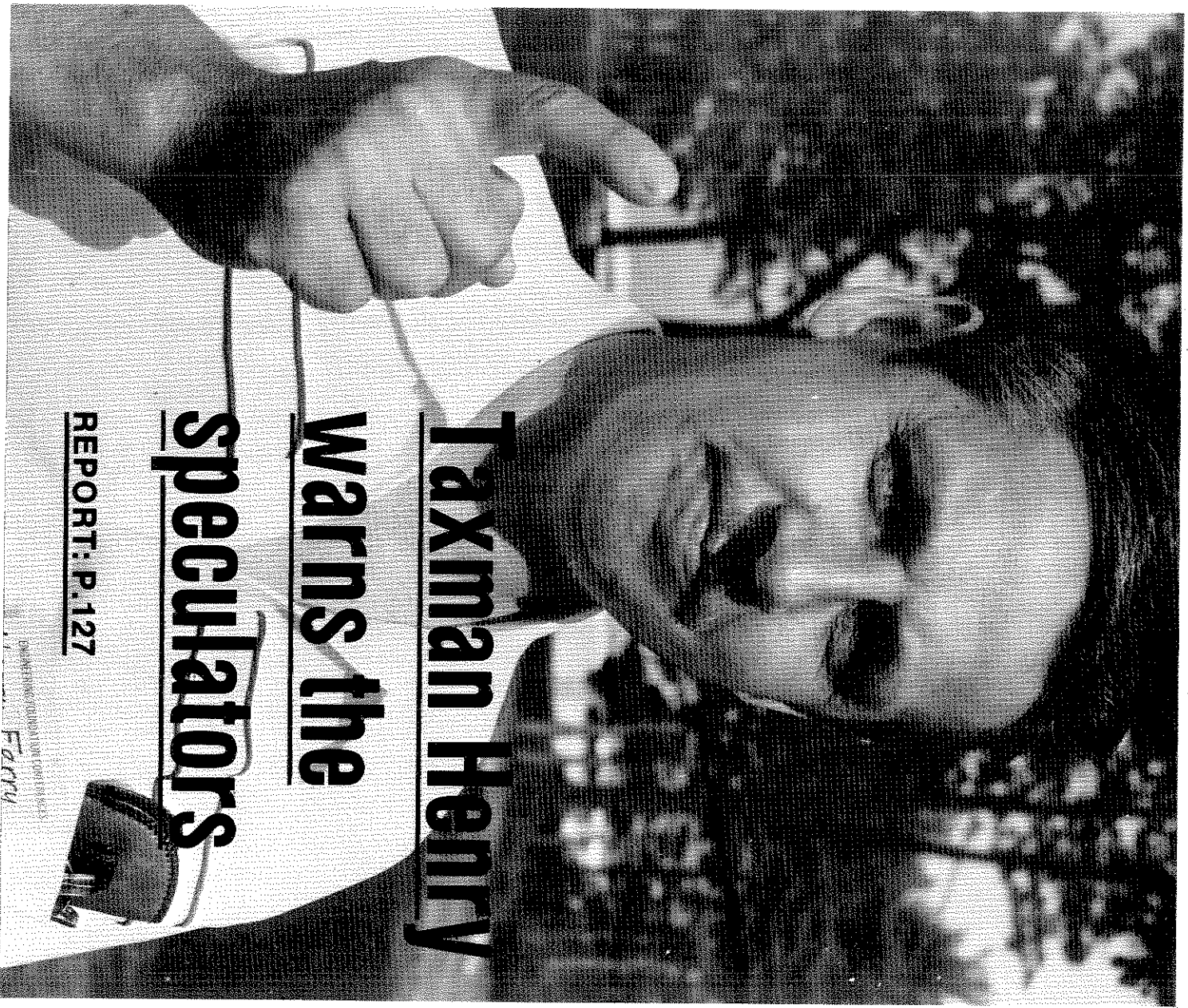


# LAND & LIBERTY

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## Taxman Henry warns the Speculators

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## TRADE or WAR?

● THE RECESSION has provoked an outcry for trade protection policies. The result – highlighted in a special *Land & Liberty* report – is added strains not only in East-West relations but within the Western alliance itself.

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## A STARK CHOICE

**L**AST SEPTEMBER, Milton Friedman, the monetarist's guru, predicted that the U.S. economy would probably recover in the final quarter of 1982.

He added: "On the whole I think we're poised right now for a recovery that will start in the next few months, and I am rather optimistic about the prospects for the next several years."

As he spoke, unemployment leapt to 11.3m (another 1.5m had given up looking for work, bringing the jobless rate to over 14 per cent). The total kept on climbing right through to the New Year.

Washington, in common with all the other capitals of the OECD countries, did not know what to do next. Self-fulfilling predictions have failed to do the trick, and the only consensus now available is that the industrialised countries of the West are doomed to an extended period of severe unemployment.

Psychological depression suffuses even the most optimistic of superficial commentators who, in the past, have delivered pat solutions with the sleight-of-hand of the card sharp.

The mid-term election defeat for Republican candidates did not persuade President Reagan to abandon his economic strategy. This is not surprising, because he cannot be expected to have confidence in any of the vague alternatives (if that they be) that are presented to him.

So the president comforted himself with the smallest straws in the wind. The White House declared: "The momentum for recovery is building, even if it is building slowly."

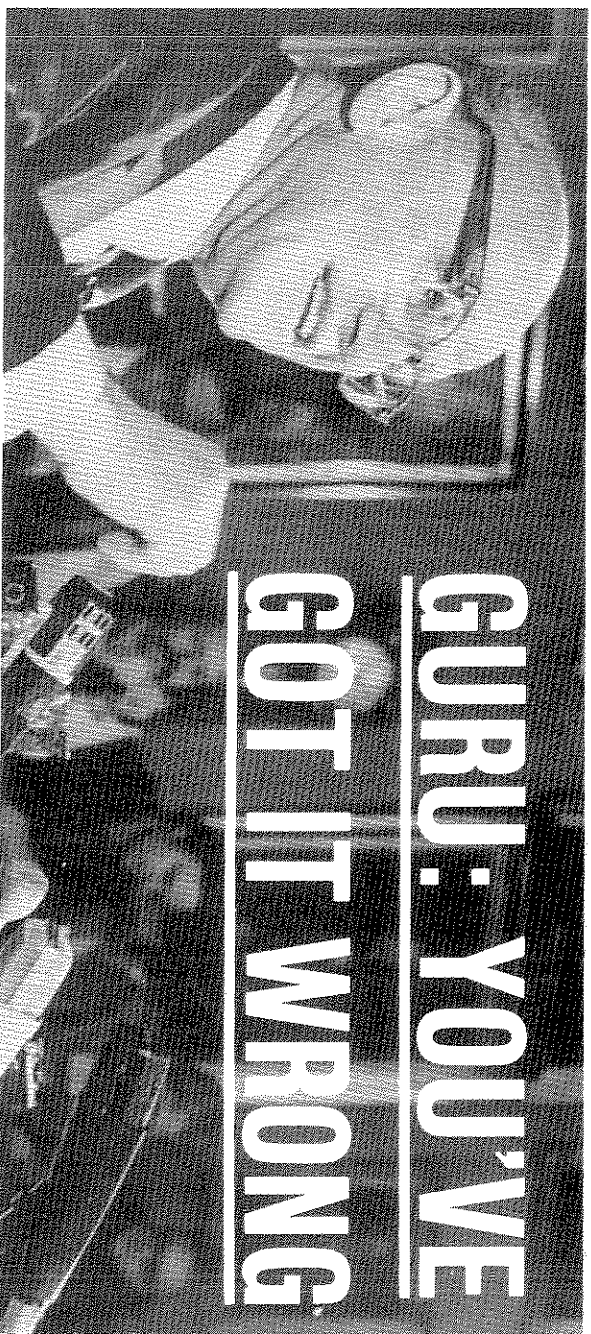
Building – though this is not what the White House meant – is at the source of the current recession. Until this is recognised, it will be impossible to construct a coherent set of policies to generate renewed economic activity.

**T**RENDS in the construction industry are crucial to any analysis of the business cycle.

Downturns in building activity precede general recessions by 12 to 24 months. And it can be shown that the supply and price of land is the major influence on trends in construction.

This has been the case in Britain during the past 15 years (see table).

● The leap in land prices in 1972 – the greatest speculative boom in the post-war years – was followed by a downturn in house building in 1973. This was a brake on general economic prosperity, and contributed significantly to the slump in 1974.



# GURU: YOU'VE GOT IT WRONG

● Milton Friedman argues the monetarist case

● Then, when the rise in the price of land faltered in 1975/6, house building revived; and so did the economy.

● But land prices made a remarkable recovery in 1978. This restricted the supply of realistically priced land to builders, and the industry crashed in 1980, a year before the collapse of the rest of the economy.

In the past decade, while a great deal of time has been spent on promoting spurious explanations for house building trends (such as movements in interest rates), not a single analytical word has been spilt by government ministers or their economists on the land question.

Until there is a profound change in the official perception of what causes recessions, there is no prospect of a rational plan for controlling our economic destiny.

## Analysis by FRED HARRISON

But what of the U.S. evidence? Does this sustain the thesis that the land market is the causal source of the current problems?

**T**ODAY, with factories working at 69 per cent of capacity, the rate of unemployment in the U.S. building industry (13 per cent when President Reagan took office) has climbed to over 22 per cent.

The recession officially started in July 1981. We have to show, therefore, that there was a boom in land values in 1979, which had a direct impact on the activity of the building

industry.

The 1925 land boom started in Florida. The latest boom originated in California, induced by the euphoria created by Proposition 13.

In 1978, the Jarvis-Gann initiative slashed local property taxes in half. The result of this was not to lower rents, but to raise them; not to lower the selling prices of homes but to raise them.

James Gipsen observed of home prices: "They rose briskly until Proposition 13 cut property taxes in 1978, and then they took off into the stratosphere. The price of an average home rose above \$100,000 as a speculative boom transformed homes from living quarters into speculative assets."<sup>2</sup>

The savings and loan associations poured money into the housing market (it was the land component of housing that was actually soaring in price).

Mortgage payments rose from 20 per cent to 40 per cent of family incomes (thus cutting purchases of consumer goods).

By the end of 1979, the supply and price of finance began to hit the house speculators. This did not deter the families and dealers, however; they began to lend money themselves (known as "creative financing").

House sales began to slow up. Prices ought to have weakened; they didn't. Fever-struck speculators have a special psychology that resists coming to terms with the fact that a bubble has burst. Christian Hill explained:

"These homeowners and builders

### HOUSE BUILDING CYCLES (private sector)

Great Britain, 1969-1982

	Land: Price per plot (1975 = 100)	Increase over previous year: %	Dwellings completed (000s)
1969	45	25	181.7
1970	49	10	170.3
1971	56	13	191.6
1972	94	68	196.5
1973	146	55	186.6
1974	145	nil	140.9
1975	100	-31	150.8
1976	100	nil	152.2
1977	106	5	140.8
1978	129	22	149.0
1979	168	18	140.4
1st half	202	20	126.6
2nd half	243	-2	113.0
1st half	238	2	55.3
2nd half	241	7	
1st half	257	4	
2nd half	268		

SOURCE: Department of the Environment

# Site value rates would stamp out this kind of vandalism

● IN THE UNITED STATES, Chester Rudnicki took a sledgehammer to his patio to knock \$50 off his property tax... a modest saving, but a symbolic act of defiance and destruction that highlights a serious problem.

