

LAND AND LIBERTY

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World Bank: poverty of policy

Scots seek Maori land rights!

Essay: Quest for new Social System

Housing: economics of chaos

LAND AND LIBERTY

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COVER PHOTO: Advocates of land-and-tax reform recently joined a coalition of British anti-poverty groups demonstrating outside Parliament.	

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EDITORIAL

Tax reform as the death knell of Ya-boo politics?

ANOTHER hoax is about to be perpetrated on the long-suffering taxpayers of Britain by their political masters. John Major's conservative government has decided to change the tax system by allegedly simplifying it. To curry favour with the voters, the government claims that the "reforms" will enable people to assess themselves for their tax liability. Sounds good. What is the reality?

Some years ago the Australian government changed to a system of self-assessment. Before that change about 20% of the people who were required to submit tax returns used an accountant. After the change that figure rose to nearly 70%.

Along with shifting more of the tax collection costs on to employees the British government is threatening automatic penalties and surcharges against those who fail to meet deadlines. It is of no comfort to learn that the Inland Revenue itself will not be ready to cope with the new system despite the investment on new computers and the re-writing of 6,000 pages of tax law at a cost of £26m over the next five years.

What's it all about?

Critics claim that the action is necessary in the face of a tax system that has been made unnecessarily complicated by tax advisors. In the 1960s these advisors multiplied in number and expertise shifted from the lawyer to the accountant who devised schemes for the avoidance of tax liability. At first, those schemes were relatively simple. But as the Inland Revenue wised up, so the schemes became ever more complex. Every scheme spawned an anti-avoidance provision, which in turn provoked another scheme. The end result is that

few people can now understand the tax system.

To combat this nightmare the government declared that it would ditch 100 pages of legislation on the taxation of interest. This it has done. The new legislation is described in a document of 100 pages. The re-writing of the law on corporate debt will continue until 2001, which means that we have the opportunity to engage politicians in a discussion on tax reform.

As Britain's taxpayers groan their way through the new legislation, we have to take consolation in the belief that sanity will ultimately prevail. There is one way only to simplify the tax system, but this process cannot begin until the principles of public finance are re-assessed from the beginning. Parliaments throughout the world need to be told that they must return to basics.

On what grounds are people asked to pay to defray the costs of public expenditure?

What is the character of the society which we are aiming to create?

Questions such as these would baffle the politicians. They are not interested in fundamental philosophy: their sights are firmly fixed on votes in the next election. But that, unfortunately, is why political discourse has been impoverished into the ya-boo rhetoric displayed by candidates Clinton and Dole in the US Presidential elections.

If the correct reforms are to be instituted, they will have to be the result of a democratic debate in which the people have seized the platforms and directed the dialogue in favour of social justice and economic efficiency. That is not an impossible prospect. The dialogue will open up despite the politicians (see Talking Politics: page 4).

Scotsmen seek parity on land rights with the Maoris!

SCOTTISH crofters have launched a legal bid to re-claim their traditional rights to land, *writes Peter Poole*.

In a letter to British Premier John Major they ask to be recognised as an indigenous people with the same rights as the Maoris of New Zealand and the Aboriginals of Australia.

The Scottish Crofters' Union claims that this initiative could lead to reform of land ownership and the transfer of land and mineral rights from estate owners to local communities. This claim has been backed by lawyers at Glasgow University's department of public international law. One of the law experts, Catriona Drew, said the definitions used by the United Nations could be applied to crofters. She says:

"A strong argument can be made that crofters are an indigenous people because their people have always been on the land; they have a distinct culture and, in some places, the distinct Gaelic language.

"Given the experience of other indigenous peoples in Australia, New Zealand, Canada and the United States, this would give the indigenous people of the Highlands and Islands the absolute right to have their land returned and for compensation to be paid for being deprived of their rights".

Under a UN draft declaration, indigenous peoples have the rights of self-determination, control of lands and resources, and cultural integrity.

Dr. Fraser MacLeod, the director of the Union, says that "we cannot continue into the next century under the same system". He cited the Maoris as an example of a people who were given back their land. In the case of the Ngai Tahu tribe, which lost 80% of South Island through crooked deals going back to 1844, the New Zealand government recently agreed to a compensation deal

worth £80m. This was in return for almost 35m acres which were acquired by the British colonial administration for £14,750.

The prospects for retrieving traditional rights to land and life were taken a further step forward with the outcome of the election in New Zealand in October. Under new proportional representation rules, a party led by Winston Peters, who is of Maori and Scottish descent, has promised a return to traditional values. He formed New Zealand First four years ago after being expelled from the Cabinet and the National Party. Peters is seen as a 'wild card' politician who could exercise considerable power during a period of political uncertainty.

LIVING testimony of the cultural

significance of the return of land to the centre of political life is provided by the recent death of a distinguished aboriginal artist in Australia.

Since 1977 two tribes have been re-settled on their traditional lands under the Aboriginal Land Rights Act (1976). A stock woman, Emily Kngwarreye, began to paint and by 1992 she was recognised as one of Australia's foremost contemporary artists. Her paintings evoke the sensuality of the landscape and have contributed to cultural and environmental renewal.

