LAND and LIBERTY

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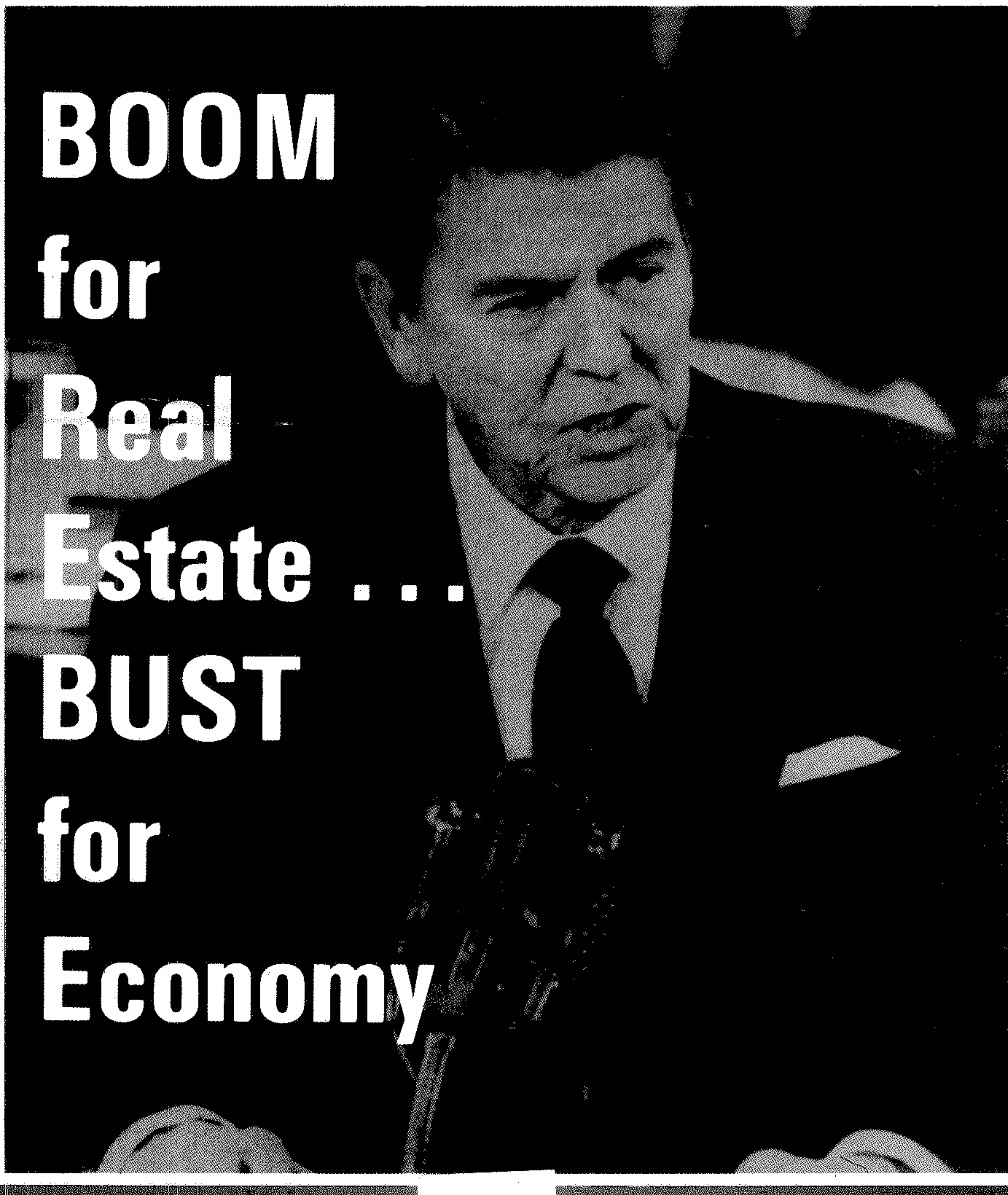

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Editor: Fred Harrison
Editorial Consultant: V.H. Blundell
Picture Editor: Keith Hammett

Editorial Offices:
177 Vauxhall Bridge Road,
London SW1V 1EU
Tel: 01 834 4266

5 East 44th Street,
New York, N.Y. 10017
Tel: 212 697 9880

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OFF BALANCE

THE U.S. economy is in a parlous state, with debts that make the Latin American banana republics look like penny-pinchers.

- In 1985 the country became a net debtor abroad for the first time since the 1920s, when the net international investment position declined by $85bn.
- In 1986 the deficit on current account rose to an estimated $125bn.

Suddenly, as the dollar weakens against other currencies, the foreign financiers have started to worry. The domestic expression of this concern has been the increasingly vocal demands in Washington for protectionism.

The Reagan Administration, in trying to preserve its preference for free trade, has been applying pressure on Japan and West Germany for concessions that would make it easier for American producers to export more goods.

Critics have pointed to the capital surpluses accumulated by these two countries — now running at almost $100bn a year — and their seeming reluctance to import goods from their trading partners.

JAPAN is singled out for her protectionist policies — the wide range of obstacles that make it difficult for manufacturers to penetrate that market. Prime Minister Nakasone has tried to offset the threat of world-wide protectionism by urging his people to run down their savings by consuming more foreign goods.

In particular, he wants a boom in residential construction. The Japanese population is one of the worst housed in the developed world, thanks to the extremely high price of urban land.

But despite Tokyo's cosmetic concern for the feelings of politicians in Washington and London, it will take a long time to change habits that would open up Japan's domestic market (as the distillers of the real Scotch whisky have discovered).

So Japanese business leaders are making great play of their investments in North America, where about 500 companies now manufacture or assemble cars, VCRs and othe products.

Most of the surplus profits made by Japanese investors, however, are pouring into real estate. The process began in 1981. Investments were undertaken on a modest scale and, by the end of 1985, Japanese companies had pumped $1.2bn into American real estate.

But within the following 12 months they had increased that sum to something like $4.5bn!

Much of this investment has been the direct result of pressure from Washington: a Pyrrhic victory, alas. For the real estate sector continues to enjoy a buoyancy (if you turn a blind eye to the agricultural land market) that is not reflected elsewhere in the economy.

Economic advisers have still not learnt the harsh lesson of history: actions which force up rents and land values, investments which supply yet more commercial property in an overstocked sector, damage the restoration of balance in the allocation of resources. Without that balance the economy cannot be at its most efficient and the American worker cannot recapture his competitiveness in world markets.

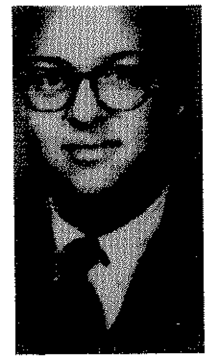
In the early 1970s the real estate investment trusts led the headlong rush into the property sector, thereby helping to divert the funds which ought to have gone into consumption and the formation of new capital equipment. The ensuing distortion in the economy knocked growth on the head.

Unwittingly, the Japanese are now serving the same purpose. By proclaiming their enthusiasm for real estate, they will attract yet more funds into that sector — funds that ought to be channelled into the new technologies which would enable American workers to compete effectively against the Japanese.

The Japanese, of course, are only doing what the Reagan Administration wants them to do; and they are laughing all the way to the bank!

Not for Britain

*On Jan. 1 the progressive income tax all but disappeared in the United States. And in scrapping the old law's 14 separate tax brackets, Washington's tax reformers also shook up a system that concealed unfair preferences, shelters and loopholes. What will be the impact on the economy? FRED HARRISON reports.



● George Gilder ● Martin Feldstein

BRITAIN is under pressure from the Reagan Administration to adopt Washington's tax-cutting strategy as a means of stimulating new employment and faster economic growth.

Congress is cock-a-hoop with the new arrangements, which are presented as a radical reform of the tax system leading to greater economic efficiency and social justice. Will it? Is it? Not if the property market is indicative.

Observers believe that by eliminating the tax-shelter status enjoyed by real estate, the cuts in tax rates and subsidies will encourage investments in sectors that need venture capital. For there is already a glut in office building (the direct result of the tax write-offs, and the 15-year depreciation rule of 1981). Investors no longer have the incentive to erect buildings for which there are no tenants.

Opponents who object to the loss of nearly $1 trillion worth of tax shelters claim that we will now see higher unemployment in the construction industry, higher rents and even bank failures. *This scenario is largely intended to scare rather than be objective, but does contain many truths.*

The historical evidence supports this conclusion.

● The Finance Act (1924) gave taxpayers a 25% reduction retroactive to 1923 income, increased personal and surtax exemptions, and brought the top rate (which had stood at 73% in 1921) down to 46%.

What happened? The higher net incomes were capitalised into higher land values by landowners. Wage-earners were happy to see their extra income sumped off into real estate — they financed the Florida land boom which peaked in 1925. Andrew Mellon, the Secretary to the Treasury, was impressed with the results of his early experiment in "supply side" tax-cutting, and the top rate was slashed to 24% in 1929 . . .

● Then, in 1964, the Kennedy cuts saw tax-rates drop from a top rate of 91% to 70% in 1965. There was an accompanying escalation in real estate values, as the land monopolists grasped the chance to claim the extra wages and salaries as theirs. The economy slipped into a recession in 1966.[1]

Theoretically cautious economists might refuse to accept the argument implied by this account, namely, that there is a causal connection between a boom in the land market and slump in the economy. The Reagan Administration cannot dissociate itself from such an analysis, however, for the theory is accepted by one of its gurus.

George Gilder, in his *Wealth and Poverty*, characterised speculative real estate as a "sink of purchasing power."[2] A contraction of purchasing power, of course, results in the loss of jobs, as any good Keynesian will acknowledge.

PROSPECTS for a boom in real estate are enormous, for the purchasing power of individuals is being increased to the tune of $120 bn – the estimated size of the federal tax burden being shifted from people to corporations over the next five years. This money will be brought into play by the tenure-and-tax system to offset the negative effect on property values arising from the loss of tax subsidies which have artificially inflated the value of real estate.

That the latest tax cuts *will* have a significant impact on the American economy via the real estate sector has already been acknowledged by Martin Feldstein, whom President Reagan appointed as his chief economic adviser in 1982. Feldstein warns that tenants will have to pay higher rents[3]. Some estimates put the rise at 15% over five years.

We can now expect some wild movements in the prices of houses, with all that implies in a reduction in labour mobility. While most families might not find themselves worse off, in terms of spending power, builders will discover that the supply of affordable land has grown even tighter – thereby damaging the vital construction industry. A recession is guaranteed to follow.

The Thatcher government is already doing a remarkable job in pushing up unemployment: it does not seem necessary for the Prime Minister to adopt Washington's strategy for Britain.

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Two-rate tax misrepresented

LOST CHANCE

By Walter Rybeck, Director, Centre for Public Dialogue, Washington

A STATE legislative commission missed a golden opportunity to show New York how to reduce urban blight, unemployment and housing problems.

The Temporary State Commission on the Real Property Tax in its report to New York's governor and Legislature, "A Two-Rate Real Property Tax System: Its Impact and Implications for New State,"* recommends against the two-rate tax which is giving Pennsylvania cities such a dramatic boost.

Pittsburgh, Harrisburg, Scranton, McKeesport and New Castle imposed a seemingly simple change. They lowered property taxes on housing and commercial structures and raised them on community-created land values. They gradually increased tax rates on land until they were double and even six times the rates on buildings.

These changes, put to the test in the late 1970s and early 1980s during a steel crisis in the region and a national recession, as noted in *Fortune*, the *Wall Street Journal* and other publications, stimulated private downtown renewal, home-building and rehabilitation, and new jobs in construction and related fields.

The New York Commission does not entirely deny these effects. It admits "increases in development activity in these cities during the time periods analyzed was impressive." However, the Commission discounts the achievements, attributing them to "abatement policies" and "the Federal Tax Reform Act of 1981."

Prof. Steven B. Cord, who helped initiate and analyze the two-rate reform, replies that even cities without tax abatements for new buildings "experienced significant new construction" after introduction of the two-rate tax.

Edward Kardish, head of Philadelphia area homebuilders and a foe of the reform, told a 1983 tax conference that, despite its big abatement program, Philadelphia saw only six homes built the previous year while Pittsburgh experienced a housing boom.

The federal tax benefits enjoyed by all could hardly explain why two-rate taxing cities outperformed comparable cities, Cord notes.

This year, when special interests had to bow to the public interest in the federal tax arena, New York land speculators found champions in this eight-year-old Commission which operates on a half-million dollar annual budget.

Commission chairman George S. Gerber says the Commission found that effects of a two-rate in Pennsylvania "are disputed." That puts it mildly: the reform has its enemies.

The study's conclusion, in the same vein, reads: "... any serious thought of implementing a two-rate taxation system in any New York localities would have to be predicated on a detailed study of the impact of such a system on both an inter and intra-property class basis." In short, the study calls for a study.

"Most economists," claims the report, "have expressed opposition to land value taxation." L. Lowell Harriss, director of the Academy of Political Science, says Charles P. Kindleberger, respected economics historian and past president of the American Economic Association, finds on the contrary that most economists "have more than a touch of Henry George [the ultimate land taxer] about them."

Robert Clancy, president of the Henry George Institute, also took issue with Gerber. He quotes the most widely used textbook on the subject, *Economics*, by Samuelson and Nordhaus: "Our ideal society finds it essential to put a rent on land as a way of maximizing the total consumption available to the society. But these efficiency rents need not go to the privileged — they can go to the state (in rents or in taxes on rents) . . ."

Economist Mason Gaffney, University of California-Riverside, wrote the Commission that he was extensively quoted, "often verbatim," without attribution and, worse, that the material was used "in the opposite way from which I intended."

Also questionable are 69 pages of arguments against land value taxation with a disclaimer these do *not* necessarily reflect Commission views. It is as if a race relations study paraded every prejudice ever used to discriminate against blacks, with no judgment as to their validity.

Allegedly, for example, distinguishing land from improvements is a problem, yet the report's one positive recommendation calls on assessors to stop evaluating vacant land and the land under buildings "at a lower percentage of market value than other real property." Tax officials properly are urged to distinguish between land and buildings and to apply the same yardstick of value to both, as the best professional assessors and appraisers do every day.

If this praiseworthy recommendation is pursued, it will shift substantial tax burdens from buildings to land values. Why this sound and equitable policy is favored when it is called assessment reform, but not when achieved via differential tax rates, is not addressed.

The report relies extensively on a Pennsylvania Economy League (PEL) two-rate tax study undertaken for Pittsburg Mayor

● New York . . . the commission's report used questionable arguments

Richard S. Caliguiri who twice vetoed higher land tax rates. The Commission focuses on PEL's charge that, under the reform, wealthy residents get tax breaks at the expense of the poor.

Were this so, would City Council have prevailed twice over the mayor's veto? Would voters overwhelmingly return its prime sponsor, ex-Councilman William J. Coyne, to Congress and keep him as city Democratic chairman?

Would the U.S. League of Savings Institutions have found that in 1985 Pittsburg enjoyed the lowest median home prices among dozens of large cities? (Pittsburgh, $54,152; New York City, $129,700; Atlanta, $87,250; San Francisco, $152,000; Salt Lake City, $66,000; Raleigh, $73,825; etc.)

The Commission uncritically accepts PEL's assumption that most poor people own property in poor neighborhoods. The bulk of rental properties belong to affluent owners. Focusing only on Pittsburgh's low-income people who *do* own their homes, they save "at least $728,741" a year due to the two-rate tax, Cord found.

Another Pittsburgh study by Henry O. Pollakowski, "Adjustment Effects of a Land Tax," examines only property sales, disregarding investments made by present owners once taxes favor land *using* rather than speculation. The author cautions that this work "should not be used as evidence concerning the general advisability of increased reliance on land taxation," a warning the Commission disregards.