● IN BRITAIN, industrialists are destroying millions of square feet of floorspace to escape having to pay rates, the local property tax that is levied on the value of both land and buildings.

The recession has brought 17.5m sq ft of vacant industrial floorspace on to the market.

According to King & Co., a leading London estate agency, industrialists are paying £60m rates on empty property in England and Wales, a burden that they can ill-afford in the face of near-zero profit.

But as the wave of destruction sweeps Britain, ● Industrial land is still fetching very high prices – £500,000 an acre in some areas;

● Entrepreneurs find it tough to secure premises, at reasonable rents, to open up new businesses. So the government is providing rent-free accommodation in an attempt to alleviate unemployment (see table).

In this article, BERT BROOKES analyses the phenomenon of "de-roofing" in one area, the industrial wasteland of the West Midlands, to show how a tax on capital improvements is a disincentive to wealth creation – and will delay recovery from the worst recession since the 1930s.

IT WAS a United States judge – one Chief Justice Marshall – who, as long ago as 1819, made that memorable remark that "the power to tax is the power to destroy."

Just what it was, in the case of McCulloch versus the State of Maryland, that prompted the judge to make such a profound observation may never be known.

*But the truth of what he said may be found in the histories of almost every country in the world.*

We have all heard of ill-considered taxes which have directly caused the destruction of the things that were intended to bring in the revenue.

● In Britain, we have had the window tax, and bricked-up windows can still be seen around the country to-day.

● In France, a tax on fireplaces led to a similar orgy of bricking-up.

● In the Middle East, a tax on date-palms resulted in the trees being chopped down and used for firewood.

● In South Africa, a tax on wheels led to the widespread use of sleds which tore up the earth and brought plenty of hard work for the people but little revenue to the Treasury.

But of course, some will say that these events are from the long, long ago, when the side-effects of bad taxes were still being painfully learned... nowadays, we know better... things are now very different.

*But are they?*

IN GREAT Britain today, taxation can still be lethal. A large number of valuable industrial buildings in the West Midlands, occupying millions of square feet, are under sentence of demolition. Buildings with plenty of life still left in them – and of considerable economic significance to the country – will soon be reduced to rubble.

The reason? Not erosion caused by the elements or a lack of funds for maintenance but the effects of a tax – in this case, the U.K.'s property tax, otherwise known as the rates.

It seems that, in the throes of recession and dwindling order-books, many industrialists are objecting to paying rates on buildings which they are having to keep empty and idle.

One way to avoid paying rates on a building – drastic though it may be – is to remove its roof, thus making the premises unusable. Now,

in desperation, industrialists have resorted to the "de-roofing" of vacant or redundant buildings to ease the burden of costs.

*Even more alarming is the fact that "de-roofing" is now being widely encouraged – regardless of the damaging impact on the nation's capital assets.*

Mr. John Young, the director of policy and planning at the London Stock Exchange, recently urged the Confederation of British Industry to follow the example set by Rubery Owen, one of the biggest engineering firms in the West Midlands.

This firm has saved £250,000 in rates by "de-roofing" one of its warehouses in Darlaston. The building covered 750,000 sq. ft.

Rubery Owen's chairman, Mr. John Owen, ordered this drastic action after the local authority, Walsall Council, refused to reduce the rates

## RENT FREE PERIODS GRANTED BY ENGLISH INDUSTRIAL ESTATES CORP.

Region	Number	Value (£'000)
North Eastern	70	834.7
North West	30	402.3
Yorkshire and Humberside	13	49.0
East Midlands	4	20.8
South West	10	152.8
Total	127	1,459.6

SOURCE: *Industry Act 1972*, London: HMSO, 1982, p.82.



## NEWS in BRIEF

### The Queen and the speculators



**Q** UREEN BEATRIX of the Netherlands is anxious about land speculation and inner city decay.

And during her recent State visit to Britain, she called on Ken Livingston, the left-wing leader of the Greater London Council, to find out how he was coping with the problem.

After a private session, Mr. Ilyd Harrington, the council's deputy leader, said: "She asked about land speculation and our measures against it, ethnic groups and the whole problem of economic intervention."

### Tax protest

**GEORGE CURTIS**, a farmworkers' union organiser for Lincolnshire, one of England's eastern counties, has been dismissed as a magistrate.

He refused to sit on the magistrates' bench in Bigg because he disagreed with enforcement proceedings against agricultural workers for non-payment of rates, the local property tax.

He protested that farmers who had previously paid the rates for tied cottages and deducted only part of the bill from tenants' wages were now making tenants pay the total rates bill.

Mr. Curtis believes the whole of the property tax should fall on the unimproved value of land.

### ARRESTED!

**KENYA'S** most outspoken M.P. is Koigi Wamwere, who has persistently tried to present radical solutions to his country's most controversial problem — land.

In his constituency, Nakuru, one farm accounts for almost half of all ranch land.

Mr. Wamwere's efforts, however, are not appreciated: he has been under arrest since August at a secret detention centre. His family are not allowed to visit him.

on the unused building.

Walsall Council's chief executive, Mr. Viv Asling, could say only this: "We are aware of what is going on and we understand the reasons for it."

But from removing roofs, it is only a short step to complete demolition.

If the situation worsens — and it, as seems likely, the West Midlands is typical of many areas of Britain — the economic consequences for industry, when the tide of recession changes, could be calamitous.

Capital that may be laboriously scraped together to provide new, modern equipment will have to be diverted — to build or restore factory buildings.

Indeed, the economic revival in the areas concerned could be significantly held back by the extra cost of getting new production under way. There seems no doubt that today's destruction of buildings represents a very serious loss to Britain's industrial potential.

**R**ATES in Great Britain are payable on the annual value of land and buildings taken together in their existing use. Vacant premises are rated at the local authority's discretion.

On vacant commercial properties, some authorities charge only 50 per cent of the full assessment, or even rent the levy altogether. Although West Midland councils generally charge at the 50 per cent rate, this, in the case of a valuable commercial building, is still a substantial overhead to any hard-pressed industrial concern.

Small wonder, then, that industrialists are being driven to take the desperate measures of de-roofing or demolition.

The present Conservative government is committed to a reform of the rating system insofar as it falls upon domestic properties. It apparently, has no plans to disturb the rating of commercial properties.

Evidence compiled by *The Times*<sup>1</sup> shows that a change for industry is urgently needed.

*At a time of unyielding recession, there could be no measure more beneficial to industry than to remove, once and for all, the burden of rates from buildings and other improvements.*

This would not only provide enormous relief to industrial concerns striving to remain afloat. The prospect of being free to erect new buildings, and to improve and extend existing ones without carrying the mill-stone of rates, would also inspire confidence and bring nearer the day of economic revival and the long-awaited resurgence of employment.

For an alternative source of revenue to replace industrial rates, Mrs. Thatcher and her Ministerial colleagues need look no further than the ground beneath their feet.

The rating of site values, besides bringing in the revenue, would bring more land on to the market and cause the price of land generally to fall. For British industry, it would be another shot in the arm: the perfect complement to the de-rating of its buildings.

No tax on land ever resulted in land being destroyed. The taxing of land values is one tax against which Chief Justice Marshall would have overruled every objection.

#### REFERENCE

1. Baron Phillips, "Void rating lifts the roof", *The Times*, 13.9.82.

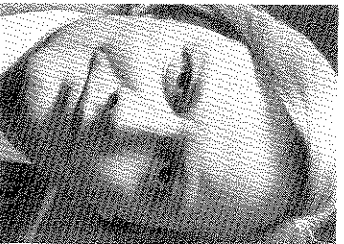
## 'Stop raising the roof'

**THE WAVE** of de-roofing has led a Tory M.P. to demand the de-rating of vacant factories and warehouses.

Mr. John Heddle says that a council's powers to levy void rates — the local property tax — should be abolished.

Since 1967, councils have had the power to charge 50% void rates on empty industrial buildings.

Mr. Heddle's constituency is Lichfield,



● John Heddle — the government should act, says the M.P.

whose local council is one of only two in the West Midlands known to give void rates relief.

Mr. Heddle, who is secretary of the Conservative Parliamentary Environment Committee, says that the loss of revenue could be made up from a property tax on government and crown property owned by statutory undertakings, such as regional water authorities.

**T**HE AMERICAN public is being cheated out of billions of dollars because of the government's failure to capture land values created by public investments.

"The cheating must stop," insists Mr. Gerry Milroy, a vice-president of the First National City Bank of Chicago, in an assessment of infrastructural needs in the United States.

"Trillions will be required to repair urban infrastructure. Suburbanites are shirking their responsibility for paying for the services they enjoy."

Mr. Milroy is calling for a national infrastructure plan that links construction projects, sewer development, airports and harbours and rail systems.

Such a plan is necessary to establish priorities, but funding it is a problem.

*Mr. Milroy argues that this should be done by capturing land values created by public investments.*

Fourteen states have passed enabling legislation for "tax increment financing". Under this system, construction is funded by the issue of municipal bonds, which are then paid off by increases in taxes on the value of improved property values.

Mr. Milroy insists that President Reagan's concept of New Federalism

# Stop cheating the U.S. public — tax reformer

By Ian Barron

— reducing federal interest in national development policies and public works programmes — was "an idea whose time has come and gone. We are one nation."

In the past, however, the general public has not reaped the benefit of their investments. "Lucky property owners located at transit centres and water distribution centres have received windfalls," Mr. Milroy points out. Their property values have risen, but these were not taxed away for social purposes.

*Mr. Milroy cites as an example the \$3.45 bn invested in the Washington mass transit system.*

A Congressional study conducted by Mr. Walter Rybeck found that this investment had increased land values by at least \$2 bn, little of which was being recaptured to finance the original investment.

"The time has passed for us to continue to lose these kinds of benefits," says Mr. Milroy. "The value that we are creating through this public investment must be captured."

A crisis has emerged that must be met.

- The nation's infrastructure, such as sewage and transportation systems, are rapidly decaying; and

- Congress is not passing legislation to allocate sufficient money to pay for the necessary reconstruction.

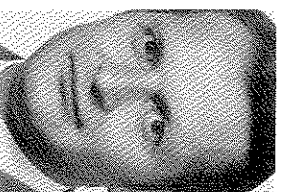
"There is a need to find a creative financing system. This is where funding out of new property values would be a perfect solution," says Mr. Milroy.

- Congress has passed a four-cents-a-gallon petrol tax that will yield \$33 bn over the next five years. This revenue, says President Reagan, will be spent on repairing the nation's roads, sewers, dams and canals. Four thousand miles of inter-state highways need immediate resurfacing; another 26,000 miles is crumbling fast.

## Justice Party hits snags in comeback bid



● Ib Christensen



● Niels Mølgaard



● Alfred Hansen

**P**OL SCHLÖTER's minority coalition government in Denmark has survived its first major test in the Folketing (Parliament).

Austerity measures have been pushed through designed to tackle huge fiscal and current-account deficits and steer the country away from bankruptcy.

But Mr. Schlöter, who as Prime Minister of a four-party non-Socialist government commands 66 seats out of 179, does not expect a long run before the next general election.

And one of the parties preparing to return to the Folketing is the Justice Party, which was routed at the last election when it lost its five seats.\*

However, the party — also known as the Single Tax Party — now finds its election campaign threatened by internal differences over fiscal policy. After an inquest which followed the electoral disaster, Ib Christensen

retained the party leadership, and he will now lead 100 candidates at the next election. Among them will be two of the five former members of the Folketing, Niels Mølgaard and Alfred Hansen.

But the party is not yet concentrating its efforts on the forthcoming campaign — because of uncertainty among three of its nine-man executive.

This "opposition" consists of people whom the party calls "pure single taxers living on day-dreams and over-looking the fact that the country is in recession", according to one senior party member.

They believe that the bill for Denmark's welfare programme and unemployment benefits should be paid in full by a tax on land values. But the majority of the party's leadership rejects this — hence the divisions within the party. Part of the "opposition" also

believes that the party should move away from a freely-exchangeable Danish Krone in favour of fixing the value of the currency to the German Mark. This has caused further irritation within the party because "they at the same time claim to be liberals going in for free trade", an executive member told *Land & Liberty*.

It is uncertain how long Mr. Schlöter will be able to retain power, but observers believe that a crisis election will come soon.

Because Denmark uses proportional representation, the Justice Party could play a part in establishing the next government. Whether it succeeds in doing so will depend largely on convincing the electorate that it is mobilised behind a realistic programme.

\*J. P. Skou, 'Single Taxers wiped out in unnecessary election', *Land & Liberty*, July-August 1982.

# Sharp-eyed Henry warns speculators to keep well away



**H**ENRY FERRY is a taxman with a difference: he would rather not collect a red cent of revenue.

At least, not under the Land Gains Tax, which he calls a "unique, one-shot tax."

But that is not an open invitation for land speculators to move in on Henry's patch and expect to escape paying dues under Vermont law, which he administers as Chief of Miscellaneous Taxes.

In fact, speculators would have a tough time trying to hoodwink Henry. "I am an accountant and I have to look with suspicion when someone declares a nil return on his taxes," he says.

The Land Gains Tax is an anti-speculator tax. Mr. Ferry would rather not collect under this law, because that would mean that the speculators had been successfully warned to stay out of town.

When it was first introduced in 1974, he was obliged to collect \$1.3m. That figure has now slumped to an annual \$980,000.

## CHURCH LAND

### HOUSING IS A PRIORITY

A REPORT by the Church of England's social policy committee questions the church's approach to the sale of its land.\*

Church-based housing associations, in particular, argue that socially-valuable projects should have the first claim to purchase church land. But the church's determination to sell to the highest bidder on the open market frequently means that land is diverted from these uses.

The committee, chaired by the Suffragan Bishop of St. Germans, the Rt. Rev. Brother Michael, wrote the report with an "underlying belief that the provision of an adequate supply of housing is fundamental to the well-being of society and that there must be a Christian concern to ensure that access to housing is given equitably to all."

*\*Housing And Homelessness: Social Policy Committee of the Board for Social Responsibility of the Church of England, CIO Publishing, £2.50.*

By JOHN GREEN

which suggests that the tax is having some effect.

It is a penalty on selling land within six years of purchase. The tax rates are shown in the table.

● If you sell land within a year of buying it, and make more than 200 per cent profit, then Mr. Ferry is obliged to take 60 per cent of the profits.

● If you hang on to the land for just over five years, and then sell for under 100 per cent profit, the tax-take is five per cent.

The tax was introduced because the governor was looking for a way of raising \$3.2m to fund tax abatements for old age pensioners.

"Real estate is a really powerful lobbying group," Mr. Ferry told *Land & Liberty*. "In Vermont, the sale of real estate is far the largest business."

"But the Land Gains Tax slipped through unnoticed into law during the end-of-session turmoil."

**V**ERMONT had a serious problem with speculators during the early 1970s, and this tax was supposed to frighten them off.

"The dream of many people from Boston and New York was to slip up to Vermont, grab a farm in transition, 200-300 acres, split it up into 10-acre lots and sell them off for \$200 to \$300 profit.

● Henry Ferry

"That type of activity has come to a screaming halt."

The out-of-state speculators are not in a hurry to tangle with Henry these days. Indeed, he proudly declares: "Even many Vermont speculators have taken their operations to New Hampshire and other states, because this law is like banging your head against the wall."

The tax rate falls to zero on profits made from land sold over six years after purchase. Doesn't this mean that speculators just hold on to the land for a longer period, instead of having a rapid turnover? "Speculation is a short-term activity," says Mr. Ferry.

Some speculators tried to avoid the tax by selling part of their land for sums that fell short of the original purchase price. This was the kind of ruse they tried:

Buy a piece of land for \$100,000, then sub-divide it into small lots. Sell five of these lots for \$15,000 each, bringing in \$75,000 — well below the original purchase price.

Henry, however, has a tape measure and pocket calculator. He works out that the original piece of land can be sub-divided into ten saleable lots, each of which was therefore bought for an average of \$10,000 by the speculator.

So the profit made on the sub-divided land was \$5,000 per lot. And if that profit was made within six years of purchase, Henry Ferry arrived on the doorstep with his hands palm up!

Speculators — BEWARE!

VERMONT LAND GAINS TAX				
Holding period: Years	0 — 99	Profit: Per cent 100 — 199	200 +	Revenue \$1,000
0-1	30	45.0	60	1978 748
1-2	25	37.5	50	1979 888
2-3	20	30.0	40	1980 913
3-4	15	22.5	30	1981 1253
4-5	10	15.0	20	1982 986
5-6	5	7.5	10	

# Land taxers fight on!

**L**AND taxers are hoping that it will be "third time lucky" when the Missouri state legislature is next invited to change the structure of the property tax.

A strong demand has emerged for a reform that shifts the tax on to land values — relieving the fiscal burden on buildings, which deters investment.

A bid to alter the law was made in June 1981. Walter Mueller (Republican) introduced a constitutional amendment to permit the differential taxation of land and improvements on land.

He was defeated by 56 votes to 92, but he was encouraged by the support he won. He fought on, and in December 1981, he was joined by the 37-year-old Democratic majority leader, Tom Villa.

This bi-partisan effort nearly succeeded: their proposal, tacked on to a Budget Committee bill in the form of an amendment, came before the legislature last year. It was defeated — but only just — by 74 votes to 78.

*Missouri property taxation has fallen into a mess over the years.*

A recent court decision, which ordered uniform assessments of property values, would have pushed up tax bills for home and farm property owners by up to four or five times. This alarmed the legislators, who decided to find a formula that prevented people from suffering a huge jump in their taxes.

A state constitutional amendment was drawn up to allow the division of property into three classes: business, residential and agricultural which could be taxed at different rates.

This was designed to ensure the continuation of the present practice of taxing businesses at rates higher than for residential properties.

Missouri's 120,000 farms, worth \$27 bn. in 1980, are taxed at the



● Walter Mueller

lowest rate of all: an average of \$2.90 per acre.

The new formula for the residential property tax is a tortuous one, and Walter Mueller told his constituents recently: "There MUST be a better way and I believe there is! It is called 'Site Value Tax'."



● Tom Villa

● Forested lands are assessed at \$6 an acre, regardless of market value.

● Property that is declared blighted can be developed with the benefit of tax abatements.

In St. Louis, for example, skyscrapers have been built with the advantage of being tax-free for ten years.

Tax abatement has disturbed some people, according to Mr. Allan L. Lubin, President of the St. Louis-based Public Revenue Education Council.

He told *Land & Liberty*: "Critics have pointed out that only large, influential developers have been able to avail themselves of this, which requires a certain amount of co-operation between governmental authorities and the developer."

"But this exemption has proved effective in getting new buildings erected. The effectiveness of the tax-abatement on buildings is a strong point in favour of site value taxation, which reduces or eliminates the tax on buildings for all properties, not just a selected few."

As from next year, all properties in Missouri must be reassessed at one-third their market values. This will generate a great deal of public interest, and offer opportunities for further reforms.

Legislators are hoping that they will succeed in bringing their state into line with the laws of cities such as Pittsburgh, which permit a differential tax on land and buildings.

## BUILDERS BACK SECRET ELECTION FUND

**SIR HORACE** Cutler, the former Tory leader on the Greater London Council, raised £22,000 for a political fighting fund.

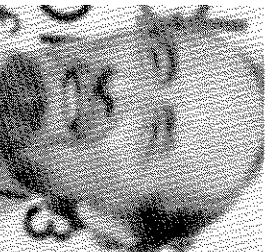
And when existence of the fund was revealed, Sir Horace confirmed that big construction firms contributed money

after he promised that — if the Conservatives were elected — he would do his best to hold down or reduce the property

tax.

The money was raised to help the Tories in London win power in 1977, but few people knew about the fund — not even Sir Horace's closest associates. Why?

"There are some of my colleagues at County Hall who have venal diarrhoea. They just go off into the bar, yappy, yappy, yappy," explained Sir Horace, pictured right.





# Reagan's adviser and the land tax

CONSIDER these words, taken from a paper by none other than President Reagan's chief economic adviser, Prof. Martin Feldstein.

"One of the reasons that economists have long been interested in the tax on pure rental income is that it is tax without an excess burden. Because the owners of land cannot alter the supply of land, the tax introduces no distortions and therefore no welfare loss."

Shorn of the jargon, this statement asserts that the land value tax — unlike other taxes — does not interfere in the processes by which wealth is produced. Other taxes alter the proportions in which the factors of production are brought together.

A tax on steel, for example, causes other materials to be substituted for steel in applications where steel would be the most efficient choice. Factor proportions are distorted, efficiency suffers and output falls.

Taxes other than land-value taxes thus impose a burden on production. More generally, they reduce welfare in the sense of making people feel less well off. This happens because people alter the pattern of their purchases away from the pattern which gives them most satisfaction.

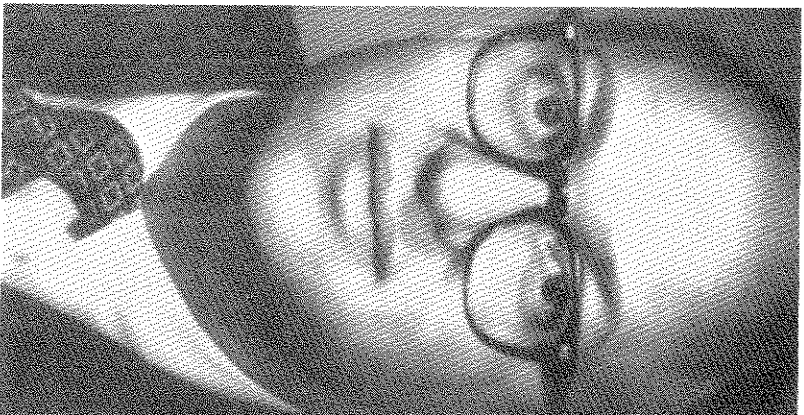
But the main message of Prof. Feldstein's paper\* is that economists have been wrong in supposing that a tax on land values cannot be passed on. Since this is an attack on a proposition which has never before been seriously questioned, it has attracted a good deal of attention among those interested in the subject.

