

CYNICAL PANTOMIME

THE whip-in of the landed Lords to vote against amendments in the Poll Tax legislation was very revealing. The response of their lordships was undignified and the resulting vote questionable on legal grounds.

Insofar as they were landowners they were gathering specifically to vote on a matter in which they were personally interested. The new property tax legislation would relieve them of rates on their country mansions, and bring into charge workpeople who had never before been individually rated.

The benefit to each Lord of the Land on his mansion only could be counted in thousands of pounds and the ownership of his landed property elsewhere could be benefited too.

Further, the promoters of the legislation say that the object of the measure was to ensure that those who benefit from the expenditure of rating authorities should pay. Landowners receive that benefit, often in greater measure than workpeople, for, in urban areas especially, the enormous land values are the result of public expenditure and the presence and work of the people.

Landowners - as such - contribute nothing; they are only takers.

As to legality, Members of Parliament have to give particulars of their property interests. The inference is that they should not vote on matters in which they could be personally financially interested in the results of the vote.

Magistrates are careful to disqualify themselves in similar circumstances in stricter measure, including non-financial matters.

One of the richest landowning Lords is reported to receive £11,000 *an hour*. Landowners, as such, are 'unemployed': no human can make land.

The amendment upon which the vote was taken was about ability to pay. That would create difficulties because it is in

• MARGARET THATCHER'S government mustered the strength of its landowning supporters in the House of Lords to push through its Bill aimed at abolishing the residential property tax and transferring the burden onto people through the Poll Tax. EDGAR BUCK (right), a Welsh lawyer, contests the legality of their Lordships' vote.



any case not possible to get blood out of stone and there would be enormous administrative difficulties.

It was at best a palliative and becomes unimportant when there is a solution which is economically sound, entirely beneficial to all our working people and challenges longstanding social injustice.

A tax on land values - but not on buildings or other improvements - is an ideal source of public revenue. Included would be the levying of tax on unused or underdeveloped land at its true value. This would quickly bring it into use. It would, at the same time, because of competition, halt and gradually reduce the price of land and solve the housing problem.

THE LORDLY trek was reminiscent of the events leading up to Magna Carta with its committee of 25 barons together with representatives of a landowning church, who saw to it that the collection of details of landholdings for taxation purposes (The Domesday Book) was never completed.

The whole of that operation was the beginning of the transfer of the obligation for the expenses of government from land to the workpeople. Let us not deceive ourselves, the present proposals for rates does just that.