The Commission undertook simulations of the two-rate tax in Rochester; suburban Guilderland, in Albany County; and rural Root, in Montgomery County.

Guilderland, says town clerk Jane Springer, has 28,000 people, abuts Albany's town line, has a large shopping mall, no commercial center. "We have light industry, quite a bit of rental housing in apartments, some vacant land in the heart of town and a number of farms," she said.

Town supervisor John Zechnicki says Root has 1800 people, no shopping area, a lumber yard, little other commerce. "We're dairy farming country — but a lot of the farmers are giving up — can't get anybody to cut hay," he said. "I've got 100 acres idle myself."

Although it is unclear why Guilderland and Root were chosen for study, they set the stage for this predictable conclusion: ". . . significant tax shifting occurs in both the vacant land and farm land classes . . . The shift to farmland would run counter to State policy to both preserve and encourage agricultural production."

A community with the two-rate tax would indeed tax close-in farms more heavily, but land use experts recognize this as a way to conserve farmland. It fosters development of farms adjacent to urban services instead of farms beyond suburbia.

It discourages the road extensions, malls and exurban housing that are destroying true farming regions. It supports compact infill growth rather than the sprawl and speculation which have been enemies of both central cities and farmers.

Rochester, a city of 243,000, is a more likely two-rate tax candidate. With high-tech industries such as Xerox and Kodak, it rode out the storm that hit smokestock cities in much of the East. A heavily subsidized downtown renewal program nears completion. The city's plan director says 45% of residents live in rental housing, mostly in old homes subdivided into six to ten units.

Assessment data, supposedly geared to 100% of market value, formed the basis of the Commission's simulation of the two-rate tax. One oddity emerging from these data is that buildings account for 88.5% and land 11.5% of total taxable values.

Land in a healthy city tends to represent at least 30 to 40%. No wonder the Commission calls attention to underassessment of land. But in 17 variations of the data, which staff researcher Sam Stein says were proxies for other cities, the land portion never exceeds 18.88%.

In the simulation, residential data relate only to single-family homes. Multi-family dwellings are lumped with commercial and industrial and labeled "all other properties." Explained Stein: "We just didn't think it was necessary to have these as separate categories."

Lacking statistics on poor people's housing, the report nevertheless manages to translate zero data into one of the "conclusions drawn from simulations," namely: "While the residential class, in the aggregate, is benefitted, it appears that such

Continued on Page 14 ▶

INNER CITY POSER

Uneasy feeling of misguided enterprise

BY HENRY LAW

IN THE past 10 years there has been a flight from the inner city areas of Britain. Between 1961 and 1981, the resident population of Inner London fell by nearly 1m, almost one-third of the total. There has been a similar exodus from conurbations such as Liverpool and Newcastle upon Tyne.

The people who have remained have borne the brunt of the recession. Unemployment rates are much higher than the national average, ranging from 14.4% in the London borough of Tower Hamlets to 44% in parts of Liverpool.

Since at least 1978, public policy for the inner cities has focused on the need for economic development. Central and local government between them have spawned a wide range of initiatives, such as Partnership Programmes, Enterprise Zones, Enterprise Boards, Enterprise Trusts, and schemes for business advice and "start-up" assistance. What have they achieved? What can they achieve?

Very little, it seems.

This is the conclusion of both the House of Commons Public Accounts Committee (PAC), which has been looking at Enterprise Zones[1], and a research project conducted by the Cambridge University Department of Land Economics, which has, under R.M. Kirwan, produced a report on local fiscal policy and inner city economic development[2].

R.M. Kirwan has explained why we can expect local initiatives to have only a marginal effect on the economy of the areas which they are designed to help. Kirwan points out that tax-cutting at the local level is fundamentally questionable as a way of stimulating business, because the burden of local property-related taxation is substantially shifted from the users of urban real property to developers and landowners. Hence:

"Adjustments to ground and space rentals will tend to offset any benefits to the users of space from reduced local taxation. Lasting differentials between areas will tend to be capitalised into the value of land and buildings. Tax cuts may create short-run benefits for businesses but their psychological impact may be greater than their real economic effect. Subsequent adjustments in property-related prices are likely to defeat any attempt by inner cities to use tax cuts systematically as an instrument of development."

Kirwan concludes that the prospects for inner cities are gloomy, with action being needed at a national level, and his analysis goes a long way to explaining what the House of Commons Committee discovered about Enterprise Zones.

The zones were introduced in 1980 for a ten-year experimental period. Firms enjoy a package of concessions, including freedom from planning control, generous capital allowances and a rates "holiday". Although £180 m has so far been spent and the experiment is halfway through, no-one can tell how successful it has been. Monitoring arrangements were incomplete and inconsistent, and an absence of any pre-set targets made it difficult to form an objective assessment of success or failure, performance or cost effectiveness.

Enterprise zones have not done too well at creating jobs, although that was their main purpose; the Department of the Environment's own analysis showed that warehousing, which provides few new jobs, accounted for as much as 46% of occupied space in the zones.

The consultants appointed to monitor the zones for the first three years had found that the zones sucked in firms from other nearby areas; 75–85% of incoming firms would have been operating in the same county or region even if there had been no zones.

The same thing was noted in a report by the Royal Institute of Chartered Surveyors (RICS), which considered that the apparent success of many of the zones had been achieved only at a cost to the surrounding areas.

The RICS discovered that a large part of the benefit to industries attracted by the rates concession had been paid away in the form of higher rent; in comparison to similar premises outside the zones, the differential was as much as 50% in the case of the Hartlepool zone and 20%–23% in the North West Kent and Salford zones.

Since £70m in rate exemptions had unintentionally been handed out to firms already in the zones at the time of designation, it was probably more by luck than judgement that some of the gains from higher rents had stayed in the public coffers; in the first round of 10 enterprise zones, 70% of the land was owned by the local authorities.

The Public Accounts Committee has asked for a full, thorough and objective assessment of the zones, balancing the benefits against the costs and the adverse effects produced elsewhere. Will the lesson sink in?

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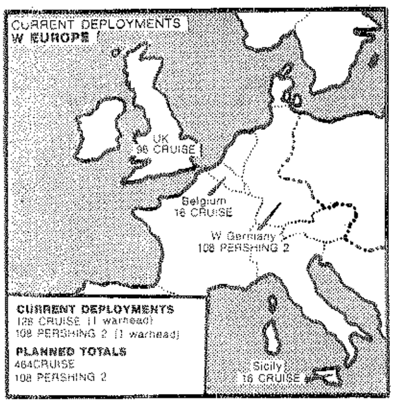
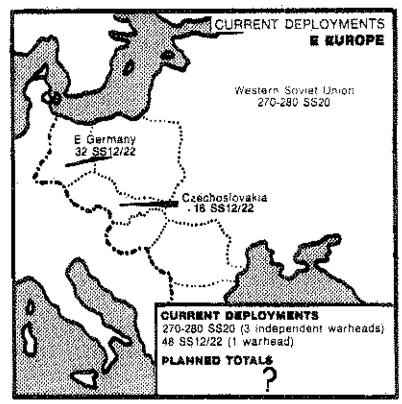


● The West's costly nuclear umbrella — with more than three times as many Cruise missiles planned.



● The Reds' nuclear line-up. Reduced defence spending could get their industry in better shape.

PEACE TREATY MYTHS

IT IS popularly assumed that we could eliminate poverty or generate new economic development if we did not spend so much on "defence". But is there a simple trade-off between the two?

This is certainly a major perception behind people's hopes for success at a future summit meeting between Messrs Reagan and Gorbachev, assuming they can overcome the disappointments of Reykjavik.

The assumption, alas, is built on a false premise.