*But it is important to be clear about what Prof. Feldstein is, and is not, saying.*

What *is* being attacked is the contention that the income from land ownership will be reduced by precisely the amount of a land value tax and that land prices will therefore fall by precisely the capitalised value of the tax.

Prof. Feldstein makes an assumption which is crucial to his analysis... that those who acquire land do so for the purpose of disposing of it later, to provide for their old age.

If the land value tax reduces the value of land, a larger proportion of the desired wealth must be accum-



● Prof. Martin Feldstein

## Report by PAULA JAMES

mulated in the form of capital. The capital stock is therefore increased, which raises the marginal productivity of land and therefore increases land rent. This increase in the amount of capital reduces interest rates and if land is not to become more attractive to hold than capital at the reduced interest rate, its price must rise. These effects offset the fall in land prices which result from the imposition of the tax.

WHAT is *not* in question is the statement quoted at the beginning of this article. To quote from Prof. Feldstein's conclusions:

"The conclusion of no excess burden is unaltered... the tax induces no distortions and no welfare loss."

Thus, what the paper is concerned

with is the possibility of a once-for-all price movement which would favour the existing generation of landowners and partially (or, possibly, fully) offset the loss which they would otherwise suffer as a result of a land value tax.

Even if this did happen, the beneficial effects upon the economy as a whole would not be lost; only the initial distribution of these benefits as between landowners and others would be affected. This is tantamount to saying that, contrary to the accepted view, the existing generation of landowners *would* be able to pass on some of the land value tax.

Whether this effect would happen at all depends upon whether Prof. Feldstein's hypothesis — about the way in which people manage portfolios of assets — is borne out in practice.

It is a hypothesis which has often been adopted for other purposes, but it is not an established fact. And in order to make it possible that all of the tax is passed on, it is necessary also to assume that savings rise strongly in response to a fall in interest rates.

No evidence is offered to suggest that this is likely.

The paper also discusses the incidence of a land value tax in the short run, but this is of less interest.

It is a commonplace that changes in the market's view concerning the riskiness of holding land and in particular, of the prospects of increases in the rate of a land value tax, are likely to have an influence upon land prices, and that windfall gains and losses will therefore occur. In practice, the mode of introduction of the tax would require careful planning.

*Nonetheless, the land value tax retains its status as the ideal form of taxation.*

After more than a century of governments' failure to act upon this fact, the theoretical possibility that the initial distributional effects might not be precisely as has generally been assumed should not cause too much concern!

\*Martin Feldstein, 'The Surprising Incidence of a Tax on Pure Rent', *Journal of Political Economy*, Vol. 85, No. 2, April 1977.

## 'LAND VALUE TAX — THE IDEAL FORM OF TAXATION'

## WOULD JAPAN EVER

**T**WO YEARS ago, the British Prime Minister, Margaret Thatcher, foreshadowed the trade/war nexus when she identified the munitions industry as a promising source of new jobs in the 1980s.

The defence budget was doubled from £7½ bn in 1978/9 to over £14 bn in 1982. By 1990, defence expenditure is predicted to rise by up to 50 per cent, while spending on welfare services are cut.

In the U.S., President Reagan followed suit. His 1983 budget set a record peacetime target increase in

defence expenditure of \$43.7 bn over the 1982 figure.

But the most overt threat to peace came from Moscow last October, when Soviet President Leonid Brezhnev – in a review of détente – declared:

“A policy is only effective when it relies on the real *economic* and military strength of a state...”

The Soviet leader was lending his weight to the hypothesis that a weak economy created political instability that could find its solution in a military response.

President Brezhnev spotlighted the economic weaknesses of the USSR, and especially the dependence on imported food. And he specifically addressed the Soviet war machine when he promised that much more would be spent on military technology.

To release the resources for the new arms race (which could not be secured through higher growth rates), the Soviet Union has begun to court Peking – with the ultimate aim of reducing the 500,000 men and the arsenal of weapons that are kept on the Mongolian border.

Moscow is sensitive to the fact that, for the time being, it relies heavily on the U.S. farmer for grain imports. In a situation of conflict, this is a strategic weakness.

Inter-dependence through economic associations ought to ensure political stability between these two powerful countries, but President Reagan weakened that link when he launched his private crusade against the communists. His economic offensive – including the attempt to block the trans-national gas pipeline – angered the Kremlin, and raised the spectre of conflict.

Moscow, of course, blames Washington for the heightened tensions: “The ruling circles of the U.S. have launched a political, ideological and economic offensive against socialism and have raised the level of their military preparations to an unprecedented level,” declared Brezhnev.

*But there is no doubt that militarism serves the totalitarian regime well, since it can be used to cover up the deficiencies in an economic system that fails to satisfy consumers.*

An inquiry  
by INSITE

**J**APAN provides the most convincing evidence that the recession is generating aggression, canalised through fundamental shifts in underlying psycho-social attitudes.

For while the great nuclear powers have regularly employed bellicose rhetoric, Japan – since her defeat in the last world war – has been a military mute.

*That now appears to be changing.*

Japan's unemployment rate is about 4 per cent (when calculated by using the U.S. definition of unemployment). This is a third of the level of her international competitors. Even so, it is the highest jobless rate for 26 years, with the construction industry leading the field (down 4.3 per cent from a year ago).

Measures of the growth of the economy are being drastically revised downwards, and the economic indices seem to reflect a story that can be chronicled in sociological and political terms.

● The Defence Agency's 1981 White Paper contained repeated calls for greater “patriotism”. This was in a year when the real growth rate slumped from record levels down to 2.8 per cent.

The 1982 White Paper outlined proposals for a five-year plan that entailed expenditure of £10 bn on military hardware. It stressed the need to develop the growing domestic defence industry “to bolster Japan's capability and to make it truly effective in the event of emergency.”

Beginning this year, Japan will add six submarines, 43 warships, 250 airplanes and 1,000 tanks and armoured cars to her arsenal.

● Politicians have expressed strong support for the new right-wing nationalism.

The man who won the recent contest for the premiership, Yasuhiro Nakasone, has advocated that Japan

**THE LINKS** between trade and war have become disturbingly clear in recent months. With the world suffering the third year of a deep recession, there are growing pressures on governments – faced with bankruptcies and record unemployment – to resort to protectionist measures.

● Witness relations between East and West: the late Soviet President Leonid Brezhnev's last act was to lambast the “imperialist hothbeds” of the West in response to President Reagan's economic sanctions against the Kremlin.

● Witness, too, strains within the Western alliance. Japan's trade policy is branded “hostile” towards other nations and the United States and Europe fight over the balance of trade in steel.

In the run-up to November's Geneva summit of GATT, the General Agreement on Tariffs and Trade, Britain's Foreign Secretary, Francis Pym, reflected grimly: “We have to face up to the reality that an unstable world could eventually endanger these democratic institutions which we and our friends value so highly.”

In the following pages, *Land & Liberty* writers assess the evidence linking harsh economic conditions with the kind of political instability that triggers wars.

# STIGATES A STARK CHOICE

# TURN ON THE WEST?



Hirohito and Prime Minister Margaret Thatcher – they don't see eye to eye

should arm herself with nuclear weapons.

One of his challengers, Chiro Nakagawa, head of the Science and Technology Agency, made no secret of the fact that he stood on the far right of the ruling Liberal Democratic Party. "Call me a fascist if you wish," he once said, "but I believe we have to fight the Opposition parties on the broad educational issue, which includes questions about the Japanese ethos and national morality."

A seasoned Western correspondent in Tokyo noted: "To many Japanese this sounds ominously like the ideology of the Thirties and the agony that ended at Hiroshima."

● Education does, indeed, figure in the new ideological struggle, and the attempt to sanitize military history caused a diplomatic row last year. For example, school history books were amended so that "aggression" – used to describe pre-war Japanese activities in China and Korea – gave way to "advance".

**P**RESSURE on Japan intensified throughout 1982, as European nations launched a vigorous campaign that threatened to introduce protectionism in defence of their industries.

Japan relies very heavily on world trade for her prosperity (as does Britain, which exports 30 per cent of her GDP). Restraints on commerce would have fatal consequences. Already, the democratic basis of Japan's post-war system is coming under serious strain from the most dangerous quarter of all: the ordinary citizens.

Frank Giles, editor of the London *Sunday Times*, has posed an alarming prospect:

"... there is one worst-case scenario, which if it ever came about, would strike justifiable fear into neighbours and non-neighbours alike. There is already a good deal of public cynicism and indifference towards the political system. If the economic pessimists are right, if the Japanese miracle is over, if budget deficits, unemployment and declining exports really should pave the way to financial and social instability, then the homogenous masses whom one sees milling about the streets of Tokyo and Kyoto, or huddled together in their crowded and confined houses and apartments, would be a remarkably easy target for some demagogue to manipulate."<sup>2</sup>

**W**ESTERN leaders have not yet questioned the new nationalism in Japan.

There was nothing but sweet talk when Mrs. Thatcher paid her visit to Emperor Hirohito, 81, who was the

Supreme Commander of the imperial army and navy when it launched itself into the Second World War.

These days, Hirohito emphasises the futility of war, but his nation is coming under severe pressure from an unlikely quarter: Washington.

U.S. policy is aimed at pressing Tokyo into spending more money on military equipment, so that Japan can play a larger part in the defence of the region.

But according to the 1946 Constitution, Japan is forbidden to maintain land, sea and air forces. The pressure from American allies, however, will eventually enable her to rewrite the Constitution.

There would be little opposition to such a move from within Japan. Industrialists, in particular, are even now urging the government to spend more on armaments, for they "remember the boost that government money for armaments gave to industry in the '30s," reports economist Michio Morishima.<sup>3</sup>

America is insisting that the increased spending should go to the U.S. munitions industry. But few people in Tokyo doubt that, at the end of a relatively short period (five years?), there will be an irresistible clamour for a growth in the domestic munitions industry.

The next step would be for Japan to launch herself into a new export drive. Who doubts that she would forcibly take the lead in this field, as she has done with cars and electronic gadgets?

The world economy was heading for severe depressions just before the onset of both of the last world wars. Increased military spending rescued the economies of Japan and Britain, but a heavy price was paid in human lives. Will we be able to resist the temptation to repeat the mistake today?

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# TRADE or WAR

THE PROSPECTS for recovery from the world recession depend more than anything else upon a revival of world trade. But it is the advocates of trade restrictions who now seem to dominate trade policy.

Their lobbying is so effective that even those politicians who are the most vociferous about the merits of competition in domestic affairs are silent or equivocal about trade liberalisation.

The change in influential opinion which has occurred over the past ten to fifteen years can now be seen as constituting a major threat to world prosperity.

A market economist surveying the scene in the late 1960s could have justified a certain feeling of complacency. The lessons of the protectionist 1930s seemed to have been learned, and although many trade restrictions remained, they were progressively being dismantled by international agreements epitomised by the Kennedy round of tariff cuts in the Sixties.