Today, her paintings are exhibited around the world. She died on September 2, but her legacy is a testament to the way in which the retrieval of traditional rights to land can re-awaken long-lost social values and institutions.

Nobel economist dies

DR. WILLIAM VICKREY died a few days after being awarded the Nobel prize for economics.

The announcement on October 8 that Dr. Vickrey had been honoured held the prospect of important gains for the Georgist tax-reform movement. For Dr. Vickrey was a learned advocate of the fiscal reform associated with the name of American social reformer Henry George.

Dr. Vickrey, professor emeritus of Columbia University, was to share \$1.12m prize with an English economist, Prof. James Mirrlees of Cambridge University. Tragically, he died of a heart attack a few days after the news was announced.

Dr. Vickrey is most famous for his study of the New York subway fare system in the 1950s. This involved a calculation of how governments could

provide an efficient public service at the same time as covering the capital costs of infrastructural investment.

He concluded that the optimum conditions existed when the rent of land and natural resources were treated as the tax base, to generate sufficient revenue to enable governments to remove taxes on people's wages and savings.

Dr. Vickrey, who was President of the American Economic Association in 1992 summarised his findings in these terms: "Full efficiency thus requires that all such land rents be devoted to the subsidy of these decreasing-cost industries and the appropriation of these rents by landlords for other purposes precludes the achievement of full efficiency."*

* William Vickrey, "The City as a Firm", in Martin S. Feldstein and Robert P. Inman, *The Economics of Public Services*, London: MacMillan, 1977, p.334.

When a cuppa is a tax liability

COULD WE to bring back the gallows for politicians? The thought becomes temptingly irresistible when we review the way in which they inflict tax policies on their citizens.

Fiscal reform is rarely off the agenda, but that is because of the persistent economic problems and the inability of politicians of all political persuasions to conceive of solutions that would actually deliver desirable results. That the reverse is the invariable outcome is illustrated by plans for the bankrupt capital of the United States.

Federal politicians on Capitol Hill decided on a new wheeze to try and rescue the economy of Washington DC. They figured that a flat-rate tax of 15% would do the trick. They decided that investment in Washington would follow the scrapping of capital gains taxes. But analysts agree that most savings would benefit high-income groups and home owners who would see their property values soar. In other words, there would be few benefits for the poor and no action to force the landowners into making their derelict sites available for reconstruction at affordable prices.

TWO YEARS ago British Prime Minister John Major appointed a panel of experts to advise him on 'green taxes'. The first report contains this recommendation:

The Panel would support a gradual move away from taxes on labour, income, profits and capital towards taxes on pollution and the use of resources. Currently we tend to tax people on the value they add rather than the value they subtract.

John Major's government published a response which implicitly acknowledges the need for the Georgist fiscal philosophy. The government accepts the need for reductions in 'distortionary taxes' and the adoption of non-distortionary taxes. Significantly, it adds that revenue from non-distortionary taxes would enable it "to reduce the rate of employers' National Insurance Contributions and thereby encourage greater employment". Henry George himself could not have put it better! There seems to be some awareness in Whitehall (if not yet in Westminster) that the structure of taxation does need to be radically revised to create an economy that liberates people from the dead hand of taxation.

That exchange of views in the British government's own documents is revolutionary in its implications, even though the people who wrote the words almost certainly do not appreciate the significance of what they are saying. This one reform would radically - but peacefully - transform society.

To what do we owe this kind of exchange? It has more to do with the imperatives of environmental destruction than the intellectual enlightenment of politicians.

But the correct strategy will not necessarily be adopted

just because it has truth on its side. History is the record of failures of what might have been if only enough people had risen to the occasion. My conviction that we will respond to the opportunities that are forcing themselves onto the world stage as we come to the end of the millennium is the result of a number of facts. One of them is that the Georgist movement itself is now re-tooling itself.

But this is not to say that we can afford to be complacent: we all have to keep up the pressure if we are to create that critical mass that will ultimately explode into a creativity that delivers the justice that is long overdue. But if there is one thing I do feel sure about it is the continuing enthusiasm and commitment of rank-and-file Georgists around the world. They have proved by their loyalty that any contribution to change that we make will be the result of a popular activism that has sustained the kind of work that has been invested in the future of Russia.

THE RIDICULOUS character of the tax system is highlighted by the bust up over the office cup of coffee. A staff canteen is a tax-free benefit to employees. But the Inland Revenue has decided that one employer is liable for tax because it had supplied a coffee machine and no meals. The drinks were therefore a tax-liable benefit.

Eavesdropping is also being used to discover whether employees are using the telephone for private purposes. One woman's telephone calls were monitored and the Inland Revenue found that she frequently telephoned her mother. They then tried to tax her on the benefit.

And then there is the working lunch. If provided by an employer, the employee could be landed with a tax bill if there is no outsider present and if the firm's employees as a whole do not have a free meal.

The increased use of the laptop computer also presents hazards to employees. For if an employee uses the laptop for private purposes he could be liable to a tax bill.

But the damage inflicted by taxation is not just designed to make life difficult for the ordinary tax payer. It also fosters activity in the economy that ultimately disrupts the production of wealth. One example is the way in which tax benefits are attracting German investors, who have spent £2bn buying many of London's most valuable properties. The most recent deal involved the sale of a London building, the headquarters of a US Oil company, for £130m to a German investment fund. Those 'open-ended funds' gain tax advantages because they hold at least half of their funds in properties outside the country where they are based.