FOR THE Russians, if we allowed appearances to deceive us, there is the possibility of a trade-off between a smaller military budget and faster economic growth. We could expect a boom in the formation of new capital equipment in the Soviet Union's antiquated industries, and a rise in the quality of consumer goods available to workers.

But the Soviet Union is exceptional, because the state controls all resources and regulates wages. It can therefore appear to engineer such an outcome because it is a command economy. But what would happen in the West, if a government cut military spending and reduced its tax revenue proportionately?

The principal effect is that land prices and rents would rise, to mop up the increase in net incomes.

● WAGES net of taxes would not rise, because the existing set of pressures would keep them at their present levels.

● PROFITS would not rise for similar reasons — the competitive flow of capital either between sectors or internationally.

● RENTS are all that we are left with. The land market is a permanently monopolistic one: there can be no flow of new land into a location that happens to be the focus for new demand, thereby moderating rents (whereas corporations that exercise monopoly power are constantly vulnerable to upstarts trying to move in to undermine the control they exercise over a market).

QUOTE by Professor Richard Estes of the University of Pennsylvania:
'Until or unless we decrease the money spent on military and defense purposes, we will not have the money available to address racial inequality and the decline in social spending in the U.S.'

But even if the government retained the financial benefits of a cut in the military budget, we would expect the net benefits arising from a cut in the military budget to find their way into higher rents and land values.

For example, what would happen if the government decided to provide better hospitals and schools? House prices would soar in those areas receiving benefit!

Or the government might decide to build new roads so landowners with properties at the intersections of new or improved highways would pocket the benefits!

IF ANYONE doubts this argument, he needs only look at Third World countries. They will not find a correlation between the level of poverty and the amount spent on the military.

Wipe out the jumped-up generals and their toy town soldiers, and you would *still* find massive poverty among the people, if they have lost their traditional access to natural resources.

None of this is an argument against Messrs Reagan and Gorbachev burying the hatchet, should they ever get together again. But there is little point in raising expectations about the knock-on effects.

It is probably true that, given the abysmally low living standards in the Soviet bloc, real standards would rise slightly. But most of the investments generated by an arms deal would nonetheless be financed out of what we in the free market economies call rental income.

Moscow can dictate where the "new money" goes: Washington, London and Paris could command the nuclear warheads to go away, but they could not stop the flow of income into the land market — under the present fiscal and land tenure system. There would, then, be a real estate boom stemming directly from a peace treaty.

Winning case for

MY PROPOSAL for surplus land involves minimal expense and planning changes. I propose that a modest amount of "de-enclosure" should now take place in England and Wales, by means of appropriate Acts of Parliament.[1]

The Inclosure Acts[2] of the 18th and 19th centuries cut off rural people from their land, deprived many of them of the opportunity of earning a living and thus obliged them to seek employment in the towns and cities, often in the most squalid circumstances. De-enclosure would put right this historic injustice, although I am not suggesting de-enclosure on anything like the sale of the enclosures, which may well have doubled the amount of land held by the big landowners.

Specifically, de-enclosure might be at the rate of one acre in fifty, perhaps covering half-a-million acres, or slightly more, in all. There are at present about 1½ m acres of common land in England and Wales, but legal public access is limited to about a fifth of the total. Legislation is now being proposed to give the public legal rights of access on all common land. Not before time, it may be thought, considering the long-standing campaign for better public access to the open countryside. De-enclosure would thus add about a third to existing common land, but all de-enclosed land would provide legal public access from the outset. Ownership could remain with the current owners; all commons are, in fact, owned by someone, although some commons are owned by local authorities or other public bodies.[3]

Of course, there will be calls for compensation. These should be resisted. There might be exemption for landowners with less than 50 acres, so that this measure would not affect the smallest farms anyway. *In principle, if land is deemed surplus to farming requirements then of what use is it to a farmer unless he intends to speculate in land values?*

From a legal point of view, there is no absolute private ownership of land in English law anyway; the state can either acquire land by compulsory purchase or decree what use may be made of land. The latter power is the basis of Town and Country Planning. Indeed, farming has hitherto been largely exempt from planning restrictions but, in view of the damage farmers are now doing to the landscape, this exemption is unlikely to remain.

From a fiscal point of view, it should be said that landowners progressively escaped the land tax which was part of the constitutional settlement in 1680, this tax, at 4 shillings in the pound (on annual rental value) representing a cash payment in lieu of the traditional feudal duties of landowners. The land tax had become negligible by the 19th century, because the landowners resisted re-valuations. Moreover, since 1929, farm land has been exempt from rates, a very valuable privilege.

From a political point of view, farmers, and hence landowners, have enjoyed enormous subsidies from other taxpayers in the post-war years, and also privileges such as substantial relief from Capital Transfer Tax. Adding in administrative costs and agricultural research, the total value of subsidies, tax relief, grants and other benefits, may be as much as £5,000m. a year to farmers and landowners.[4]

The privileges have not been conditional upon good husbandry and respect for the countryside; indeed, the subsidies and grants have worked in the opposite way, encouraging farmers to destroy hedges and trees, plough up ancient monuments, mine the soil and pollute rivers. Marion Shoard's book provides a wealth of facts on this destructive agricultural activity.

Farmers have not fulfilled their self-professed role of guardians of the countryside satisfactorily, and de-en appropriate response.

● A recent editorial in *Land and L* reform of the Common Agricultura of land becoming surplus to farmi escaped landowners. The Preside Association suggests that surplu purposes, such as golf courses.

● Agricultural correspondent Jo land-use policy is preferable to ne that recreational use will involve mission, either of which might pr 28). Mr Young says that few other made.

● Farmers in the U.S.A. are paid land out of production, but this ha Economist ALEX HARDIE of Exe native strategy.

USES for de-enclosed land spring r might be left as rough ground, an available for camping or caravannir local authority. Even if there were re using the site, or on the length of sta expand the freedom of visitors and

Local authorities could, at the sam provide sites for gypsies. Many thou that pressure on individual sites nee

Footpaths and adjoining hedges land, so protecting them permanent could allow for a footpath and he perhaps), and would only take up a Using 100,000 acres of the "new co 50,000, or more, miles of footpath number of hedgerow trees as well.

The benefit of this measure to walk People would have guaranteed acces and plants a safe habitat. There w pesticides on these areas.

Copses, woods, ancient pastures, banks, streams and ponds, might commons". Farmers would probabl than cultivated land. If at all possibl cial Scientific Interest should be take sent farmers are quite free to drain o. their ecological value.

Archaeological sites, especially unprotected ones, should also be inc course, be seen as a way to preser National Parks would probably purchase by conservation groups. relatively small sites, often protecti

REFERENCES

1. There are no commons in Scotland.
2. In law, "enclosure" merely means the physical process of enclosing land; "inclosure" means doing this with legal authority, in such a way as to extinguish former common rights.

de-enclosure

iberty pointed out that effective
Policy would lead to large areas
ng needs. This prospect has not
nt of the Country Landowners'
land be used for recreational

n Young says that "a positive
glect", but takes the C.L.A. line
investment and planning per-
ve an obstacle (*The Times*, July
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s with hedges, and include a fair

ers and nature-lovers is quite clear.
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moorland, downland, marshes, river
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be keen to get rid of these, rather
, Nature Reserves and Sites of Spe-
in preference to other land. At pre-
plough these sites, thus destroying

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luded. De-enclosure should not, of
ve large areas of land; additional
e needed for this, or large-scale
The "new commons" would be
ng individual features of the land-

● Marion Shoard — her book exposed the destructive side of agriculture.

scape, such as one pond or one tumulus. In many cases, local conservation groups might take on responsibility for these sites. De-enclosure should take place throughout the country, including areas such as the Fen country and the Green Belt around London. Land values are very high in these areas, so that there would be considerable opposition.

As far as the Fen country is concerned, de-enclosure can certainly be justified on the grounds of conservation. These areas are typically flat, open and windswept, and the new commons would not only improve the appearance of the landscape but also allow for trees and bushes to act as windbreaks. In the Green Belt, where trespass and damage are serious problems for farmers, giving the public legal access to some of the land might actually reduce trespass and damage on the rest.

The new commons would give scope for recreation and sport, and local schools and youth clubs could be encouraged to plant trees and take an interest in "their" land. City schools or colleges might adopt suitable commons, for use as camp sites and bases for field studies. Tree planting need not involve expense. In some English counties, planting acorns was a tradition, and this was the origin of many fine oaks.

DE-ENCLOSURE would arouse opposition from landowners, especially from those who have bought land at high prices. To allow for this, and to avoid coercion, it would be proper to allow exemption from de-enclosure on the following basis.

An owner-occupier who had bought his land could claim exemption on up to, say 320 acres — but only if he agreed to pay rates on the land; not to claim tax relief, government grants or subsidies; and not to sell produce into the Common Agricultural Policy's intervention stores. Most probably, the cost of this agreement would exceed the value of the exempt land.

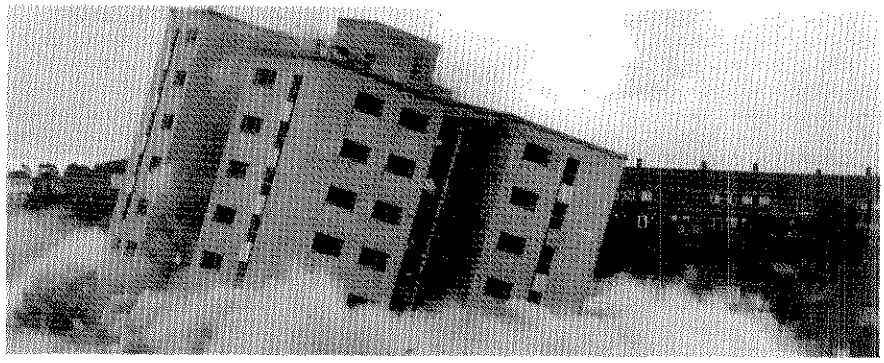
There would be no exemption for inherited land or for people or institutions who had bought farm land as an investment. These people and institutions have already enjoyed a very considerable amount of tax relief. De-enclosure would benefit everyone except landowners. They would suffer a loss relative to their current position, but this position (even allowing for recent falls in the prices of farm land) is itself the consequence of unjustified tax exemptions, grants, subsidies and price support schemes, all of which have been at the expense of taxpayers.

Interestingly, de-enclosure would tend to enhance the price of the land that was still enclosed, as there would be somewhat less of it. Finally, de-enclosure should not be regarded as a way of evading the long-overdue reintroduction of land taxation.

3. A useful book is I. Campbell, *A Guide to the Law of Commons*, Commons, Open Spaces and Footpaths Preservation Society.
4. Marion Shoard, *The Theft of the Countryside*, London: Temple Smith, p.31.

● Dr Hardie is a lecturer in economics at the University of Exeter. She teaches Finance Theory (to post-graduate level) and Micro-economics. Of her discipline she declares: "I really cannot explain why modern Economics largely ignores the vital topic of land, but I am quite sure that Economics will not solve our problems until land *is* analysed properly."

LVR in action



● Problem for the valuer: what's the life expectancy of a block of flats in the East End of London — before it's flattened?

By D.W. GREENWOOD

HAVING worked for many years in parts of the world where rates are levied on the basis of land value — unimproved value to be precise — I am somewhat amused that English proponents of the system religiously quote the Whitstable Pilot Scheme, but never refer to the many systems which have been in use for decades.

In practice, assessment of the value of the bare site is not as easy as most writers suggest. In the first instance the precise meaning of the term must be defined. This is done by a roundabout approach of first defining what is meant by "improvements" and then stating that "unimproved value" is the value of the land on the assumption that the improvements do not exist.

One problem is adopting a rational definition of improvements. Raw land, untouched and uninfluenced by human society, is an extremely rare commodity — there is probably no such thing in England. On the whole a rational definition is adopted which accepts that "hidden" or site improvements — such things as land drainage, levelling or filling of sites — are not classified as improvements. Equally it is accepted that, although the subject property is deemed unimproved, the surroundings are as existing (Tetzner v Colonial Sugar Refining Co. Ltd [1956].

Even so definitions are not uniform. In Fiji there are at least two definitions which differ slightly so that what is an improvement for one purpose may not be for another.

The two vexatious problems facing valuers are the lack of evidence of sales of unimproved land and the problems of assessing the somewhat hypothetical value of the improvements. Australian case law is quite clear in that it is not correct to deduct the value of the improvements from the value of the whole in order to arrive at the unimproved value. The Privy Council concluded in Toohey's Ltd v The Valuer General in 1925 that "It is therefore, to approach the question from a completely wrong point of view to begin with a valuation which takes in the improvements and then proceed by way of subtraction of a sum arrived at by an independent valuation in order to find the required figure".

In practice sales of improved property are analysed. In some countries such as Papua New Guinea, where there are no sales of unimproved land, there is no alternative. The practical problem is that of deducing the value of the improvements. Standard practice is to calculate the depreciated replacement cost, but this is fraught with problems.

If there are sales of comparable unimproved land it is possible to determine, by comparison, the value of the improvements and by analysis to determine the ratio between value and current replacement cost. Where no comparable sales exist the common method is to use a straight line depreciation factor. But how good is the valuer at guessing both the current age and likely life of the building?

In tropical countries where none of the buildings are particularly old, and tend to have a limited life, this is not impossible. But what rate of depreciation would you put on a 400-year-old thatched cottage in England — come to that, what life expectancy would you give a high rise block of flats in the East End of London?

Apart from the matter of distinguishing between improvements and bare site what interest in land has to be assessed? This is an aspect which does not affect annual value rating and seems to have been ignored by English writers on the subject of LVR. Australia and the South Pacific countries assume an unencumbered freehold site — rather peculiar in those countries where freeholds do not exist, but that is another issue. This gives rise to valuation problems. A fallacious assumption made where a particular parcel is subject to a ground lease is that the sum of the values of the interest equal the value freehold in possession. Some legislation does in fact stipulate that this assumption must be made.

Uganda adopted a different

● D.W. Greenwood is a London University graduate in Estate Management, a Fellow of the Royal Institution of Chartered Surveyors and the Rating and Valuation Association. He is a member of the Fiji Institute of Valuers and a registered valuer in Papua New Guinea. He has spent most of his career in Nigeria, East Africa and the Caribbean. He was Valuer-General and Lands Officer in Seychelles from 1971 to 1978 and Registrar of Lands and Adjudication Officer to the Land Registration Projects in Antigua and Montserrat.

He is currently Reader and Head of the Department of Land Management and Development at the University of the South Pacific in Fiji, and has recently completed consultancies in Honduras and Somalia for US-AID.

approach and valued the separate interests. This produced some peculiar, but predictable results. For a start the value of the freehold and leasehold interests change, in theory, annually as the lease gets older. This makes regular re-assessment an absolute necessity. Secondly if, in analysing sales, the value of improvements is deduced from the sale price, it is possible to arrive at a negative figure for the lessees interest — take care where a five-year-old building is situated on a site where the ground lease has a mere 10 years to run!

As to who pays the rates, the normal law is that the "Owner" is responsible, but who the owner is may well have to be defined. Commonly this is the freeholder but this would cause considerable hardship for freeholders whose income from the land happens to be a ground rent fixed 50 years ago. On the other hand, where ground leases exist, to charge the lessee ignores the whole philosophy of land value taxation.

In practice land value taxation works well in countries where almost all the land is freehold, where it is freely transferable, where there are few land use constraints and where there is plenty of vacant land changing hands.

As countries develop and urban areas fill up, values become more and more difficult in practice and assessments become more and more hypothetical. This may be alright if the assessments are equitable and the results are used for no purpose other than rating. After all if property A is worth twice as much as property B it does not really matter whether property A is assessed at $10,000 or $20,000, provided that property B is assessed at half that figure. If the total of the assessments is high then the rate percentage will be low and vice versa.

The problem with hypothetical figures is that they can easily become inequitable and are subject to manipulation — they are much more difficult to challenge than valuations based on the actual value of land.

USA housing latest . . .

COAST-TO-COAST BLOW FOR YOUNG

NEW YORK pipped San Diego into the top spot as the city with the fastest rising house prices in 1986.

The year began ominously when the Urban Land Institute published a report in January which revealed that the average value of undeveloped residential acreage had risen at twice the pace of inflation over the previous 60 months. The national average residential land price increase during that period was over 51%.

The expectations of land speculators were spectacular. For example, the price of the Manhattan lot known as 23 and 25 West 52nd Street jumped nearly tenfold, from $1m to $9.7m, as it was sold and resold four times.

Given these kind of rises, it is not surprising that homeowner costs in the New York region increased faster than anywhere else in the nation, reaching nearly 9%. The media reported some of the effects:

● Cultural groups warned that they were about to quit the city, because they could not afford the six-figure rent increases and shortages of suitable performance or exhibition space.

● As families moved out into the suburbs, house prices and rents in areas like Long Island leaped beyond the reach of young people — who were forced to join the exodus to far-flung places in search of affordable space.

Down in the southwest corner of the nation it was the same gloomy picture in San Diego, where Watt Industries president Joe Davis predicted that land prices "are expected to at least double in the next 10 years".

Nationwide, there has been an unprecedented decline in the ownership of homes among young people. While 2m housing units were built in the U.S. in 1985, only 63.5% of all households were homeowners compared with 65.7% in 1980.

CAPITALISTS ALL!

Rent ruses in the East and West

POLITICAL intervention in the housing market normally works in favour of the property-owner. Tenants, however — on both sides of the East-West divide — can sometimes work the legal system to their financial advantage.

MOSCOW: workers can tolerate low wages because their life-styles are heavily subsidised. Among the "perks": their apartments are subject to very low rents. Some tenants, however, have found a way of cashing-in on the rent controls. They sub-let apartments for rents which are five to eight times higher than levels set by the State.

LISBON: landlords are getting round Portugal's rent-freeze by demanding exorbitant "key money", an illegal payment which makes up for the loss of rent. Even so, property-owners are holding hundreds of buildings empty because of the rent-freeze. Meanwhile, many tenants in cheap flats have earned fortunes by sub-letting space at thousands of escudos a month — money which, in a free market, would go direct to their landlords.

● An estimated 700,000 Portuguese families are without a home of their own, thanks in part to the distortions in the housing market caused by the rent controls.

Distortion by speculation

HOUSE builders continue to blame planners for the shortage of land at affordable prices, *writes Ian Barron.*

Or they blame local authorities for not selling off enough publicly owned land. Never do they boldly identify private landowners in the role of land-hoarding speculators, against whom appropriate remedial measures ought to be taken.

It is true that, since the 1960s, town halls HAVE been guilty of hoarding land which they did not have the money to put to good use. Even so, councillors have had a thing or two to learn from the private sector when it comes to distorting the land market.

Historically, downturns in construction invariably occurred in periods when the speculator was at his most active. Take, for example, the collapse in the economy in late 1973. Private-sector housing building began to slow up over 12 months before the OPEC oil price hike — yet there was no shortage of land apparently available with planning permission (*see table*).

HOUSING CONSTRUCTION: S-E England (outside London)

	Estimated no. of dwellings granted permission	Dwellings completed
1970	54,000	43,600
1971	63,000	46,300
1972	81,000	44,700
1973	94,000	38,700
1974	59,000	32,700

The problem, of course, was that the builders were scared off by the price tags on the parcels of land! Many of them — those that did not go bust — resorted to trading in land rather than building houses.

The same thing happened in 1977-78; and it is happening again today. On each occasion, the price was paid in jobs — because consumers had to cut back on spending and pay more for their homes.

The planners, while they do add friction to the economic system, do not have the power to clog up the works as effectively as the speculators.

*

LAND MARKET IS GUILTY

ECONOMISTS in Britain have been puzzled by the size of wage settlements, in the face of unemployment that is now around 3.5m (counting the people whose exclusion from the labour market has been concealed by government adjustments to the statistics).

But an advance in theoretical analysis can now be expected, following some remarkable research at Nuffield College, Oxford, which has concluded that the housing market is "centrally implicated" in the wage bargaining process.[1] John Muellbauer concludes that wage settlements take into account the fact that house prices are a part of the cost of living for those buying a house, "even if this is not reflected in the Retail Price Index". Furthermore, house prices act as a barrier to labour mobility.

This analysis verifies a comparative study of the housing market, spotlighting in particular the USA, Japan and Australia as well as Britain[2]. Muellbauer's work, however, focuses on house prices, whereas a more accurate picture of the underlying mechanism emerges once the price of land is disaggregated from house prices in general.

In recent years, however, there have been difficulties in demonstrating the land market's impact on the economy. There is no shortage of data on the price of building land, of course. Prices of well over £1m an acre were being reported in London early last year — leading housebuilders to describe the south-east as experiencing a "banana republic land inflation"[3].

The House-Builders' Federation, unfortunately, had dropped a key question from the quarterly survey of its members. This was criticised by *Land and Liberty*[4], and the Federation reintroduced the question for its State of Trade Enquiry last July. Builders are asked to identify the constraints on future sales. The results are disclosed in the table.

	DEGREE OF CONSTRAINT: %		
	Major	Minor	No current problem
Mortgage availability	2	8	91
Labour availability	8	34	58
Materials availability	1	24	75
Lack of purchaser confidence	7	28	64
Delays/chains "down the line"	33	53	13
Inadequate supply of land	59	23	13
Purchasers' inability to pay house prices	**14**	**51**	35

[* Percentage figures may not add due to rounding]

This identified the critical problem with the supply of new housing (the scale of the prob-

BUILDERS EYE FARMLAND

BRITAIN'S house-builders have a plan for the 3.5m acres of land which would be withdrawn from agriculture, if the EEC's food subsidies are scrapped. Mr Graham Pye, past-president of the House-Builders Federation says its commercial development should take place at the rate of 10,000 acres a year. The money they earned from the sale of this land would compensate the farmers for loss of income, says Mr Pye. The policy would also help to conserve land on the rural margins.

Royal remonstration

● Prince Charles — an emotional intervention that will provoke a considerable debate.

PRINCE Charles has launched a scathing attack on the building industry, *writes Peter Poole*. In passionate terms he drew attention to inner city decay, and declared: "Despite the obvious need to tackle this problem, it always seems to me crazy that the building industry spends a great deal of energy in trying to secure greenfield sites."

The prince was impressed by a Scottish project in which the local authority — lacking the resources to demolish or rehabilitate a terrace of houses — handed the properties over to local people to renovate.

"I see the potential whenever I go to these areas and it drives me mad that others seem blind to the immense possibilities that are there," he told the National Housing Building Council's 50th anniversary conference in London on Oct. 28.

He criticised builders for concentrating their activities on greenfield sites, leaving the inner city to "fester" in an ever-increasing spiral of decay. And he said he was not impressed by the "short-sighted economic argument" that there was little point in pouring money into the inner city because there was no effective demand there.

The prince's emotional intervention, while not based on a sound analysis, will nonetheless provoke a controversial political debate. This could provide others with the opportunity to identify the heart of the problem, which is the failure of landowners — public and private — to offer their valuable sites for use at realistic prices.

OVER WAGES

lem can be judged by the fact that planners predict a shortage of at least 122,000 homes in the south-east by 1991): the inadequate supply of land. The next two major problems stem directly from the rate of increase in the price of houses, which are exclusively the result of the cost of land.

Then, in September, Britain's biggest house-builder, George Wimpey, suspended its purchases of land in the south-east (the economy's major economic growth region). Land prices were now constituting half of the cost of houses.

Public policy is in part to blame for the problem. Prince Philip — who chaired an investigation into housing — wrote a critical article in *The Times* on October 7, in which he said that home-buyers benefited from the tax-break on interest they paid on mortgages to the tune of £4.75bn a year. The Royal Institution of Chartered Surveyors explained:

"For new houses this has the effect of driving up land prices and thus reducing the amount of land which it is economic to allow each house."[5]

More — and smaller — houses are, in fact, now being squeezed onto plots of land. The housing crisis deepens; and the unemployment queues lengthen.

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Jobless and taxpayers exploited to make fortunes for landlords

BRITAIN'S recession is providing landlords with scope to make large unearned fortunes, says David Alton, MP. The Liberal MP has alerted the government to the way in which landlords are buying empty buildings in Liverpool and inviting unemployed people to occupy their bed-sitters at rents which are set at two to three times the market rates. Taxpayers then pick up the tab, because unemployed people can claim housing benefits to cover their rents.

ROCK OF GOLD

FACT: The Domesday Book — commissioned by William the Conqueror, who wanted a record of the taxable value of property in the British Isles — placed a value on England of £700,000. Nine hundred years later the Isle of Jethou, a speck of infertile rock in the channel was sold for £500,000!

RENT RUMBLES

THE SHETLAND Islands' Council, in the North Sea, is demanding £97m. a year ground rent for the Sullom Voe oil terminal. BP, acting as spokesman for the consortium of 31 oil companies, says the £300,000 they have offered is "a perfectly reasonable rent" for what is 1,000 acres of bare hillside. The council bought the site from a bankrupt firm of land developers for £2.1m.

REVIEW

Master realist

By DR ROGER SANDILANDS, senior lecturer in economics at the University of Strathclyde, Glasgow.

Stephen R Lewis, Jr (ed), *Henry George and Contemporary Economic Development*, Williams College, Williamstown, Mass., 1985, pp.95

THIS slim volume arose out of a conference organised by the Center for Development Economics at Williams College to assess the relevance of Henry George to fiscal and trade policy in developing countries. To this end four papers are presented. Roger Bolton, of Williams College, assesses the attitudes of economists, politicians and interest groups to Georgist rent theory and tax policy. Robert Conrad (Duke University) and Malcolm Gillis (Harvard) review developing country experience with mineral resource taxation and attempt to compare Georgist and "modern" concepts of land and natural resource rents. David Holland (M.I.T.) appraises the recent experience of Jamaica with land value taxation. And C. Lowell Harriss (Columbia) assesses the relevance of Henry George to the contemporary debates on protectionism versus free trade and the "incentive taxation" ideas of modern "supply-siders".

All of the contributors are sympathetic to the basic proposition that land and natural resource rents can be a more efficient and equitable source of state revenues than taxes on output and work. However, some contributors do not always do full justice to George's ideas. In particular, he is disparaged for failing to understand modern "marginalist" principles in economic analysis; for insisting that land is monopolised when we are all supposed to know, thanks to Alfred Marshall, that there is a competitive market for land; for failing to understand the modern "opportunity cost" concept whereby land has many alternative uses; and for not understanding modern portfolio theory in which land is only one of many assets that individuals can hold as wealth and which therefore must be given the "normal" rate of return earned on competing assets.

I believe Henry George would have had little difficulty disposing of all these criticisms, though it is true that George's famous debate with Alfred Marshall at Oxford in 1884 on land monopoly was unsatisfactory because of disruption from a disorderly undergraduate audience.

On the question of marginalism it should be noted that the essential feature of George's theory of rent, following Ricardo, is the declining marginal product of land which gives rise to a surplus over the costs of cooperating factors of production, labour and capital, on intra-marginal land where yields are relatively greater.

Competition ensures that the returns to labour and capital are equalised except for differences in skill, effort and risk. The general wage rate and the general interest rate tend to reflect what can be earned by the labour and capital that work on the least productive (marginal) land in use.

It was this analysis that inspired John Bates Clark to develop his famous marginal productivity theory in 1899, though unfortunately Clark saw no generic difference between land and capital. Bates thus missed the crucial point in George's theory that land is inherently non-homogeneous and fixed in supply whereas capital goods can be reproduced and moved around to ensure that the return to capital tended to be equalised at a level that just covered the real costs of production.

In this volume Conrad and Gillis, and Holland, both reflect the confusion Clark's approach engenders. In both papers there are diagrams that purport to show that "the" price of land is determined by the intersection of the downward sloping land demand curve and a fixed land supply. However this would only be "the" price of land if all land were homogeneous, like sacks of wheat or barrels of refined oil. Because these modern economists understand marginalism less well than George they then claim that land or natural resource rents can be measured by this same price for each unit of land, or the rectangle under the price line.

By contrast, Henry George explained that the last unit of land in use was capable of yielding only enough to pay the cooperant factors of production, labour and capital, their necessary competitive wages and interest, leaving zero surplus as rent on this marginal land. The area under Conrad and Gillis' "price" line is not rent but the total wage and interest payments to labour and capital. Rent is then the remaining (triangular) area under the demand curve because, with land in fixed supply but with heterogeneous attributes, each plot commands a different price.

Unless this is understood it is impossible to understand why a tax on rent will not directly affect the returns to labour and capital, which will continue to reflect their productivity on marginal land where rent, and hence rent taxes, are zero. (David Holland also has a misleading diagram that shows a land tax reducing the price of marginal land by shifting the land demand curve parallel downwards.) There would indirectly, however, be positive incentive effects for labour and capital if the rent tax replaced taxes on labour and capital.

It is also true, however, that Henry George was far less mechanical and mathematically rigorous than J. B. Clark in his approach to the marginal productivity of variable factors of production as their supply expanded while the supply of land remained fixed. But some would claim that

● Henry George

◄ Continued from Page 5

benefit is not uniform and significant intraclass shifting would occur to the poorer property owners, making it more difficult for them to retain and maintain their properties."

Assessments show utilities — gas, electric, oil, phone — reflecting 11.27% of Rochester's taxable property. Because utility value is mostly in improvements, not land, the simulation shows utilities as "the major beneficiary" of a two-rate tax.

Economists like Harriss and Cord expect this would lead to reduced utility rates, benefitting consumers. Farbstein, however, George's approach gains from greater realism what it loses in mathematical precision.

George emphasised the dynamic economies of scale and technical progress which could offset the tendency to diminishing returns and raise the productivity of labour as population expands. However, while George did not use the term explicitly, a sympathetic reading of *Progress and Poverty* or *The Science of Political Economy* show that he was well aware that it was the average product of labour that is increased by technical progress while the marginal product of labour tended to be little changed. For this reason the gap between average and marginal product widened, thus increasing the absolute level of rent and, though less inevitably, also the relative share of rent in national income. In the absence of measures to redistribute rent progress would march hand in hand with poverty.

However, George, following the French physiocrats, was aware that ultimately taxes on labour and capital reduced rents payable to landlords. This did not, however, mean that rents did not exist, only that they could be transferred indirectly to government through a roundabout, inefficient and stultifying system of taxes on labour and capital that were eventually passed on to landlords who were forced to charge lower rents in order to sustain wages and interest at their natural levels. (A *direct* tax on rent would transfer rents to the community far more simply and efficiently. Thus Roger Bolton, for example, is unfair to castigate George for failing to predict a falling and relatively low share of *measured* rent in national income as development proceeds, George was more interested in the underlying, natural shares of national income than with the surface phenomena measured by national income statisticians.

On the question whether the land market is monopolistic or competitive, the answer depends very much on whether one approaches this issue in terms of "classical" real costs (the labour theory of value) or "neo-classical" opportunity costs. George would say that land and natural resources were created not produced; they are the free gifts of nature. There were no costs of production. In the modern economic theory of the firm a market is said to be monopolistic if the product price exceeds its (marginal) costs of production. In the case of land there are no costs of production yet intra-marginal land does command a positive price. Why then object to this rent element as a measure of the degree of monopoly in land?

Modern neo-classical economists reject this view because they emphasise opportunity costs as the measure of value. If a central city site would yield #100,000 a year rent as a cinema but #101,000 as a disco then "economic rent" or "transfer earnings", on modern definitions is a mere #1,000 and George's radical view of rent conveniently disappears.

Similarly, in order to equalise the returns on various assets it is necessary that the value of land be capitalised and exchanged at the normal rate of interest. Otherwise there would, claim Conrad and Gillis, following Feldstein, be a "distortion" in the allocation of investible funds, or savings, or between land and other assets in individuals' wealth portfolios.

In *The Science of Political Economy*, which Lowell Harriss alone among the contributors to this volume appears to have read, Henry George devoted around 200 pages to explaining that what is wealth for the individual is not necessarily wealth for the society. In modern jargon land is not a currently produced article of wealth but a stock which can only be exchanged through "transfer payments". It is a fallacy of composition to state, as do Conrad and Gillis, that when an individual "saves" is income by buying land rather than, say, ICI shares then society has also saved more in this form. It is thus unfair to claim that George forgot the "general equilibrium effect" of individuals' portfolio choice.

The appeal of the modern theory of rent stems, I believe, from a fear that if rents are taxed away there would be no pricing mechanism to ensure that land is allocated to its most efficient uses. This fear is groundless if rents, as defined by Henry George and Ricardo, were all subject to the same percentage rate of tax. The decision whether to operate a cinema or a disco would then be unaffected by the tax since the relative operating costs would be unaffected.

Land value taxation does not remove the rationing function of rents as prices that reflect the relative scarcity or desirability of different types of site. It does, however, fundamentally alter the role of rents in the distribution of income in society between landowners, workers and capitalists in favour of the latter two. Rent taxation does not abolish rent, it merely changes its beneficiaries. In so doing, as Lowell Harriss is particularly eloquent in explaining, this change removes the shackles on industry, enterprise and thrift and promises a fairer and more dynamic society.

called utilities "one of the biggest problems we ran into — if utilities didn't lower rates, citizens and taxpayers would be up in arms against anybody suggesting this tax reduction."

The simulations "revealed significant, unpredictable class tax shifts would occur . . ." and that some of these shifts "may run counter to state programs." Of course there are tax shifts, taking away privileges afforded to those who use productive sites inappropriately.

Why, if the Commission designed the simulations properly, are the shifts called "unpredictable"? As to state programs, they surely are not designed to favor blight and sprawl, as present taxes do.

Under the impressive heading of "Analysis of the Economic, Socioeconomic, Legal and Administrative Arguments . . .," the report states:

"It is uncertain whether the alleged benefits of land value (or two-rate) taxation are worth the possible trade-off disadvantages of the arbitrary losses landowners and other [sic] could suffer as well as the general confusion of transition to such a study."

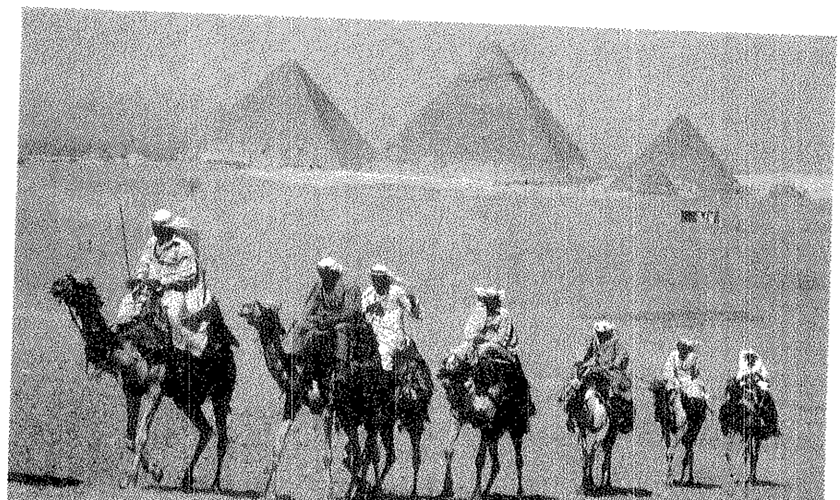
Far from arbitrary, the tax losses are shifted off good land users to land abusers. A clear virtue of the two-rate tax is that it avoids "confusion"; it is imposed gradually and works so smoothly that, as Scranton's mayor said of the two-rate tax, "We're really used to it — people don't even realize we have it."

Farbstein insists the study was undertaken with no hidden pressures. Its point on equitable assessments is well taken. Perhaps the discussion it engenders will let legislators reach a clearer perspective than that presented in the report.

**Copies available at no charge (in U.S.) from Temporary State Commission on Real Property Tax, 74 State St., Albany, NY 12207.*

Seedy celebration

FRED HARRISON visited Egypt. It was supposed to be an air-conditioned bus ride through the desert to view the glories of a celebrated civilisation. Instead, it turned into a tutorial on modern economic history provided by an astute tourist guide.



● Pharoahs' pyramids at Giza. Today's mortals have inherited a much-less substantial kingdom with a highly problematical future.

ALEXANDRIA. Dante's inferno: the seaport built by Ancient Greeks is a nightmare of dirt and decay, crumbling roads, people swarming like maggots over piles of rotting matter that are apartments and sweatshops.

Nasser's socialist revolution led to rent controls in 1954. This stopped private sector construction of accommodation for rent. The government tried to offset this effect with public housing. But the damage was done: the privatisation of socially-created rental values, coupled with an inadequate construction program.

Shrewd tenants who pocketed what they saved on rent are now building their own homes and selling the leases on their rent-controlled apartments for high premiums!

Bedhouins succumbed to the sedentary life, and settled on the fringe of the city. Some still have tents staked out in their yards. Wanderers they may have been, but they know a thing or two about location, location and location. Their land was needed on which to build factories for the jobless. They resisted until the price went sky-high. Now many of them are rich. But Alexandria still does not have enough factories.

* * *

UNDER King Farouk, 5% of the population owned 95% of the nation's wealth, principally agricultural land. Nasser, not knowing better, built socialism on sand.

For example, he settled for the simplistic form of land reform: the allocation of a few acres to the landless peasants, and an upper limit of 50 acres for those who already owned property. The inevitable happened: production slumped.

Anwar Sadat opened the door to private capital, and sought salvation in a mixed economy. Muslim fundamentalists were not impressed: they shot him.

Until the Third Oil Crisis erupted last year the main export was people to the Gulf States. Their remittances kept Egypt solvent — just — but the money is now drying up. No shortage of people, though: the population of 50m is increasing at the rate of 1m every nine months.

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CAIRO: Pyramids, where the police keep watch on the beggars. A camel ride for the tourists, every one of them Lawrence of Arabia. Homage to Tutankhamun.

The Pharoahs built homes of mud and sand, for life on earth was but a mere fleeting visit. Their tombs, however, were of stone, built on the west side of the Nile, facing the sun which sank beneath the ground, passed through a tunnel and was resurrected in the east.

Mortals are now buried in a cemetery called The City of the Dead. But the living compete for space with the dead. Because of the housing shortage, the homeless have occupied the cemetery: TV antennae atop the buildings, satellite images to blur the reality of a bankrupt nation.

It is difficult to know if the religious Right will usurp the soft-centred socialists. Will the mullahs give us a re-run of the Iranian revolution? The seeds of political discontent have been planted, which is more than can be said about the country's ability to feed itself: it now has to import over half its food, and prime agricultural land is being swallowed up at an estimated 1% a year by builders who ignore the fact that only 5% of the country's area is suitable for cultivation. And President Mubarak knows that his political flirtation with Israel provides the malcontents with a ready-made excuse.

It would have been different, if the colonels who sent a crooked king into exile in 1952 had instituted a real land reform — the kind that could have transformed Egypt into a civilisation that was proud of its present and did not have to rely on a gold-plated past for its self-esteem.

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