*The pace of change may have been slow but at least it was in the right direction (see table).*

Helped by greater openness, world trade was growing much faster than world output (by 7 per cent a year in the 25 years to 1973 compared with a 5 per cent a year growth of world production) and could be seen as an important contribution to economic growth.

Such barriers as remained were being overleaped by the setting up of overseas subsidiaries of what came to be known as 'multi-national corporations'. Capital and technology as well as goods and services were moving around the world with greater freedom than ever before.

As a major trading nation, Britain was an important beneficiary of these developments, but it lost its position as one of the world's largest exporters of manufactured goods.

In 1950 the U.K. and the U.S. each had about a one-quarter share in the value of world exports of manufacturers. By 1973, the U.K. share had fallen to 9½ per cent and the U.S. share to 16 per cent, while West Germany's share had grown from 7 per cent to 13 per cent and Japan's from 3 per cent to 13 per cent. Over the same period, there was a large increase in the proportion of U.K. imports accounted for by manufactured goods. Since 1973, the U.K. share of manufactured exports has remained about constant, but manufactured imports have continued to rise (the share of imported cars in total registrations rose from 14 per cent in 1970 to 57 per cent in 1980, to take a particularly dramatic example).

## PROTECTION — A REAL DANGER

These developments brought about a change in the structure of the U.K. economy which came to be referred to as 'de-industrialisation'.

Manufacturing employment fell by over 3 million between 1966 and 1981 — a reduction of about one-third. In some industries, such as textiles and ship-building, this was the continuation of a long-established trend, but in many others, it was a decline from a peak occurring in the mid-1960s. Very few industries escaped. Some of this decline in employment was due to the recession and some of it was offset by an increase in employment outside manufacturing. But the remainder has contributed to the present high level of unemployment.

*The fear of growing de-industrialisation has been a major factor behind the growth of quantitative import restrictions which have occurred over the past ten years.*

By PAUL KNIGHT

In addition to the protection of the common E.E.C. external tariff, a wide range of U.K. imports are now subject to such restrictions. About one-third of all imports from Japan are covered by what are termed 'voluntary restraint agreements' covering cars, pottery, cutlery, TV sets and hi-fi equipment. Over 95 per cent of imports of clothing and textiles from low-cost sources are subject to various forms of restraint. There are restrictions on footwear imports from Taiwan, South Korea and Eastern Europe. Inter-industry agreements cover a wide range of consumer electronic products from Singapore, South Korea and Taiwan.

The proportion of our trade which is covered by import restrictions other than tariffs rose from 0.2 per cent in 1974 to 17.4 per cent in 1980.<sup>1</sup>

THE U.K. has by no means been alone in imposing such restrictions, and trade restrictions of other types have been developed here and elsewhere.

Bilateral (or barrier) deals between governments have become an increasingly common feature of trade between the more regulated economies. Financial incentives have been used increasingly to induce multi-national companies to set up local factories to substitute for imports. And non-tariff barriers created out of administrative regulations have become increasingly common.

These developments have drastically confined the scope for the normal conduct of international trade. It has been estimated<sup>2</sup> that a quarter of all trade in goods is now subject to quota or 'voluntary restraint' arrangements, another quarter is conducted by barrier, and a third quarter constitutes the internal transactions of multi-national companies.

The ideal of free trade, which had been widely envisaged as the ultimate goal in the 1960s, now seems so remote that the term itself has dropped out of use because it sounds too utopian to be considered by practical men.

Thus, in the course of a mere fifteen years, we have seen a change in the climate of (negotiated) trade liberalisation, to one in which the proliferation of trade restrictions is regarded as inevitable or even desirable.

*How has this change come about?*

The traditional fallacy of composition encapsulated in the phrase 'what's good for General Motors is good for the United States' is partly responsible. But more sophisticated arguments have also played their part.

One such argument, which is framed in terms which are specific to the U.K., runs roughly as follows:<sup>3</sup>

Suppose that a 1 per cent growth in U.K. incomes leads to a 2 per cent growth in U.K. imports, but a 1 per cent growth in world incomes leads to only 1 per cent growth in U.K. exports. Then — since imports cannot indefinitely grow faster than exports — the U.K. economy can only grow at a half of the rate of the rest of the world. Moreover, there will always be 'stop-go' budgetary action because governments will be forced by balance-of-payments crises to rein back upon the economy (eg. by increasing taxation) whenever it tries to grow too fast.

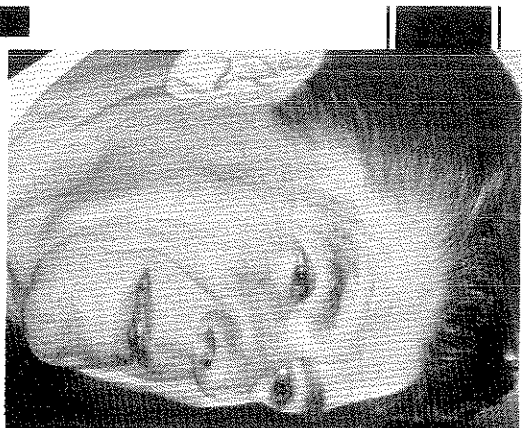
A supporting argument is that the restrictions upon growth which this scenario implies puts U.K. manufacturers at a disadvantage compared with their overseas competitors by depriving them of the economies of large-scale production and making investment and innovation less rewarding. This aggravates the problem by making domestic firms less and less able to compete in international markets.

Effective Protection Rates, per cent:

	Before the Kennedy Round:	After the Kennedy Round:
U.K.	27.8	16.0
U.S.	20.0	11.6
E.E.C.	18.6	11.1
All developed countries	19.2	11.1

(Britain's entry into the E.E.C. was later to bring its effective protection rate more into line with other countries).





# 'Free trade serves the cause of world peace. When governments get too involved in trade, political disputes multiply. Peace is threatened'

PRESIDENT REAGAN

The Cambridge Economic Policy Group (CEPG) of the University of Cambridge Department of Applied Economics have demonstrated that, on past experience, the U.K.'s import and export relationships are indeed broadly as hypothesised above, and they have incorporated their findings in a forecasting model. Without import controls, this model forecasts an indefinite increase in unemployment to 5 millions and beyond.<sup>4</sup>

The CEPG theory has been criticised on several grounds,<sup>5</sup> some of them technical (e.g. that its statistical analysis is biased by the effects of adjustment to the Kennedy Round and E.E.C. membership) and some of them political (e.g. that retaliation would nullify the benefits of import controls). But its fundamental weakness lies deeper. It can be illustrated by the story of the Luton straw hat industry.

Luton, a town just north of London, was once a world centre of the straw hat industry. It contained a concentration of the necessary plant, machinery and people with the appropriate skills. For many years it was successful and prosperous; but the time came when straw hats went out of fashion. Factories closed, unemployment soared, and it did not occur to the government of the day to step in with tariffs or subsidies.

As demand for straw hats fell, however, the demand for other products was rising; in due course, Luton acquired the equipment, and its people acquired the skills, to supply them. Prosperity returned and unemployment subsided.

THIS (highly formalised) story of Luton is one of market change and industrial adaptation. Market change can take many forms. Sometimes it is abrupt, sometimes gradual; it is due sometimes to a change of taste, sometimes to the emergence of a well-placed competitor. And successful adaptation can also take a variety of forms. Sometimes it can be achieved by changes of technology or working practices, or by pay restraint. But often it can be achieved only by structural change, by the replacement of existing products by new ones, or possibly the replacement of existing firms or industries by new ones.

Economists are apt to assume that the only way in which an excess of supply over demand can be corrected is by a reduction in prices. In the simplified models which appear in text books, this may be true. But in the real world,

structural change is an important mechanism of adjustment, especially in an economy which is strongly dependent upon international trade.

Structural change can be painful, however.

It takes time for obsolescent productive capacity to be replaced, and during that time, it can give rise to unemployment. If there is a concentration of declining industries in particular areas – as has been the case in Clydeside in Scotland, for example – serious local unemployment problems may arise.

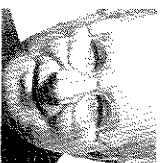
Nationally, this is a problem of adaptation which is essentially transitional. But if the pace of adaptation lags persistently behind the pace of change, the resulting unemployment may persist or increase.

Viewed from the standpoint of a particular industry or a particular locality, the case for subsidies or protection to resist the effects of market changes can be extremely persuasive. And if those affected are sufficiently well-organised, they may exert considerable political pressure (think of the French farmers).

But from the standpoint of national economic policy, a sustained resistance to change would obviously be disastrous.

The idea of preserving the Luton straw hat industry over the years is, in retro-

## BRITAIN'S WARNING



BRITAIN'S Trade Minister, Mr. Peter Rees, who led his country's delegation to November's Geneva meeting of G.A.T.T., the General Agreement on Tariffs and Trade, has issued this stark warning:

"It is crucial that we should defuse the political tensions which have been growing throughout the recession between the world's major trading powers.

"There can be little doubt that the liberal trading order has come closer to breakdown in recent months than at any time since the war.

"The tensions over the growing imbalance between Japan and virtually all her Western trading partners, and the increasing wrangling over agricultural surpluses, all threaten the kind of breakdown in trade relations which previous historical experience had seemed to make unthinkable."

spect, too ludicrous to be taken seriously. But the more sophisticated advocates of import controls argue that they need only be temporary – that firms would respond to an assumed domestic market by investing and modernising, and that this, together with the economies of scale, would restore their international competitiveness, rendering the controls unnecessary.

This is a paradoxical proposition, which amounts to claiming that the way to make industry competitive is to shield it from competition. There is no convincing evidence to support it. Its attraction seems to stem more from a mood of despair – "everything else has been tried" – than from any rational analysis. But the influence of the advocates of this counsel of despair, combined with that of special interest pressure groups, is on the increase.

Britain's trade unions and managements alike are pressing for more import controls.<sup>6</sup> The fact that such controls are likely to put upward pressure on the exchange rate, so that help to one sector of industry is paid for by damage to other sectors, seems to be lost on them.

Thus the threat to the world economy continues to grow. The restraining framework of GATT (the General Agreement on Tariffs and Trade) is crumbling as devices to avoid or evade its provisions become commonplace. GATT Ministers – faced with the choice of attempting to regulate, and thus condone, such evasions or of turning a blind eye – were never expected to do anything effective to stop the rot.

Unless public opinion is alerted to the danger, the governments of the free world may collectively kick the ball in their own goal, and thus fulfil Karl Marx's prophecy that capitalism contains the seeds of its own destruction.

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# The Genesis of War

**M**ODERN thinkers of the most disparate opinions have left us in no doubt at all about the importance of economic considerations in the origins of wars. Indeed, it is tempting to see the genesis of war in *exclusively* economic terms.

But a study of the run-up to the Second World War illustrates something of the subtleties and complexities involved in any analysis of causes of war.

The peace settlement following the First World War was churned out in stages from Versailles in 1919 to Lausanne in 1923. The peacemakers were very far from being free agents.

Winston Churchill had predicted long before that the wars of peoples would be far more terrible than the wars of kings. Passions of hate and idealism had been stirred to their depths everywhere.

Wherever ethnic minorities existed, every effort was made by enemy countries to stimulate subversion and disaffection. A great many cheques – and Czechs – were presented at the peace conferences. Frontiers were drawn with mixed considerations in mind: ethnic, economic, strategic and historical, plus the overriding rule: "Woe to the vanquished!"

All of these considerations prescribed different frontiers, and there was hardly a mile of frontier defined anywhere which could not be challenged on at least one of these counts.

The peace treaties did more than define frontiers. They required reparations from the defeated enemy; they limited his armaments to a drastic extent; they made special arrangements for his colonies or dependent territories, and so on. In all these matters, the statesmen were subject to intense domestic pressures. More than half the M.P.s in the British House of Commons signed a telegram to Prime Minister Lloyd George urging him, in effect, to make a tough peace. It takes no imagination to perceive that the pressures in (say) France were even stronger.

**A**S PASSIONS began to cool, economics began to take over. The new quasi-national states created after the war acted rather as the pre-1914 states had mostly acted – they tried to make themselves economically self-sufficient by the apparatus of trade restrictions.

An interest desiring a protective tariff was usually better organised, and therefore better able to secure the ear of its government, than were the great numbers of people who stood to lose by that tariff.

Once a trade restriction was established, powerful and often disparate interests both of capital and labour grew up behind it. People feared, often correctly, that their livelihood would be destroyed if that tariff were removed.

The position, however, was a good deal worse than it had been before 1914 for there were a great many more states, and the peoples of most of those states felt more or less xenophobic nationalism towards their neighbours. Those who had fought on the German side had a deep sense of grievance; those who had fought on the Allied side had considerable fears of their neighbours' grievances. Italy contrived to feel both sentiments at once.

These sentiments, which chimed in so well with economic nationalism, were not peculiar to the Great Powers, but applied to quite small states as well. Hungary, for example, had lost territory to every one of her neighbours; Romania, by contrast, had gained territory from most of hers.

Despite the upsurge of technology, international trade stagnated. Then came the Wall Street Crash of October 1929, and the Great Depression which followed.

In the United States, unemployment was soaring even before the end of 1929. In Britain, the impact came at the start of 1930; for practically every month of that year, unemployment was not only up on the preceding month, but also showed a widening gap from the previous year.

In Germany, where unemployment was worse than in Britain, living standards, even of people who kept their jobs, began to fall. With the Slump came the great impetus to the Nazis. In the 1928 General Election, they held only a dozen seats; in 1930, they won 107.

By ROY DOUGLAS

Meanwhile, the Depression was exerting a "feedback" effect upon itself. The Republican majorities in the United States had been pledged to tariff revision; but what actually happened was sharper than anyone had anticipated. The "Smoot-Hawley" tariffs grew larger and larger as they passed through Congress, for interests who feared external competition joined together in "log-rolling" exercises. "Support my tariff on widgets, and I shall support your tariff on reciprocating sprogs!" Apologists for President Hoover have argued that the Bill which he eventually signed was not really as drastic as legend suggests.

Be that as it may, the message rang through the world that America had taken a great stride towards protection, and there was a great rush by others to follow.

**I**N BRITAIN, there was a deep and involved struggle both between and within the three political parties – largely, but by no means exclusively, on the tariff issue. The question ran on from 1930, and was not even partially clarified until the National Government imposed general tariffs in 1932.

As with the United States, what mattered was not so much what happened, but what was thought to have happened. Even after 1932, Britain was one of the low-tariff countries of the world; but again the general lesson was taken that the cry was "Protection".

Even attempts to knock down trade barriers proved counter-productive. In March 1931, the German and Austrian Governments announced their intention to abolish tariffs against each other. This led to a disastrous (and perhaps deliberately-engineered) flight of French capital from the great Austrian bank, Kreditanstalt, which was soon in serious difficulties. The contagion spread to German banks as well.

All this, of course, discouraged investment and

accelerated the rise both in unemployment and in bankruptcies. In the end, the attempt at customs-union collapsed, amid general distress and disaster.

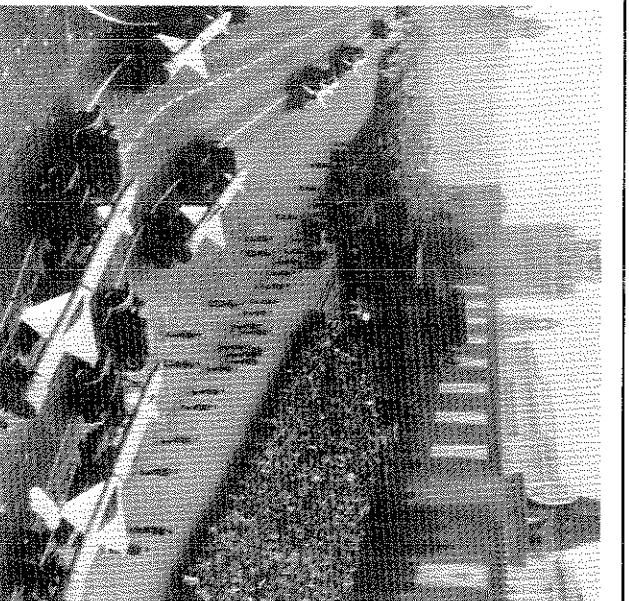
Repercussions were boundless. At the Presidential elections in the spring of 1932, nearly everybody in German politics, bar the Nazis and the Communists, clustered round the 84-year old Field Marshal Hindenberg, who was seen as the one man who could defeat the rising might of Hitler.

Hindenberg won, but this did not hold the dam. In July, with unemployment still rising fast, there was another General Election. The Nazis, who won 230 seats, had more than doubled their representation, and were this time by far the largest party in the Reichstag. They were still short of an overall majority, and actually lost a little ground at yet another General Election, in November 1932; but the die was cast.

In January 1933, Adolf Hitler became Chancellor of the German Reich. A poster of 1932 makes it very clear where the Nazi appeal had lain. A band of wretched-looking Germans – the last people in the world we would think of as Storm Troopers – is accompanied by the message: "Our last hope – Hitler".

From 1933 onwards, the economic conditions of many countries began slowly to improve, although there were striking exceptions. France, for example, which escaped almost unscathed through the first phase of the Depression, went into a deep dive about 1935-36. Yet the pattern of gradual, though intermittent, economic improvement which marked the middle and later 1930s coincided with the Gadarene race into war.

● 1933: the Nazis consolidate their hold on Germany, and take their country out of the Disarmament Conference and the League of Nations.



● AS THE Soviet Union shows off its military hardware, the West is asked to consider this argument:

"We have used political and military instruments in dealing with the East but have neglected economic tools. This failing may be a luxury we can no longer afford... East-West trade has security implications which

cannot be ignored... We should have no illusions that we can, or should try to, produce fundamental changes in the Soviet system by waging economic warfare."

The words of Jack Brooks, President of the North Atlantic Assembly, speaking at the assembly's 28th annual session in London, 17.11.82.

- 1934: the murders of Roehm, Schleicher, Dollfuss, Alexander of Yugoslavia and Barthou.
- 1935: Germany repudiates the disarmament clauses of Versailles; Italy invades Abyssinia.
- 1936: outbreak of the Spanish Civil War.
- 1937: Hitler and Mussolini consolidate the "Axis"; Stalin's reign of terror reaches its peak.
- 1938: the seizure of Austria, and the first stage in the destruction of Czechoslovakia.
- 1939: the end of Czechoslovakia, and the attack on Poland which triggers World War Two.

**WHY DID** all this happen at a time when, economically, there was apparently no "need" for it? The answer must be that although economics had played a dominant part in setting in train the course to war, the people who dominated events in that period were no longer disposed to give primacy to economic considerations.

The fate of Czechoslovakia in 1938-39 is a fair example. The grievances, both real and imagined, of the German-speaking Sudetendeutsch along the country's western margins were felt keenly during the economic depression; for the largely industrial Sudetendeutsch suffered much more than did the largely agricultural Czechs and Slovaks. When unemployment began to dip dramatically in the Reich, the Sudetendeutsch looked with rising interest at the idea of becoming separated from Czechoslovakia and united to Germany. Economic remedies might have damped down Sudeten discontent around 1934 or 1935; they would have been completely ineffectual in 1938, as everything lurched towards Munich.

Just as politicians were not talking the language of economics to their publics in the closing months of peace, so also were they not talking the language of economics to each other. When we read the very numerous documents, originally highly secret, which statesmen of the various countries exchanged with leading political colleagues, we do not derive the impression that the vital decisions leading immediately to war were being in any way based upon economic calculations.

There is not the slightest reason for thinking that the leading Germans or Poles, Britons or French, took their countries into World War Two because they thought they would be maximising profits or minimising losses by so doing.

Economists looking at economic considerations (like Chiefs of Staff looking at military considerations, for that matter) would doubtless have urged their respective national leaders to avoid war at practically all costs, if anyone had bothered to ask their opinions.

Nor, indeed, were the statesmen themselves free agents. It is just possible, though far from certain, that Hitler might have been able to hold the invasion of Poland, had he chosen to do so. But there is abundant evidence that the political leaders of Britain, France and Poland had no control over their own countries' decisions to go to war.

So we return to our starting-point. It is right to echo the old warning: "If goods cannot cross international frontiers, armies will". It is right to say that the ultimate causes of war may usually be traced to restrictions on trade, or restrictions on access to land.

Men have real choices in history, but those choices are usually made by people who do not appreciate the implications of the decisions they are taking. By the time they are caught up in the final crises, there is usually little room for anyone to manoeuvre.

● Dr. Roy Douglas is senior lecturer at the University of Surrey. His four works on the Second World War are published by Macmillan: *In the year of Munich* (1977), *The advent of war 1939-40* (1979), *From war to Cold War 1942-48* (1981) and *New Alliances 1940-41* (1982).

# TRADE or WAR

## The key to peace

**W**AR does not seem to have been central to Henry George's thought, despite the fact that both the American Civil War and the Franco-Prussian War occurred within his lifetime.

It is necessary, therefore, that we should construct for ourselves, from his scattered reflections on the subject, a model of what he might have written had he survived to witness, for example, the even mightier convulsion of the First World War.

For this model, to be typically Georgist, it would need to be concerned with both land monopoly and artificial restrictions on trade.

Let us therefore dispose of George's least typical, though longest, utterance on the subject of the causes of war, which could have been written by almost anybody.<sup>1</sup> Its theme is more or less as follows.

The separation of tribes gives rise to cultural differences which, in turn, cause prejudices, quarrels and fighting. After centuries of this, hostility seems to be the natural relationship between societies, and modern tariffs and standing armies bear witness to its persistence.

*Is all this really good enough? Is it essential George?*

I do not think he would have said so himself, had he had leisure and cause to reflect; for in introducing the grand theme of the law of human progress, he asks us to remember that, within the limits of his *Progress and Poverty*, he "cannot fully treat the questions which arise".

Luckily, there are brief references elsewhere, well worth searching for, to both land monopoly and protection in their relationship to war; and, after collating these, we shall find it easier to place George himself at the point of origin of a distinctly Georgist view of war.

● **WARS** are not the unaided work of politicians, argues **DAVID REDFEARN**, who attempts in this article to construct a theory of war based on the socio-economic philosophy of an American philosopher, **HENRY GEORGE**.

ranks of the legions"; also, that time-served legionaries were allocated land in "freshly conquered foreign provinces".

Would he not have considered, after further thought, that the apparent lack of space caused by the great estates was in fact a reason for the conquests? In modern Europe, similarly, not only do standing armies "weigh down the safety valves" (i.e. keep the oppressed majority in a state of subjection), but also, while the masses waste their mental powers "in merely maintaining existence", the privileged minority wastes its own mental power "in keeping up and intensifying the system of inequality, in ostentation, luxury and warfare".

So land monopolists, in George's view, really do use war as a means of maintaining and strengthening their position.

In *Protection or free trade*, he is even more specific on the question of the inter-relationship of tariffs and wars. He allows, for example, some merit to socialism, in that it aims at the lessening of national



● Henry George

prejudices at the suppression of war. "It is thus opposed," he says, "to the cardinal tenet of protectionism that the interests of the people of different nations are diverse and antagonistic."<sup>2</sup>

Earlier on, he had both suggested a reason for this tenet and elaborated its consequences, when he traced "to confusions of thought growing out of this use of money... the belief that a nation profits by exporting and loses by importing — a belief to which countless lives and incalculable wealth have been sacrificed in bloody wars..."<sup>3</sup>

Could anything be clearer? Yes, it could; for, in his concluding chapter, he makes a pointed accusation against tariff rings who desire war-like expenditure of public money, in order to "forestall demands for the reduction of taxation — and thus secure... a longer lease of plunder". This motive it was that he saw behind the proposal of a presidential candidate, Mr. Tilden, that the coasts of the United States should be fortified — an obviously useless measure.

If only George had lived to re-arrange and refine all his powerful insights into a subject that is now a matter of life or death for everybody, effective work for peace, as opposed to a mere pleading of the lamb with the wolf, would be easier for all who follow in his footsteps.

Let us not suppose, however, that these followers failed to make their own contributions.

There was R. L. Outhwaite, for example, a member of the Liberal Party who, in 1912, won a by-election at Hanley on the platform of land value taxation. By the time the First World War was in its concluding stages, he was convinced that, unless this moderate but fundamental reform were put into effect immediately, the end of the war would bring higher taxation than ever known before, economic collapse, and revolution backed by the bayonets of the returning soldiers.

To a large extent his forecast was right, though, as we can now see, his estimate of the British



people's will to resist its own ruling class was somewhat optimistic.

All this he embodied in a book *Land or revolution*, published by the *Daily Herald*. Chapter 17 is entitled 'The origins of war'.

**O**UTHWAITE has nothing whatever to do with George's early undeveloped view that war began with cultural differences, but postulates fighting for the best pastures, and raids by nomads on the settled husbandmen – fighting, that is, over land.

George, while discussing contemporary war, though not while expounding his general thesis, had considered land monopoly and protectionism separately. Outwaite unites them. "The land and capital monopolists," he says, "have raised tariff barriers to section off Europe into preserves of spoliation for their benefit."

Here, of course, George had prepared the way by showing that the landlord was the ultimate beneficiary of protection. Outwaite

continues beyond George, however, in claiming that the land and capital monopolists, using tribute exacted at home for the purpose of exacting more tribute abroad, clash there with their like from other countries, and thus embark on wars, persuading their victims that national interests are involved.

Quoting Cecil Rhodes as having said "We shall not make war in the future for dynastic reasons, but because it is good business", Outwaite produces instances from the Boer War, the Russo-Japanese War and the First World War to show that Rhodes was stating but the simple truth.

Outwaite died in 1930, at the comparatively early age of sixty-two, and must have been a great loss.

Now, of course, the old problems are complicated by the development of the Russian revolution, of which Outwaite saw only in the early stages, the beginning of the Chinese revolution, and the counter-revolutionary movement backed by Britain and the United States. We need

## THE GURU'S WRONG – from P.123

could just slash their prices rather than take the hidden losses on concessorary financing. But real estate agents and builders say that price cutting doesn't attract buyers, while mortgage-rate cuts do.

"The homeowners' ego is also an important factor. Many would much rather sell their homes for a higher price with costly subsidised financing than sell below what neighbours obtained the year before."

During the second half of 1981, lenders repossessed 7,163 homes, more than triple the rate for the same period in 1980. And in the first eight months of 1982, Californians were delinquent on mortgages worth \$1.7 bn, more than double the 1981 figure.

**T**HE CALIFORNIA boom was quickly emulated throughout the United States.

California accounts for almost 21 per cent of all mortgage loans, so their impact on the market was bound to be significant.

Some home occupants now have as many as three or four mortgages around their necks.

The economic prospects are appalling: "Creative financing is a razor at our throat," says William Heath, a mortgage banker.

"California today is at the same point Wall Street was in 1929 when

the big crash came. Homes have been purchased on margin, as stocks were 53 years ago.

"Eventually, the whole thing has to come tumbling down around our ears. And when that happens, it will be like the 1930s again – only this time it will be the Californians heading for Oklahoma."

So the traditional pattern repeats itself: significant speculation in 1979, a downturn in construction in 1980, a slump in 1981.

President Reagan cannot be held responsible for causing the current phase of the protracted recession that began in 1974, but he could transform the fiscal policies that still continue to encourage investment in land rather than in machines.

He is not likely to do so, however, because of the deep-seated ideological commitment to preserve existing income distribution and property relations. Thus, there can be no critical review of the cause-effect chain that might generate reforms, even if these did favour a constructive strategy for economic recovery.

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3. G. Christian Hill, 'House Values: Dipping?' *The Washington Post*, 15.8.81.
4. Ronald Yates, 'California Bust: Bomb to Time Bomb in the Golden State', *The Washington Post*, 21.8.82.

new material to demonstrate the golden mean between communism on the one hand and the old system of land monopoly and protection on the other, before a Third World War puts everything into the melting pot.

It must be both comprehensive in its scope, and within the reach of the ordinary public.

But whatever we say, or whatever we write on the matter of war and economics, there is one burning sentence by Outwaite that should be constantly before our eyes and ringing in our ears. It shows him as a true inheritor of Henry George, and a summariser of his thought on war.

*"When the earth is held in common by the children of men to whom it was given, and its fruits are free to pass between them, then, and not till then, will peace be assured."*

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2. Henry George, *Protection or Free Trade*, New York: Robert Schalkenbach Foundation, 1980 edn., p.302.
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## KICKBACKS!

THE FAILURE to advance the campaign for a higher tax on land is explained by the historical grip that American real estate interests have over U.S. political processes.

They contributed more than any other trade association to Republican coffers, to help finance the November congressional elections... and ensure favourable treatment in Washington.

Republican candidates in marginal seats were heavily subsidised by the Realtors Political Action Committee (PAC), which includes Richard Thaxton of the National Association of Realtors who was once an employee of the Republican National Committee.

*The bank-rolling of candidates is crucial in the early stages of a campaign.*

In April, the Realtors PAC reported giving over \$221,000 to Republicans and \$112,750 to conservative Democrats. This strategy was aimed at preserving the right-wing coalition that gave President Reagan many of his successes during the 97th Congress.

In June, the Realtors PAC raised \$2.2m. Again, the distribution favoured Republican candidates, each of whom received donations of \$2,000 or more – compared with \$200 to \$500 for Democrats.<sup>1</sup>

The money is not given without expectation of political kick-backs.

For example, Federal regulators once considered including real estate agents in the Truth-in-Lending Act, but they later dropped the proposal.<sup>2</sup>

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1. Thomas B. Edsall, 'Business Ties Hand at Feeding GOP Early in Marginal Races', *The Washington Post*, 12.9.82.
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# Setback for Marxism

**I**N RECOGNITION of the centenary of Henry George's *Progress and Poverty*, the 1978 conference of the Committee on Taxation, Resources and Economic Development (TRED) was devoted to the subject of land value taxation. The papers presented at that conference, together with summaries of the discussions on them, have now been published.

Although not a book which even an enthusiast would attempt to read at one sitting, this publication deserves a place on the shelves of any library serving students or practitioners of economics and taxation.

The eleven contributors included general economists, tax economists and tax administrators from the United States and Europe, representing a broad spectrum of views, by no means all of which were sympathetic to the teachings of Henry George.

Opening the conference Prof. Kenneth E. Boulding observes, that "it is quite possible that no book on economics in over two hundred years has been read by so many people, or has aroused more interest, as *Progress and Poverty*... what then went wrong? Why has this been the century of Marx rather than of George?"

*This is a profoundly interesting question, but Prof. Boulding's answer is frankly disappointing.*

In his opinion "many of the failures of George's political campaigns and political rhetoric... go back to certain inadequacies in his analysis" which was "based heavily on classical economics... and shared many of the classical system's defects."

What follows is not convincing, either as an identification of such defects or as an attempt to repair them.

He notes, nevertheless, that "the significance of this debate for human welfare is large. If what might be called the 'neo-Georgist' philosophy is correct — that the distributional defects of the market and family system can be corrected institutionally with relatively minor changes in the tax and subsidy system — the whole case for revolutionary Marxism is undermined. Communism and centrally-planned economics are seen as the wrong answer to what was a perfectly legitimate question; it is not a 'progressive step but rather an evolutionary setback which the human race will eventually have to overcome.'"

Prof. Boulding is not, however, content to sit on the sidelines in this controversy. He observes very positively that "George was certainly right in perceiving that economic rent is the ideal subject of taxation... it can capture only what is genuinely economic surplus, that is, an individual's income which, when lost, will not reduce his or her productive

activity. If the State tries to do more than this, the producer will reduce both activity and product."

**T**HIS CENTRAL feature of the economics of land value taxation was unfortunately lost on George F. Break.

Mr. Break's contribution consists mainly of a scathing contrast between George's four 'canons of taxation' — borrowed, according to Break, without acknowledgement from Adam Smith — and what he considers is really to be expected from land value taxation. In his second canon, George requires that a tax should "fall as directly as may be upon the ultimate payers — so as to take from the people as little as possible in addition to what it yields the Government."

Break fails to see the vital importance of the italicised passage and claims that land value taxation fails the test, referring to Feldstein's 1977 paper on the incidence of a tax on pure rent. (Feldstein's paper demonstrates the theoretical possibility that, on certain assumptions, there might be initial distributional effects tantamount to the passing on of the tax.)

What Break fails to notice is Feldstein's endorsement in that same paper of the proposition that a land value tax does not reduce production. In Feldstein's words "it is a tax without excess burden (which) introduces no distortions and therefore no welfare loss."

## BOOK REVIEW

By Peter Poole

*Land Value Taxation*

Editors, Richard W. Lindholm and Arthur D. Lynn, Jr.

University of Wisconsin Press, \$20

Following Prof. Boulding's paper, Weld S. Carter presents an admirable twelve-page summary of Henry George's philosophy using skilfully selected quotations. Inevitably, this fails to capture the "vigour, passion and rotundity" which, to quote Boulding, "gives Henry George a unique place not only in the literature of economics but in English language itself." But for someone in a hurry, seeking a statement of the essentials, it is ideal.

*There follows a group of papers dealing with practical issues.*

● Grosskopf and Johnson, taking a number of different approaches, conclude that it is likely that a site value tax would provide an adequate substitute for existing property taxes, assuming that land would be assessed at potential value without exemptions.

● Mary Miles Teachout describes a set of administrative and juridical procedures designed to make land

taxation equitable and acceptable to the public.

● Lindholm and Sturtevant apply a model developed by Grieron to produce a hypothetical analysis of the effect of land value taxation applied to the city of Eugene, Oregon, and conclude that it would be effective in limiting "urban sprawl".

● Concluding this section, there is a paper by Ronald B. Welch on the problems of land valuation and the usefulness of multiple-regression analysis.

**T**HE CONCLUDING group of papers includes an account of land taxation practices in the U.K. by Prof. Prest of the London School of Economics and a comparison by Matthew Edal of the philosophies of Henry George and Karl Marx. But these are overshadowed by a masterly essay by Prof. Mason Gaffney of the University of California, Riverside.

This is an analytical survey of the views on land value taxation of economists ranging from Francois Quesnay in 1760, David Ricardo in 1817, Alfred Marshall in 1920 through to present-day economists such as Colin Clark and Ralph Turvey. It is interesting to find Leon Walras among enthusiastic advocates, with strong but limited support coming from Harold Hotelling and A. C. Pigou. The bibliography to this paper would alone make it an important contribution to the literature.

To quote the preface to the volume: "A general, if tentative consensus develops... that George's land tax possesses significant utility as a source of government revenue... (which) merits the attention of policy makers."

Boulding is more positive: "George's solution... has the great attractiveness of administrative simplicity. It is a neglected part of the tool-box of social scientists, philanthropists, reformers and politicians".

Even the sceptical George F. Break sees it as possibly a "useful policy tool in the development of those new, ambiguously-owned acres under the sea."

Readers will be struck by the contrast between the pallid and uninspiring style of many of the contributions, and the vigorous analytical prose of *Progress and Poverty*. But this is merely a reminder of the towering stature of the man whose work was under discussion. And if the papers provide little in the way of fresh insights, they do at least pose questions that could be pursued further. Possibly someone will be prompted to write an analytical comparison between the works of George and Marx.

# Reflections on Space

**A**S AN American accustomed to vast distances – and as a New Yorker watching a fast-changing urban landscape – I was struck anew by the open spaces and more modest pace of life on the European continent. There is, of course, substantial new development, but what remains in the central cities is very much as it has been for decades, if not centuries – an observation most visitors to the “Old World” will doubtless confirm.

Within this smaller and, to these eyes, slower world, there are nevertheless significant differences, with one variable especially revealing of national and perhaps socio-cultural dimensions. It is the ratio of public to private space, both in terms of quantity and observable quality.

New York is perhaps the most notorious for its lack of public spaces, considering its size and position among world cities. While there are indoor arenas of scale and grandeur all over town, nothing could hold the mass rally for peace and disarmament except the Great Lawn in Central Park – and even that requires unusual logistics.

Paris, on the other hand, has any number of places, from Concorde to Chailot, or the Petit, let alone the Grand Palais, to accommodate a throng, if the French ever get themselves together for any demonstration short of a revolution!

The boulevards, bridges, river-banks, parks and gardens that comprise the public Paris are its true glory. The 16th arrondissement and some other choice locations have their share of private opulence, but most of Paris lives better *in public* than *at home*.

There is scarcely a private dwelling remaining within city limits, let alone a real hotel particulier.

This contrast exists *within* Europe, too. Take Amsterdam, for example.

The grandest space in this Dutch city, the Dam, is rather less imposing than one imagines and its Royal Palace, with its restored interior befitting the empire of which it was the seat, offers only a nondescript exterior backdrop for the milling human scene.

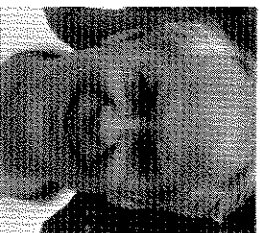
It is as if the House of Orange wants to shadow its splendid past while staying in business, just as the Sun King and Bonaparte dominate contemporary Paris, where they are safely entombed.

A sad monument to such a policy is the big, empty hole at the most

**LAND & LIBERTY** correspondent Philip Finkelstein has died of a heart attack at the age of 51.

Mr. Finkelstein, one of New York's leading land tax campaigners, was a professor at Adelphi University.

After serving as deputy city administrator during Mayor John Lindsay's administration, Mr. Finkelstein left and founded the Center for Local Tax Research. He explained later that he had been “harassed” into resigning when he refused to drop a study of New York's property tax assessment system.



● Philip Finkelstein

The study was published by Praeger in 1975 as *Real Property Taxation in New York City*. Mr. Finkelstein be-

came Director of the Henry George School in New York, and he was developing a leading role in enlightening the American public on the problems of the present property tax.

● *Fred Harrison writes:* Phil is survived by his wife Claire and three children. He had just agreed to serve as a director of Land & Liberty Press. We will miss his contributions to the development of the journal.

We publish here the last article he filed to us, following his recent tour of Europe.

prominent bend of the river in Amsterdam, where the opera house will not be built because of protests from those demanding housing.

**P**ARIS also protested the loss of its beloved Les Halles market for the almost-universally condemned Centre Pompidou. But the aggressively modern museum was built anyway, flaunting its coloured guts in the old gray square.

What is shocking is not the avant-garde design of the Beauborg but its sheer bulk. Like every other public place in Paris, it is enormous, defining its space without competition, pushing its more private surroundings into a mere supporting role.

Old or new, it is the public Paris that demands and receives attention, from visitor and resident alike. Perhaps this tells us something about the way a society sees itself. France, for all its old-fashioned republicanism and new fangled socialism, is still caught up with *la gloire*.

Paris saw itself – and in some vestigial measure still does – as the capital not only of a nation, of an empire, but of a continent, indeed a civilisation. The individual needs and wishes of people could be transcended by the grander goals of La France.

An even greater extreme between public splendour and private squalor can be seen in Latin American capitals, with a typically grand plaza bordered by palace and cathedral – now government buildings – in the centre

of the creeping hillside slums.

Witness also the contrast between official and private Washington, D.C., the one American city modelled directly on Paris.

Are dirt and disorder the price we must pay for a better mix of private and public space? Not necessarily.

New York has its slums and Paris its crime and Amsterdam its share of both.

*No modern metropolis has a monopoly on virtue, or vice. Yet, we could wish for a better balance between old and new, beautiful and efficient, personal and private and the public places that we use “for show.”*

The difference is not in the nature of ownership but in our attitude towards privilege – how much we demand for ourselves and how much we will tolerate in anyone else.

I, for one, was offended by the inordinate size of private estate lands remaining in the English countryside. A few score acres in Devon loom a lot larger than hundreds do in Texas. But land-use experts would scoff at the traditional American dream of a single detached house with front and back yards, garage, patio and pool and other private amenities.

Do we need to have it all for ourselves, or is it enough to be able to use spaces shared by all? Perhaps the only way we can make effective choices is to know the true costs – and their value – of both our private and public places.

**F**ARMLAND, more than 80 per cent of Britain's total area and our only permanent resource is owned by a fraction of the population. It is, in practice, in the hands of a closed shop whose market is protected more than any other productive sector of the economy.

Another bumper harvest has persuaded the Treasury to draw up new forecasts about the amount of money that will be needed next year to store British food "surpluses".

It estimates that £740 million from EEC funds will be spent to keep up prices for food producers.

Fewer and fewer farm owners are producing more and more food. Furthermore, agriculture is not bedevilled by industry relations problems. So for the Government – especially one with so many landowners in its midst – it is a classic success story.

So long as shelves are full in urban supermarkets, the Government can comfortably ignore the wider implications for the countryside – fields being ploughed up – for rural communities – depopulation and second homes – and of the immense concentration of landed wealth.

Britain, virtually alone in Europe, operates a free market in farmland. In theory, anyone can buy it; in practice, you have to be rich, whether you are British or a foreigner. The high cost of farmland, about £1,200 an acre on average in England and Wales and the highly capitalised system agriculture has now become, has shattered the traditional farming ladder.

*The other way in is simply by birthright.*

**B** RITAIN is also one of the few countries without an open register of land.

The information is carefully guarded by the Country Land-owners' Association and estate agents. The Royal Commission on the Distribution of Income and Wealth – which, in its last report said that "the paucity of comprehensive, up-to-date information on land ownership is remarkable" – has been abolished by the Thatcher administration.

We do know, however, that:

- Fewer than 500,000 people work on the land, a lower proportion than in any other European country. And the number is falling.

## So who does own the land?



**Richard Norton-Taylor offers some answers**

- More than 1,000 farms disappear each year, bought up in the main by established farmers nearby.

- There are a little over 200,000 full-time farmers and agricultural partnerships and the number of full-time farmworkers is even smaller.

- Over Britain as a whole, about two-thirds of the estates of more than 10,000 acres (the most productive as well as the large parks) are still owned by individuals and private trusts.

The figures offer some perspective to the official statistics which record that most farms are small family holdings. There remains an immense, unique concentration of landownership in Britain.

*The Royal Commission itself estimated in 1979 that the top 1 per cent of the population owned 52 per cent of all land.*

Moreover, the bulk of the property is frequently distributed among the family before the death of the owner, or diverted into a trust, to avoid capital taxation. Three-quarters of the total personal wealth of the richest 1 per cent still consists of inherited wealth.

In the context of agriculture, the concentration of land ownership takes on an added significance: ten

per cent of all farms produce half of all the food grown in Britain.

**L** ANDOWNERS say that they resent interference from Whitehall, over planning restrictions, for instance. Yet they rely heavily on subsidies and grants, from the EEC, as well as Whitehall which gives them £374 million a year, according to latest figures.

They also argue that they are merely managing the land "in trust" for future generations; their responsibilities, they suggest, go far beyond just producing as much food and making as much short-term profit as they can.

Yet the Wildlife and Countryside Act says that, in future, landowners will receive financial compensation if they agree not to develop, drain or plough up valuable habitats and instead, preserve them for the community as a whole. (There are some signs that the Ministry of Agriculture, under pressure from the environment lobbies, will not allow farmers to do what they want with their land, though the resources the Government devotes to conservation are small compared to that earmarked for agricultural development.)

Though the Government holds up agriculture as a model of efficiency and productivity, farmworkers – still near the bottom of the wages league – have not reaped their share of the rewards.

Indeed, farm owners may be efficient in terms of output per man and per acre but rising costs have strapped them to a treadmill, forcing them to increase production simply to maintain their profit margins.

So not only are they producing food which has no real market (and is dumped on to the Third World or piles up in EEC-approved cold stores), they are now having to fight a battle with large food corporations whose resources are no match for the individual farmer.

These corporations are threatening to control exactly what is produced and how, taking over the land as well as retail outlets, the agricultural chemical industry and even the production of seeds.

*Whose Land Is It Anyway?* by Richard Norton-Taylor is published by Turnstone Press. Paper: £4.95. The above article first appeared in *The Guardian*.