It brought back to mind, too, the background to the Parliament Act of 1911

Continued on Page 15

LAND and LIBERTY

JANUARY-FEBRUARY 1989

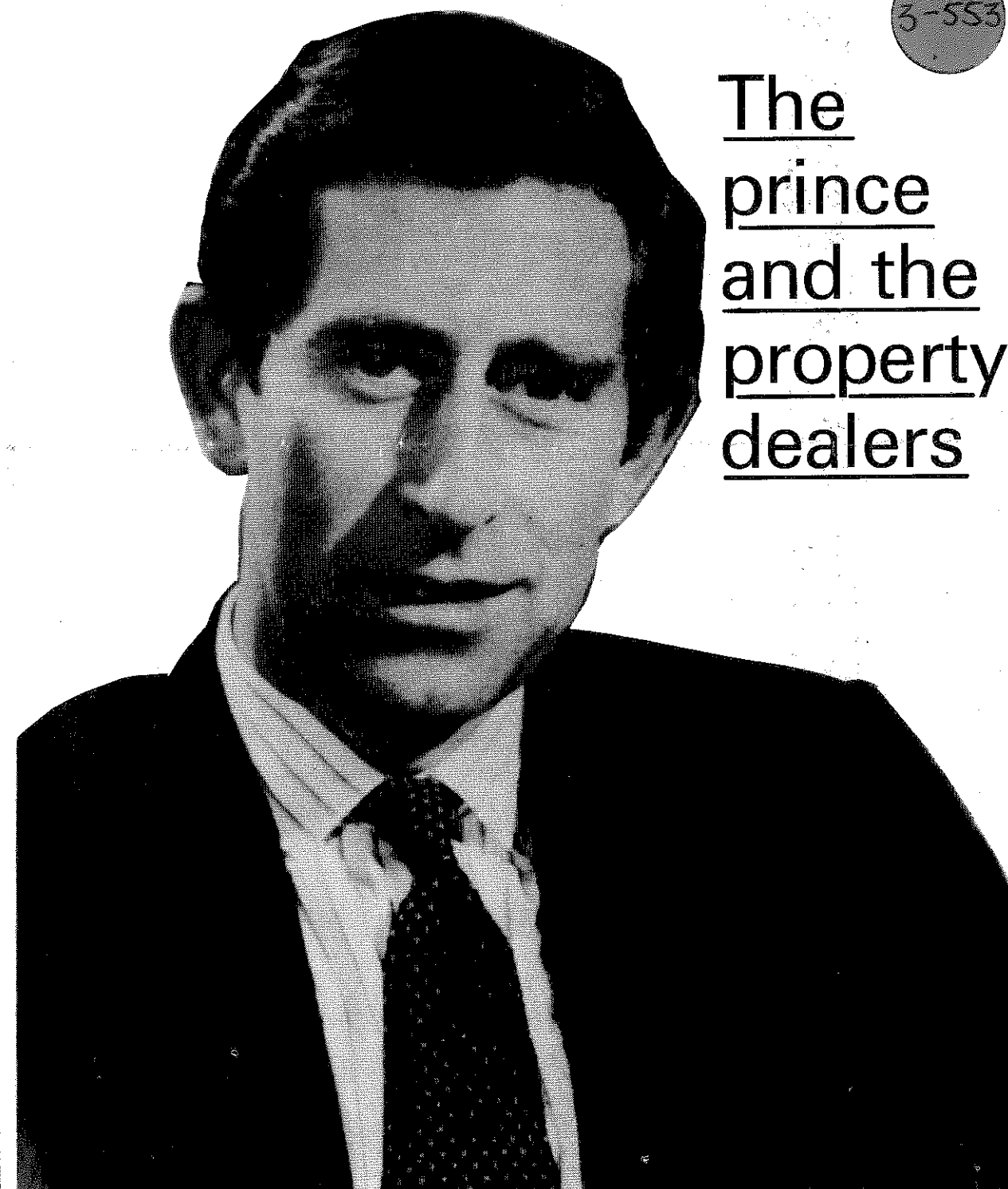
UK 80p; USA \$1.50

PEASANTS
BETRAYED

Centre
pages

3-553

The
prince
and the
property
dealers

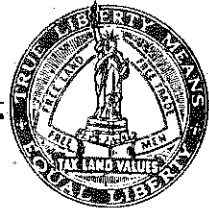


LAND and LIBERTY

Established June 1894

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
121 East 30th Street
New York, N.Y. 10016
Tel: 212 697 9880
ISS No. 0023 7574
Vol. 96
No. 1,136 & 1,137
Annual Subscription:
U.K. & Sterling area: £5
USA \$10, Canada \$11



Too hot in Japan DAVID REFEARN	3
Finnish LVT	5
Bush's missing link WALT RYBECK	6
Peasants Betrayed ROBERT SCROFANI	8
Charles and the property men INSITE	10
Labour's Poll Tax flop HENRY LAW	12
Lords' Pantomime EDGAR BUCK	16



• Richard Noyes is a man with a mission - see Page 14.

EVERYTHING'S WRONG!

TWELVE months ago we predicted that the UK economy was heading for an economic depression.

Our analysis was based on trends in the land market. Speculation was hotting up.

At the time, the economic experts generally agreed that the UK economy was performing well. Interest rates were low, the prospects for foreign trade were good, inflation was down to 4% and wage deals with employees matched rises in productivity.

Nothing could go wrong!

Our gloom, therefore, was at odds with the government's outlook and City analysts would not have shared our view that the real estate sector was creating the conditions for a slide into depression.

We were right. They were wrong.

Within two months of the euphoria generated by the tax-cutting budget presented to Parliament by Chancellor of the Exchequer Nigel Lawson, the outlook was transformed.

• The balance of payments were heading for a record deficit. Mrs. Thatcher's supply-side revolution had not kept pace with the demands of consumers.

• Private sector debt reached crushing depths. People used the escalating value of their homes as collateral for borrowing as never before.

• Industry could not get the workers it needs to expand; immobility was a direct result of house prices (which means residential land).

• The major retail chains admitted that prime-site rents were knocking their profits.

Economists are shocked by this unexpected turn of events. They need not have been, but

they ignored the signals sent out by the land market.

AND NOW we believe that other economies in the Western world are heading for a similar date with depression.

Speculative fever in the land market took hold of Japan in 1986. In countries as far apart as Australia and Finland, it began in 1987.

In the USA, Ronald Reagan's deregulation of the financial sector in 1982 encouraged speculation.

Michael Kinsley, Editor of *New Republic*, noted in his syndicated column (published in the *London Times* on Sept. 24):

"No-one knows to what extent the consumer boom of recent years has been fed by people's belief that their houses were making them rich. A property nose-dive might easily lead to the recession the stock market crash did not.

"As my favourite economist, Henry George, pointed out a century ago, inflated land values make the economy less efficient. They operate like a tax on the truly productive factors, labour and capital. Housing inflation has depressed our economy, frenzied our psyches, divided our society."

In Britain, John Muelbauer, a Fellow of Nuffield College, Oxford, also predicts problems, and his solution, published in *The Sunday Times* on Sept. 11:

"Tax only the basic residential land value of each property. This should have additional benefits in releasing building land for development. Thatcher should set her think-tanks to work on an administratively feasible design, drawing on experience in countries such as Denmark."

EUROPEAN ECONOMISTS URGE INTRODUCTION OF LVT

Jolt for Japanese

THE OECD has urged Japan to place a tax on land values. "The present tax system", it states "tends to discourage the release of underused land."

It goes on: "Nonetheless, reform is urgent. Distorting markets and using land inefficiently has (sic) a significant adverse effect on living standards".

In other words, inequitable land tenure and taxation causes poverty.

The Paris-based Organisation for Economic Co-operation and Development is not a reforming body so nothing must be expected resembling open denunciation of economic systems as they are. Nevertheless, between the lines of the carefully veiled language, and alongside the customary emphasis on the minutiae of trade balances and monetary strengths and weaknesses, it is possible to read an all-too-familiar story.

First there is some recognition of poverty, and how it is affected by current economic developments. For example, although there was a rise in domestic consumption during 1987, it was to be found more in non-wage-earners' than in wage-earners' households.

This was not surprising because, at the beginning of a period of boom, unearned income rises more rapidly than earned. The fortunate recipients of this unearned income will also be the ones to benefit if, as is hoped, recent increases in imports can be maintained to give home consumers the advantage of the high yen.

All the same, there has been recent discussion in the Diet about the possibility of achieving another cut in income tax by the introduction of broadly-based indirect taxation. Such taxation, as the survey fails to mention, is guaranteed to

JAPAN'S annual \$80 bn trade surpluses have fuelled one of the hottest bouts of land speculation ever experienced in this century. The Paris-based Secretariat of the OECD commends a tax on the value of land as a necessary reform. DAVID REDFEARN reports.



• OSAKA'S office blocks boom is not matched by housing construction.

the rich off lightly. This is how the survey deals with poverty. What then does it have to say about some of its effects, though not described as such within its pages?

It is now more than 60 years since Parker Thomas Moon⁽²⁾ summarised the economic motives for imperialism, as stated by the imperialists themselves. The ones of interest for our present purpose are:

- (1) the sale abroad of manufactures that cannot be absorbed by the domestic market;
- (2) the investment abroad of capital for which the domestic market affords no scope, and
- (3) the demand of industrial nations for raw

materials that cannot be produced at home.

Moon does not seem to have given due weight to the background to the first two motives namely the low wages that prohibit workers from consuming the equivalent of what they produce.

Japan, activated by the same three motives, is achieving by "peaceful penetration" what she failed in the end to achieve by war.

There appears to have been, in mid-1985, a peak in the last export-led expansion, from which there was a fall-off caused by a large appreciation in the value of the yen. The export of goods and services is projected to rise by 6% in 1988, and by 5 1/4% in 1989.

The authors of this survey

(1) Japan, Organisation for Economic Co-operation and Development, Paris, 1988.

(2) Parker, Thomas Moon, *Imperialism and world politics*. New York: Macmillan, 1926.

COSTING US DEAR

THE quality of housing in Japan is notoriously inferior to standards in other industrial countries because families cannot afford decent-sized plots on which to construct their homes.

But this is not just a domestic problem. The cost of Japan's residential land affects the rest of the world. For the price of land forces families to save more out of their incomes than ought to be necessary. The Japanese savings ratio is extraordinarily high compared with rates in, say, the USA or Britain.

The result is lower domestic consumption of goods, leaving less scope for other countries to export their products to Japanese consumers.

In Japan, however, an aggressive approach

	Japan	United States	France ¹	Canada
Area (km ²)	377800	9363500	549000	9976000
Density (person/km ²)	324.7	25.5	100.8	3.0
Value of land ²	4540.0	2950.0	172.1	256.2
(per cent GDP)	317.5	74.7	29.4 ³	70.1
(per cent wealth)	54.9	21.0	7.6 ³	19.9
Value of housing				
(per cent GDP)	49.7	88.4	153.9 ³	64.0
(per cent wealth)	8.6	24.9	39.8 ³	18.2
Value of non-residential structures				
(per cent GDP)	48.9	50.0	92.8 ³	140.0
(per cent wealth)	8.5	14.1	24 ³	39.8

1. 1983.

2. Dollar billions at purchasing power parity exchange rates in 1985 (which value a dollar at Y 222, FF 7.27 and C\$ 1.22).

3. The value of structures includes the value of underlying land.

Sources: OECD, *Main Economic Indicators*; Management and Coordination Agency, *Japan Statistical Yearbook* 1987; National Land Agency, *Land Price Publication*; INSEE, *Comptes des Patrimoines*; Statistics Canada, *The National Balance-sheet Accounts, 1961-1985*; U.S. Federal Reserve *Flow of Funds*.

to exporting goods is vital just to keep the output from factories high and unemployment low. This, inevitably, creates an imbalance in foreign trading relationships, and has led to friction which, so far, has been contained within diplomatic channels.

The answer? Says the OECD: "Lower land

prices would reduce savings and encourage greater investment in housing. By thus affecting domestic saving-investment balances, this change would tend to reduce the current external surplus."

So lower land prices are the key to higher-quality housing in Japan and less friction between trading partners.

much more than an obstacle to home-ownership.

Nevertheless, the facts set out are impressive enough. Despite its relatively small area, 377,800 km² as against the 9,363,500 km² of the United States, the 549,00 km² of France, and the 9,976 km² of Canada, the total value of the land of Japan is more than that of the land of these other three countries put together. What an opportunity for taxation!

In fact, there is land value taxation in Japan, but only at the rate of 1.4%, and based on assessments that represent only a fraction of the actual market value. Faced with a significant capital gains tax if they sell, owners naturally prefer to hold, even if they themselves have no immediate use for the land.

The way in which assessments are falling behind reality is dramatically illustrated by the example of Chiyodaku, where valuation for the holding tax on commercial land fell, between 1984 and 1986, from 15.3% to 6.5% of its current market value.

There was a similar fall, in Minatoku, from 18% to 5.9%; and, in Setagayaku, valuation of land

estimated to fall by 0.6m by 1995. The consequent lower wages will complete the vicious circle of which the survey shows no awareness.

RAW MATERIALS, the subject of Moon's third point, are now often obtained - peacefully - in exchange for long-term loans. A more insidious tendency, which will make eventual land reform more difficult in other countries, is Japanese investment in real estate overseas.

Once more it must be stated that there is no sign in this survey of any perception that low wages are the ultimate cause of imperialism, warlike or peaceful, or that land value taxation would clear the way for higher ones. In fact, they do not

← From Page 3

attribute the failure to achieve a durable change from exports to domestic demand mainly to a subsequent weakening of the yen, thereby showing that they share Moon's blindness to the more influential effect of low wages.

This drive to export is accompanied by the one to invest abroad. The reason for this is not only Moon's "surplus capital"; but also the "comparative advantage" of having labour-intensive work, as for example in the textile and electrical industries, done in places where wages are even lower than they are in Japan. Here the place of Korea, Taiwan, Hong Kong and Singapore is being taken over by the Philippines, Thailand, Malaysia and Indonesia.

As a result of these shifts, domestic

FINNISH FORAY

SOARING land prices in Helsinki have panicked Finland's government into proposing a tax on land zoned for multi-family residential buildings. A rate of 10% on the taxable value in the first year diminishes to 5% in subsequent years.

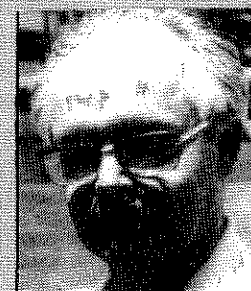
The plan has not received the unqualified blessing of Finland's leading land-use expert, Professor Pekka Virtanen of the Helsinki University of Technology, pictured right.

In recent years, he has published articles in the Finnish newspapers advocating a fully-fledged system of land value taxation - or a partial variant of that fiscal policy, in which the tax rate is reduced on the value of buildings and raised on the value of land.

Even so, Prof. Virtanen reluctantly accepts the new tax as "better than nothing." But, he points out, the tax is shot through with loopholes. Even the municipalities which would gain from the revenue can sidestep the obligation to impose the tax.

"The politicians are being cautious," reports Prof. Virtanen. "They feel that land value taxation is not very popular even among ordinary people, to say nothing of the bigger landowners. They accept the 'penalty tax' because it is a temporary solution, and directed at

Helsinki probes the LVT option



some bigger landowners, especially the so called 'grunders' or big developers who own large tracts in the Helsinki region.

"This is a typical case where politicians count probable votes and do not think about the problem or the effective solution."

The deterrent effect of the tax on the land hoarders is not likely to be effective. For the assessed value of land in Helsinki is notoriously low, and the gap between taxable and market values has increased in the past 12 months as prices have risen steeply.

A committee set up by the Ministry of Finance to investigate the workings of the property tax is expected to report at the end of January; observers do not expect it to propose radical reforms.

In fact, the Helsinki land market is likely to be aggravated further this year, for the government proposes to raise

the tax on the capital gains made from the sale of land. Owners are expected to withhold their sites from the market, thereby restricting the supply of land further - and forcing up prices even higher!

The reasons for the boom in real estate are the same as those that operated throughout the world since the crash of the stock markets in October 1987. Explains Prof. Virtanen:

"Many investors got frightened and sold their bonds and debentures to invest in more secure and concrete objects.

"Simultaneously - by a mere chance - the Bank of Finland slackened its rule that you had to save a certain amount of money (normally 20% of the price of the residence to be bought). Now the lending became 'free'. You could borrow money up to 100% of the value of the house or apartment. Even more than that, you could have 'eternal' loans, i.e. loans for which you only pay interest.

"These two factors suddenly caused a sharp rise in demand, and prices grew at annual rates of 30% to 50%.

"There were no demographic or planning explanations for the steep rise in prices, and foreigners play no role in our real estate market: they have very limited rights to acquire real estate in Finland."

for residential use fell from 19.3% to 16.6% of the market value.

More recent changes are not reflected in these figures; for revaluations are carried out only once every three years. A further limitation is that any tax-increase is restricted to 10%.

Taking into account these additional factors, some critics have estimated the average tax rate

pared with the nominal 1.4%.

"Reform of the taxation of land," says the survey, "has become more important given the rapid recent rise in land prices." We cannot but agree. Yet its authors put forward the possible difficulty that, because land prices have risen faster than incomes, some land-holders may not be able to afford a more realistic rate of tax.

increased taxes themselves, or even the knowledge that they were on the way, would start to bring the prices down from their present monopoly-induced level. Furthermore, other, less just, taxes could be reduced in compensation.

A word of warning. Japanese advocates of the increased land value tax will need to look sharp; for there is already a movement

HOW ABOUT launching a program to help meet a serious national issue that would not only not require more federal dollars, but would actually reduce local taxes for most taxpayers?

The issue is the shortage of affordable housing. We know the problems:

- Homeowners face ever-higher property taxes. Home buyers, especially the young, face impossible housing prices.

- Apartment dwellers face constant rent increases. The numbers of homeless are swelling – and more and more of them are low-income working people and parents with small children.

Increasing land costs are the biggest single factor in the escalation of housing prices.

"Affordable Housing: A Missing Link," a report by our Center, reveals that over the past two decades building costs rose about 14% a year and housing-related labour costs rose 11 to 15% a year. Residential land values during the same period averaged annual increases of 48%.

Yearly land price increases have been less pronounced in some states like Ohio (23%) and Wisconsin (31%). In Colorado (64%), Florida (58%), New Jersey (55%), Texas (87%), and Utah (69%) land values seemingly exploded.

What to do about this land price boom? Let's look at property taxes. Right now, most localities are piling taxes on buildings and improvements and keeping them low on land values.

This is an upside-down approach. It keeps housing costs and apartment rentals soaring and enriches only land speculators.

It also punishes good landlords. Every time they build new rental units or make major improvements to existing buildings – a new roof, air conditioning, whatever – the assessor raises the valuation so the owner's taxes go up.

Eight cities are already benefiting from a right-side-up tax

THE US presidential candidates avoided using one word; taxation. George Bush won the election without raising fears that taxes would have to be raised to deal with the Federal deficit. WALT RYBECK (pictured right), reporting from Washington, says that Bush's opponent, Michael Dukakis, failed to use a trump card which would solve a major problem without raising taxes, and Mr Rybeck, Director of the Center for Public Dialogue, has some advice for the new incumbent of the White House.



Missing link that George Bush should supply

- Adopted HIGHER tax rates, simultaneously, on land values. This takes the profit out of holding idle land.

This makes sense. Look at Pittsburgh. