his new job. Asked if the golf course was indeed only nine holes, he said: "No, it's 18. You just have to go around twice."

-reprinted from the NY Times

Questions

1. Who owns most of the land in Scotland?
2. How far back does their system of landownership go?
3. What is the reaction of many landowners to land reform?
4. What are some of the advantages of owning your own land?

Brazilian Slums Prove Location Reigns Supreme

by Jennifer L. Rich

SAO PAULO, Brazil - Just off the main road, down a narrow alley closed in by brick walls, Marli Roseno's front door stands open invitingly. Inside is a tiny two-bed-room, one-bath dwelling, spotless but cluttered, in the midst of a giant shanty town.

Mrs. Roseno, 54, moved here just three months ago, with her husband and four children, paying \$4,400 in cash for the house here, though they are squatters on the land and do not have a deed. The deal was sealed with a handshake.

The Rosenos are among a growing number of people who are buying property in the city's dense slums, known as favelas, despite often precarious living conditions. They are often attracted by the locations, which are nearer to downtown.

As a result, property values are increasing.

"Our daughter already worked here, and I came to do my shopping here on the weekends, so we were already familiar with the neighborhood," said Mrs. Roseno. "I miss my porch and my garden, but you have to be grateful for what you have."

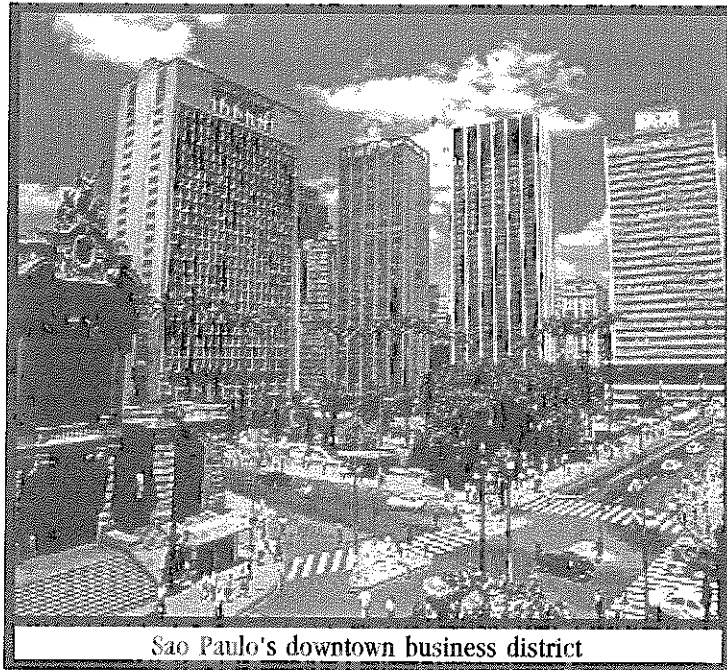
The family had lived for 20 years "baby-sitting" the land for an owner as

while a two-bedroom house facing a main road can sell for as much as \$16,000. That is more than most state-run public housing and on par with apartments in outlying lower income neighborhoods.

The attraction of the shanty town, Paraisopolis, is its location, said Nelson Baltrusis, an urban planner who conducted a study recently on the real estate market in

capacity to save," Mr. Baltrusis said.

A two-room wooden shack at the end of a cramped alley can cost around \$1,400 while a two-bedroom house facing a main road can sell for as much as \$16,000.



Sao Paulo's downtown business district

the favela.

As Sao Paulo's poorspread further outside the city, Paraisopolis is one of the few low income areas near the middle and upper class neighborhoods of the town's center, where luxury apartments have doormen and families have full-time maids.

The community itself, which covers 63 acres and holds 66,000 people, bustles with shops and lunch counters, and businesses in the community employ about 40 percent of all heads of households, Mr. Baltrusis said. For those people, the savings on transportation alone makes living in the favela worthwhile.

"The fact that people can pay an average of \$12,000 in cash for a house here shows that they have income, that they have the

Brazil's minimum wage is \$72 a month.

In fact, Helena Santos, a real estate agent in Paraisopolis, said that many of her clients would rather buy a home in the favela than an apartment elsewhere just to own a little patch of earth. Paying in cash also keeps families who work in the informal market without a steady income from having to make monthly payments on rent, taxes and condominium fees. Public housing mortgages in Sao Paulo can be as low as \$12 a month, but Mrs. Roseno, for one, is not willing to commit.

Instead, she and her husband have already built the brick foundation for a second story on their new house, with an eye toward increasing the property value.

-reprinted from the NY Times

A growing number of people are buying property in the city's dense slums, attracted by their location. As a result, property values are increasing.

it grew more valuable; according to that Brazilian custom, the owner let the family live on the land, in nearby Morumbi, as it developed into an upper class neighborhood. He finally sold the land, and the family used their savings to move closer to town.

A two-room wooden shack at the end of a cramped alley can cost around \$1,400

Questions

1. Why are middle class people moving into the slums?
2. What accounts for the rise in land values in the slums?
3. What is meant by "baby-sitting" the land?
4. How does location determine the value of land?

Historical Background - Economic Rent

*Excerpted from Economic Studies lesson #12,
The Law of Rent. The entire lesson and others
dealing with historical and economic issues can be
downloaded for free at our web site -
www.henrygeorgeschool.org*

THE LAW OF RENT

Most people think of 'rent' as money paid to live in an apartment or for the temporary use of items such as a rental car. In economics, however, the term 'rent' or 'economic rent' has a different meaning. Rent is the price paid for the use of land resources.

Very often payments for land (rent) are mixed with payments for capital (interest). If a farmer pays for the use of a farm, he pays rent on the land to the landowners, but pays also for the capital improvements - the house and barn.

Rent is determined in large part by the availability of land and peoples' desire to use it. If land were free, then any wealth produced on that land would be divided between the

land can cause rent to rise and take a larger share of the wealth produced. Economic rent is based upon the fact that there are differences in the productivity of pieces of land available.

The law of rent states that the economic rent of a piece of land is determined by comparing that piece of land's productive capacity with that of the least productive land in use. For example, land which contains oil deposits will demand a higher rent than average farmland, because it produces more income with similar effort. Farmland will receive more rent than a dry, sandy lot for similar reasons. If the poorest land in use produces \$10 worth of vegetables each month, and the same size of better quality farmland produces \$100 worth of vegetables each month, then the rent on the farm is \$90 per month. Rent is based on the productive capacity of the poorest land in use. However, as more land is

occupied, less productive land is brought into use. This raises rents on all lands and lowers wages and interest.

Rent is paid only when there is a demand for land. When land was free, there was little or no rent paid for privately held land. Now, with almost all land privately owned, rents grow and grow.

Because there is only a fixed amount of land in the world, people can monopolize land through ownership. As we have shown, rents can rise virtually unchecked; land values (the amount people are willing to pay) can go up and up. As rents rise, poorer land is brought into use. This lowers our standard of living, because as rents increase, even on poor land, less wealth is left for wages and interest. As land owners grow richer, the rest of society grows poorer.



Activity IV

In the following chart there are 6 sections of land. Each section is free for the taking. Without the use of capital, a worker can produce, in one year, \$1,000 dollars worth of goods on Section A, \$900 on Section B, etc. Please study the chart, then answer the following questions.

Section:	A	B	C	D	E	F
Production capability:	\$1,000	\$900	\$800	\$700	\$600	\$500

1. If each of these sections is free for the taking, on which would you choose to farm? Why?
2. What would your wages be for farming Section A?
3. If all of Section A is taken (privately owned), and another worker wants land, which land would he choose to farm? Why?
4. How much does the worker in the above question earn in wages?
5. If the worker did not want any of the land that remains free, how much would he have to pay to work on Section A? Why?
6. If all of Section B land is taken, and another worker wants land, which land would he choose?
7. How much will the worker in the above question earn in wages?
8. How much would the worker have to pay to rent Section A? Section B?
9. As each new section of land becomes privately owned, and workers continue to want land, what happens to wages? What happens to rent? Develop a general statement about land, wages and rent in reference to this situation.

laborer who worked it (wages), and the capitalist who supplied the capital (interest). However, because land is in demand, land owners can charge for the use of their property. Since there is only a fixed amount of land, as land becomes occupied, rents can increase drastically, leaving smaller portions of wealth for labor and capital.

Land, unlike capital or labor, is fixed in supply. Because land is necessary for survival, as population increases the rising demand for

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