GERARD WINSTANLEY



...World Briefs...

MEXICO CITY Rural War

At least 40 people have died this year in rural disturbances which are rooted in land disputes. New para military groups are emerging to fight for economic justice in the face of the failure of the Mexican government's attempts to deal with the Zapatista uprising in Chiapas. Observers claim that, in addition to violence over land, social discontent is aggravated by corrupt and undemocratic local government.

Indigenous Indians are sympathetic to the Zapatistas, and the government is treating this opposition as favouring guerrilla activity. The Zapatista recently formed a political movement, the National Liberation Front, and they say that Mexico is "on the verge of civil war".

BEIRA Land grab: 1

Mozambique is now governed by a once-Marxist party which fought a civil war against the Portuguese. The anti-colonial insurrection was driven by the demand for land by the peasants. But now that Frelimo is the legitimate government, its ideology has changed. There has been a land rush by foreign and local developers, and the government has granted large concessions of land to party leaders.

Mozambique is ranked by the World Bank as the poorest country in the world. But only 10% of its 20m hectares of arable land is being cultivated. About 2.5m peasant families - 80% of the population - are squeezed onto that small area. But the government now wants to displace some of them to make room for developers.

According to Joao Ferreira, a Frelimo MP and former agriculture minister: "Why should we reserve 20m hectares for poor people who don't even pay taxes?"

NAIROBI Land grab: 2

THE MAU MAU was the terrorist army that fought the British colonial power in Kenya. The right to land was the inspiration that drove the liberation army, but many peasants are now wondering what they achieved with political independence. For the country is being swept by a phenomenon called 'land grabbing'. According to Greg Barrow, writing in *The Guardian* (London): the strict monitoring of the money supply by the IMF has meant that "land has become the last remaining gift that can be used to win political support from powerful individuals".

The government has been handing over land to political friends and property developers by first ejecting slum dwellers who have nowhere else to go. "We fought for independence and won our Uhuru [freedom], but we didn't win our land," according to a spokesman for the national council for non-governmental organisations.

Traffic islands, cemeteries, and even public toilets, have been appropriated and handed over to the land-grabbers, according to Kenyan press reports.

EL SALVADOR Price of freedom

UN peace-keepers are about to pull out from the country that experienced one of the bloodiest peasant wars in Latin America in the post-war years. But the peace accord of 1992 has not resolved the problems that provoked the violence in the first place.

Peasants who took over abandoned land were allowed to buy it on long-term credit. But the landowner, not the government, was allowed to set the price. And according to one UN official, some owners were asking for ten times the market price. The UN, which departs in December, fears that land-

owners may try to evict the peasant tillers, and is calling on the government to extend the right of tenure until sales are completed.

Eighty thousand people died in the civil war over land.

LONDON Pay-back time

Privatisation may be a hot political potato in the forthcoming general election as more evidence emerges of strange deals struck by John Major's government in the sale of public assets. Behind the underpricing of state enterprises has been the sale of land at knock-down prices in many of the major sell-off deals.

One forthcoming bonanza: the government has invited bidders to buy the Social Security offices which are situated on prime sites in Britain's cities. These have been provisionally valued at about £400m - half the Treasury's original estimate. Two of the contenders for the dole offices are shortlisted to buy fifty eight thousand Ministry of Defence homes which are due to be sold for about £1.6bn.

According to an investigation by *The Observer*, a London Sunday newspaper, a secretive group of donors to Tory Party funds is behind the purchase of some of these public assets.

● Vacant government buildings are costing tax payers over £130m a year in lost rents and rates. Despite this, the Treasury is planning to move into temporary offices owned by a property company while its own building is renovated and partly hived off as a hotel. This means Britain's taxpayers will pay an estimated £10m to the property company in rents over a three year period while nearby government buildings remain empty.

MACAO Jesuit dispute

A dispute over valuable land in this Portuguese colony on the

Chinese mainland has divided Catholics. At the centre of the dispute is the Jesuit-run school which occupies valuable land in the centre of the old city. The school stands opposite one of the most popular tourist attractions, the ruins of St. Paul's, a Baroque cathedral built in the 17th century.

The Society of Jesus, which runs the school, wants to remove the school's 79 year old headmaster. He is resisting retirement, claiming: "They want to sell our land. It is worth millions. This whole thing is a conspiracy. They are jealous and greedy".

The Society's spokesman denies planning to sell the £1m site, and replies that the headmaster and his supporters have engaged in property speculation by buying a house in Portugal.

NEW YORK Cyberspace grab!

Microsoft, the company that produces the Windows computer software, has been accused of unfair practice in the pricing of its lower cost Workstation version. This limits the number of simultaneous Internet connections to ten, making it unusable as a Web platform for cyberspace surfers. This means that potential online publishers will have to spend an extra \$500 to buy the Server version. According to publisher Tim O'Reilly: "I believe that Microsoft's position amounts to nothing more than a 'land grab' in the uncharted territory of the Internet".

LONDON

A CHELSEA garage that is too small to take a Rolls-Royce has been sold for £40,000. This exceeds by £2,000 the price paid for a broom cupboard opposite Harrods nine years ago.

Housing: the economics of chaos

BRITAIN'S housing market is supposed to be in a state of revival this autumn after a protracted period in the doldrums. Even so, 1,000 homes a week are still being re-possessed from families who bought during the boom years of the late '80s, writes Paul Knight.

Housing policy is a case study of everything that is wrong with the modern economy. A number of statistics reveal that the so-called market does not function effectively on the principles of supply and demand.

Nearly 500,000 households in England alone need affordable rented housing. This reflects demand which has outstripped supply for many years.

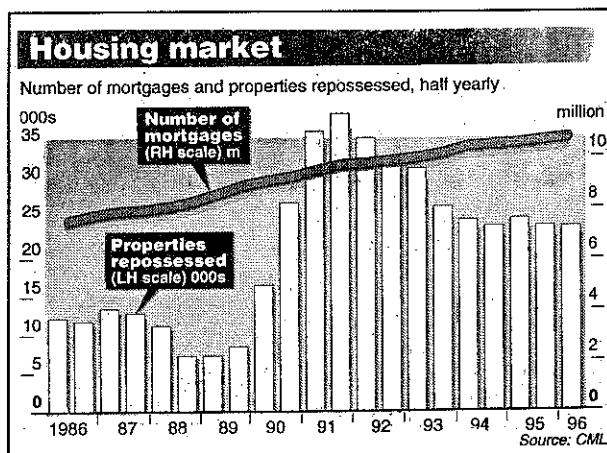
There are about 864,000 empty houses in Britain. The government is at a loss about how to encourage the owners to make these properties available for the families that need them.

The construction industry is under-performing, but the price of land continues to be a major obstacle for builders - and especially a significantly large number of people who want to build their own homes.

WHERE DOES it all go wrong? Why can't the economy function properly when everybody appears to want it to do so?

The scale of the challenge is well enough known: the government estimates that an extra 4.4m households will need to be accommodated over the next 20 years. This indicates a volume of demand that ought to encourage everybody who wants to see the return of full employment and a rise in people's living standards.

But where are all these people to live?



That ought to be the first question requiring realistic analysis. *The most important dynamic consequence is the price of land.* With more people putting pressure on a finite supply, we can expect the price to rise even in a market from which monopoly power has been banished or controlled.

But the government and its advisors, and the academic industry that is pre-occupied with the housing sector, choose to focus on land use as a planning issue. They keep the debate shallow, focusing on the politically tetchy issues such as the Nimby factor - Not in My Back Yard.

Environmentalists have failed to add depth to the debate. They want to avoid construction on green field sites, pointing to the substantial number of vacant sites in urban centres. But they do not offer a critique that identifies land monopoly as the ultimate obstacle to a fluid market in which everybody could be decently housed at affordable prices.

As for the media commentators, they have once again reached for the cheap headline rather than analyse the housing trends properly. Every press release from the building societies provides the peg for yet another alarmist story. Either the housing market is crashing (as when mortgage applications dip); or the boom

days are back when the growth of sales of houses is sustained for two months in a row.

HISTORY does repeat itself, with tedious regularity when it comes to the housing sector. Britain is climbing painfully out of the last recession that was forecasted many years before it happened on the strength of historical trends in, among other sectors, the housing market. In the early '80s, analysts who focused their

attention on trends in land prices were able to predict that the British economy would crash into a trough in 1992. They were right: it did.

The climb back follows previous patterns, and there is no reason to believe that there can be a return to a rise in house prices of the kind that were seen in the late 1980s for another ten years. But that does not mean that house prices are now benign. Unless remedial action is taken to curb land speculation, there will be a mini property boom of the disruptive kind in less than five years from now. But until then prices will grow at gentle rates and not cause undue problems for whichever government is elected next spring.

This is cold comfort for the families today who are still suffering from the backwash of the last housing boom. Many of them will have to continue financing mortgages on properties that are below the price that they paid for them back in 1990.

But memories are short. Unlike bricks and mortar, we can't manufacture more land. Therefore, the children of the families who are suffering today will be the ones to suffer in twenty years when we are back in the throes of the next post-property boom crisis.

After the Welfare State: Quest for a new social system

With the future of the Welfare State now hanging in a state of uncertainty, it is time for people to re-examine their choices, argues **Fred Harrison**. This essay is an edited extract from a book by Fernando Scornik Gerstein, *Poll Tax: the tax that sank a government*, published by the Land Policy Council, London.

THE LIBERAL democratic state is built on an economic system that cannot be sustained. That it persistently breaks down is an uncontroversial matter of record. What economists cannot agree about is the way in which to change that system so that it can sustain itself through time without the benefit of artificial props, the costs of which themselves finally cause the system to collapse.

The history of the 20th century is the record of attempts to create alternatives to the market economy that emerged in western Europe in the late 18th century, but the 'cures' proved to be worse than the cause. In 1917 the Marxist state was born out of violence in St. Petersburg. The Nazi experiment in social engineering came into being when Hitler was appointed Chancellor of Germany in 1933. Both regimes were popularly supported by people who were frustrated with the failures of the prevailing socio-economic system which periodically consigned millions of people to the deprivation that follows the loss of employment. But both of these alternative ideologies was to cause the deaths of tens of

millions of innocent people before they were destroyed. But the triumph of the liberal democratic state is marred by the fact that it has still not found the remedy for the social problems that provoked nazism and communism into being.

As Europe turned into the 20th century a third model was put to the test: the welfare state. Bismarck originated the concept in Germany by introducing laws to protect citizens from the ravages of unemployment. The Liberal government that included Lloyd George and Winston Churchill embraced the idea that Britain ought to provide protection for the old, the sick and the people who through no fault of their own could not find jobs. Their vision was humane, and the Liberals identified the correct source of funding for these acts of compassion. In their view the revenue ought to come from the rent of land. Alas, the weight of history was against them. The People's Budget was passed in 1910, after a constitutional crisis, but the philosophy on which it was based was ill-fated.¹ The Conservative Party was to succeed in destroying

the fiscal reforms of the Liberals (and also the similar proposals of the socialist chancellor, Philip Snowden, in 1931) and to reaffirm a policy of taxation on the producers of wealth.

The heyday of the welfare state was in the early years after the Second World War. But if the economic system on which the liberal democratic state is built really was unsustainable, it could only be a matter of time before the welfare state suffered the same terminal fate as the systems inspired by Hitler and Marx. And sure enough, as we now turn into the new millennium we find that the welfare state is being consigned to history as a social system that is literally bankrupt. The state cannot continue to fund pensions for the aged nor medicine for the sick in Europe and North America. The retreat from the welfare state was marked by law in August 1996 when President Bill Clinton signed the death knell for the safety net that had existed in the United States for 60 years.

Ought we to lament the passing of the welfare state? We should exercise caution at this juncture in history. The knee-jerk reaction

(based on laudable sentiments of compassion) is that we *must* find the resources to sustain the universal provision of health, education and welfare services. But before trying to preserve the welfare state we ought to take a closer look at its record, as well as the alternatives.

Despite the 'safety net' poverty persisted in the welfare state at a level that was capable of causing the deaths of a frightening number of people. In the United States it is estimated that over 91,000 people were the victims of poverty attributable deaths in 1991.² If that number of people had died in one year as a result of a succession of crashes by jumbo jet airliners there would be riots in the streets as citizens demanded changes in the way those jumbo jets were either constructed or flown. The self-evident presumption would be that there was either a fundamental flaw in the construction of the aircraft; or madmen were at the joysticks. What other explanations could there be for what has to be described as the *systematic* killing of 91,000 people in one year alone?

Politicians and social scientists rarely stop agonising about the persistence of poverty, but few of them dare to raise the possibility that there is something congenitally wrong in the foundations of our economic system. Public debate is now silent on the idea that, to remove the virus that causes poverty and unemployment, we need a paradigm shift in the way that we perceive the world. Could it be that we have to entertain the possibility of a radical shift away from what now passes for the liberal democratic state? Could it be premature to celebrate "the end of history"³ - meaning the triumph of the liberal democratic state over its competitors? Could it be that a viable alternative has been lurking in

the nether regions of our collective consciences, waiting for the day when enough people of courage can assert the right to choose the social system that they want rather than tolerate the one that has been foisted on them by a purely self-interested minority?

Not for the past 200 years has there been any real doubt about the source of most economic problems. The warnings were contained in Adam Smith's *The Wealth of Nations*, if we would but read his words carefully. The classical economists explained that, to function properly, the public sector had to be financed out of the rent of land. That left it open to people to work and earn, save and invest, without the economic system being distorted by taxes levied on wages and profits. But Parliament would not listen. Why should it? It was dominated by landowners or their appointees from the rotten boroughs.

Parliament in the 19th century was not about to reverse a 500-year trend, in which the financial obligations of the state were systematically transferred away from the rent of land and onto the wages and profits of workers and the owners of capital. Against this background we see that the logic of history favoured Margaret Thatcher's abolition of the tax on real property (the 'rates'), and her government's introduction of the Poll Tax. That act marked the end of an epoch that was characterised by the determination to remove the rent of land as the uniquely appropriate source of public revenue.

But the end of one epoch also marks the dawn of a new era. What is in store for us? We cannot be sure, but of one thing I think we can be certain: the present social system *has* to restructure itself in a qualitatively significant way. Why do I think so? Because the former epoch's driving dynamic was based on self-

destruction; this is an argument on which I cannot elaborate here, except to say that I am not relying on Marx's historicism. I am currently engaged in explaining the proposition at great length in a work in progress. Meanwhile, we all have to engage in a debate about new visions for the future.

Fernando Scornik Gerstein is convinced that the best future is to be found in the return to the incontrovertible truth about public finance. We have to untax people's earned incomes and cause government to rely for its financial needs on a direct charge on the rent of land. Could it happen? There are reasons for thinking that this is now possible.

One reason for thinking this is the popular expression of the will of the people. Like the peasants who revolted against the Poll Tax in 1379 (one of the dates that marked the beginning of the fiscal epoch that I believe has now come to an end) the urban proletariat of Britain rioted in the streets of London and Liverpool in protest against Mrs. Thatcher's Poll Tax. The modern challenge to the law had more to do with emotionalism than the principled application of reason to good government. But if there is to be a paradigm shift in our thinking - leading to enlightened reforms based on the democratic will - we first need an informed public debate. There is reason to believe that, thanks in part to the activists who are concerned about the natural environment, such a debate will now take place. One illuminating indication in support of this optimism, ironically, was initiated by the man who succeeded Margaret Thatcher.

In 1994 Prime Minister John Major appointed a panel of experts to advise him on 'sustainable development'. The experts concluded that, for a start, the system

of public finance would have to be reformed. In their first report they declared:

The Panel would support a gradual move away from taxes on labour, income, profits and capital towards taxes on pollution and the use of resources. Currently we tend to tax people on the value they add rather than the value they subtract.⁴

The government published a response in which it implicitly acknowledged the need for a new fiscal philosophy. It did so by accepting the need for reductions in 'distortionary taxes' and the adoption of non-distortionary revenue raisers that would enable the government "to reduce the rate of employers' National Insurance Contributions and thereby encourage greater employment".⁵

This exchange of observations has the potential for marking a revolutionary shift in the structure of taxation. People would be invited to pay for what they received - no more, no less; this is an improvement on the current approach, which is an arbitrary snatching away of people's earned incomes without making sure that they receive benefits to the corresponding value. But the impact would be felt beyond the Inland Revenue. Citizens would notice a gradual but measurable transformation in the fabric of society. This would start and end with the land market. Land speculation, for example, would cease to be a national pastime. This would deal the single greatest blow against the business cycle.⁶ Houses would become affordable for everyone who was willing to work. Stresses in the labour market would be eased, leading to a friendlier approach to industrial relations. The lowest wages would rise in real terms as the distortionary taxes were progressively eliminated. There would be a transformation in

the way that people and enterprises used the environment. They would show greater respect for nature if they had to pay rent for disposing of their waste products in the air, rivers and seas. The list of changes - in agriculture, transport, telecommunications (the flight paths of satellites in outer space is now so overcrowded with chunks of flying metal that rent ought to be charged for occupying that space!) - is a very long one indeed. All these changes are benign, directing us towards a new society in which people's lives would not be cut short for the want of the freedom to earn decent wages and enjoy a humane style of life.

But if this fiscal philosophy *were* to be treated as a serious option, we know from history that it would be vigorously challenged. Some people would imagine that they would lose if rational principles were applied to deliver good government. The aristocracy, jealously protecting their 'old money', would be joined by the pension funds and insurance companies (which are supposed to represent the interests of the citizenry!). They would cry 'foul!' And so, once again, it would be necessary to dust off those glorious speeches that Winston Churchill delivered at the hustings in 1909:⁷ there would be no better way to expose the injustices that would be preserved if we do not recalibrate public finance on the principles that have the power to abolish poverty.

Even so, we do need to address the concerns of the groups that would automatically oppose a meaningful reform of the tenure and taxation of land. By engaging these interests in debate we would be stimulating the most fruitful analysis of the alternative social systems from which we can choose for the new millennium. Mr. Scornik Gerstein's essay is designed to provoke that debate.

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Georgists organise in Russia

A NEW organisation has been inaugurated to fly the Georgist flag in Russia. The Land and Public Welfare Foundation has been legally registered in St. Petersburg by two founders, Mrs. Tanya Roskoshnaya and Ms. Galina Titova, an ecology specialist at the Russian Academy of Sciences' Institute for Ecological Security.

The two founders appointed the members of the governing Supervisory Council: Ronald Banks, who is Chairman of the Land Policy Council, London, and his colleague Fred Harrison; Mr. Ted Gwartney, the newly-appointed Executive Director of the Robert Schalkenbach Foundation, New York; and Ms. Titova. The Supervisory Council appointed Mr. Banks as its chairman and Mrs. Roskoshnaya as Executive Director.

Mrs. Roskoshnaya has spent the past four years working with Georgists to develop a new fiscal strategy for Russia based on the rent of land and natural resources. She has met Georgists at conferences in Australia, Denmark and the United States.

Poverty on World Bank agenda

A DRAMATIC shift in economic policy as it affects the poorer countries is about to be engineered by the World Bank. The money-lending institution's policies have not worked. What is known as the Structural Adjustment Programme has failed to raise living standards. But economic wisdom is not likely to go beyond methods for reducing outstanding debts. Without a fundamentally new economic philosophy, there is no chance of re-aligning the prospects for the hundreds of millions of people living on the edge of subsistence, *writes Ian Barron.*

The poverty of the World Bank's philosophy is repeated in its current development report which lays out its preferences for economic reform in the former socialist countries.¹ The document is replete with fine sounding concepts such as efficiency and equity, and is bold in its proclamations in favour of the market economy. Absent from the analysis is any indication of shortcomings in the market process.

The World Bank, as one of the most powerful advocates of conventional economic wisdom in the world today, is continuing to retail an implicit philosophy which, by its own standards, is consistently failing to achieve its targets. It is easy to show that the market economy is more efficient than the command economy. But why is there an absence of any audit of the market economy to judge whether it could be performing far better under modified conditions?

The World Bank exposes the shallowness of its analysis in its treatment of property rights. In preaching the virtues of private property, the Bank simply takes as axiomatic that private ownership is more desirable than public ownership. This presumption has had a fatal effect on the character of the privatisation programmes in the former socialist societies. No attempt has been made to analyse the unique characteristics of different forms of property: land and capital are treated as one and the same thing.

The way in which the philosophy of property and the market process are linked

is through the assumption that the only way to secure the benefits of a market economy is for assets to be bought and sold. Thus, says the World Bank, "for property rights to become fully effective, it is especially important that they be tradeable and free to evolve".²

This is not good economics. Nor is it good anthropology or philosophy or sociology. It is crude prejudice in favour of the dominant ideology which takes for granted that the only way to optimise the benefits from the allocation of resources is for people to own assets which can then be priced and privately sold to new owners.

The spurious basis of the assumption is revealed in the labour market. People sell their services in the market for a flow of income based on their contribution to current production. Not since the termination of slavery have we capitalised the wage-earning powers of people into a selling price. We used to believe that people were tradeable assets: no longer.

If we now take for granted that labour is a distinctive factor of production, why should we not entertain the possibility that there is a difference between land and capital? Whose interests are best served by blurring any distinctions that may exist between man-made capital and the free gifts of nature?

In fact, there is a world of difference, but it is a difference to which the World Bank turns a blind eye. Land has to be treated in the same way as capital, and one justification is the claim that market efficiency requires that property rights should be tradeable. If this were true, then by the same token the World Bank would have to argue that the greatest efficiency in the capitalist economy would be achieved if we were still buying and selling people on the quayside in Jamaica. But such a proposition is absurd with respect to labour; and the same holds true for land.

Land is uniquely different from capital in ways that are so well established that we need not waste space itemising them here. Unfortunately, those who insist on the difference have failed to elaborate the institutions and processes by which land

could be treated as uniquely different.

For land to be tradeable you have to have a selling price: this is the capitalisation of the annual rental income. How can we derive all (in fact: more) of the benefits of the free market by eliminating the trade not just in labour but also in land? There are no practical difficulties in creating arrangements where people bid for the right to rent land; and there is no efficiency reason why that rent has to go into private pockets rather than public coffers. In fact, don't we have such a system today? Don't land owners seek the highest rents from tenants? Is this not done in a market milieu? Why can't this partial mechanism be generalised into a full blown system based on a reform of property rights that yield even greater efficiencies and justice than the present perverted form of market economics advocated by the World Bank?

The World Bank notes that in some of the former socialist countries "many buildings and plots of land, for example, have been restored to pre-communist owners who are neither willing nor able to care for them". This is an example of the failure of the prevailing philosophy of property rights. But while the neglected buildings may fall down and lose all their value - for which there would be no necessary negative consequences for the community (the buildings can be replaced) - the same is not true for the land. Vacant land will continue to rise in value; and while held out of use by its owners, a heavy price is paid by the community.

The solution is not to be found in the bureaucratic control over such assets. The market solution favours the use of fiscal policy to drive owners to achieve optimum results in the free market. This means no taxation on capital and the full recovery of the rent of land for the benefit of the public. In a moral society we can compromise on the efficiency goal, but there can be no compromise with justice.

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The Recovery Myth

Bryan Kavanagh

Land Values Research Group (Australia), 1994, 20pp, £1.50

Promises of economic recovery regularly gush from the lips of politicians and their advisers. For anyone who instinctively mistrusts such assurances but doesn't quite know why, this booklet is an essential read.

The author, Bryan Kavanagh, refers to the historical analyses of three economists who made early forecasts of the 1990s recession - the Australian Phil Ruthven, the American Ravi Batra and Britain's Fred Harrison. In particular he draws on the work of Harrison, who linked the pattern of economic boom and slump to the perceived 18-year cycle in land prices. Harrison demonstrated that tax regimes such as ours, which penalise capital investment while favouring real estate, produce speculative peaks in land prices which are then followed by economic troughs. Kavanagh examines this analysis in the light of research by the Russian economist, Nikolai

Kondratieff, who in 1922 had indicated a pattern of long wave economic cycles, each lasting some 50-60 years.

The correlation is impressive. A brief outline of the last 200 years of economic trends embraces four long wave cycles, each of which itself falls into four distinct periods of growth and decline. The whole period from 1738 to the present day is represented schematically by a graph which is reproduced on the front cover of the book, showing how the peaks in the US land market and subsequent economic troughs fit into Kondratieff's long wave cycles. We are now nearing the end of the fourth wave and, it would appear, poised on the brink of economic depression.

The second part of the book is devoted largely to an examination of how recent trends in the author's native Australia fit the cycle. Official statistics are presented, comparing activity in the land market with national income and

total taxation, and with the equities market. Although some of the detail may be unfamiliar to non-Australian readers, the general pattern and timing of events are easily recognized in a worldwide context. The result is a compelling endorsement of the preceding analysis.

In his conclusion, the author appears to assume a prior knowledge among his readers of land-value taxation. While clearly advocating it, he does not elaborate on how the use of land rent as the prime source of public revenue would liberate productive enterprise from the burden of disincentive taxation while preventing the formation of the land price bubble which, upon bursting, precipitates economic collapse.

Extrapolating from his own graph, Kavanagh estimates the year 2003 as the bottom of the economic trough into which he suggests we are now sliding. If this is correct, incoming governments should beware; public misunderstanding of this subject is so profound that whoever holds political power at the time is likely to be held immediately responsible by the electorate.

JOHN DIGNEY

OUR FUTURE

The 22nd International Conference of

the International Union for the Taxation of Land Values and Free Trade

will be held at the Royal Albion Hotel, Brighton, England from 27th July to 3rd August 1997.

It is hoped that the programme will include workshops on methods of unifying and co-ordinating the worldwide movement, conducted by our President and leaders of the US and UK organisations, and sessions on:

- methods of valuing natural resources — currently the subject of serious research in Russia;
- our contribution to the UN via our membership as a non-governmental organisation;
- how we can unite with the activists and the ecologists of the world;
- progress in Russia.

Time will also be allowed for short papers from our members.

As 1997 is the centenary of the death of Henry George, it is intended to mark this by a memorial session.

IF YOU ARE NOT already a member, details of membership can be obtained from the General Secretary at
177 Vauxhall Bridge Road, London, SW1V 1EU.

THE PEOPLE'S BUDGET An Edwardian Tragedy

Geoffrey Lee

Henry George Foundation, 80pp, £6.00

GEOFFREY LEE is an experienced journalist as well as a thoughtful student of Henry George, and the combination bears fruit in this most readable and entertaining study. The book charts the course of the two attempts this century to introduce land value taxation as a permanent part of the United Kingdom's tax raising system.

As readers of *Land and Liberty* are only too aware, both attempts failed. Supporters of land taxation have been concerned to establish why ever since. This book sheds valuable light on the whole sorry history, and especially on the political and social backdrop to the tragedy.

Most of the book is devoted to the events surrounding the 1909 budget, which included a land tax element for the first time. As is well known, the legislation was poorly drafted, the land valuation programme was far too slow, and the tax was overtaken first by the Great War and then by post-war unemployment, which required more urgent measures. What is so fascinating is the political manoeuvring by the Conservative opposition, desperate to head off the tax proposals. We follow the plot through the correspondence between Arthur Balfour and Lord Lansdowne, exchanging tactics on damage limitation.

Later, the King gets drawn into the controversy over Lloyd George's threat to create a wave of Liberal peers to destroy the Conservatives' built-in majority in the House of Lords. We learn that the list of prospective Liberal peers ranged from Thomas Hardy to Lord Baden-Powell. These are key moments of British constitutional history, quite apart from being landmark events for Georgists,

and Geoffrey Lee brings them vividly to life. *Punch's* comments on the breathless press headlines of the day add to the flavour (for example: "Letting Loose Chaos" means "Allowing the country to be run for a few weeks by steady-going permanent officials instead of excited politicians".)

Each of the main protagonists - Lloyd George, Winston Churchill and Lord Lansdowne - is filled out for us in a biographical chapter. It is revealing, for instance, that Lloyd George "had a distinct personal prejudice against Tory landlords. As a poor Welsh village boy he knew about their power and had seen its effects on his community". Some of his most famous barbs were powered by this prejudice: "a fully equipped duke costs as much to keep up as two Dreadnoughts, and they are just as great a terror, and they last longer". But it seems as if this prejudice also made him less effective at promoting a workable land tax, a weakness which probably contributed to the failure of the tax as eventually drafted.

THE OTHER George in the story, Henry George, also gets a chapter to himself. It briefly tells his life story and explains his message, and it places him in the context of his time. It is familiar territory to Georgists, but freshly and accessibly described. For those of us who sometimes wish for a brief introduction to Henry George which will explain to friends and colleagues exactly why we think his system is the best unused idea this century, these fourteen pages may be the answer. Perhaps the Foundation might consider one day issuing this chapter as a separate pamphlet.

The coda to this lively history of

the 1909 budget tells the story of the decline in parliamentary interest in the land tax which continues to this day. The book describes the campaign by Andrew MacLaren and other Labour MPs which led to Philip Snowden's 1931 budget proposal for a penny-in-the-pound tax on the capital land value. The Bill received Royal Assent on June 31, but it was against a background of economic crisis. In the face of 22% unemployment and a serious deficit on the nation's accounts, the coalition National Government was brought in. Neville Chamberlain became Chancellor, immediately suspended the land valuation exercise and then shelved the land tax proposals altogether. (Andrew MacLaren maintained that it was an anti-land tax conspiracy which engineered the National Government. The facts behind this episode have yet to be unearthed.)

Geoffrey Lee concludes that "the hope for land taxers must lie in promoting their ideals to the general public and educating future politicians to appreciate the merits of such a tax". He describes the organisations which have taken up this challenge in the UK: the School of Economic Science, the Economic Study Association, and the Henry George Foundation. His final words are memorable:

"...the land value element in the 1909 budget which might have led to full land value taxation tragically failed to get off the ground. And nearly 90 years later we see that all other economic policies have failed. We have unemployment, we shall get inflation again, we have poverty, homelessness and their side effects - crime, drug-taking and the rapid creation of a violent underclass.

"There is a solution to all this. Henry George knew it and set it out in the terms of the 19th century. Ronald Burgess has said it in the 20th century. Do we have to wait until the 21st before truth and justice can be established in the economic system?"

HUGH VENABLES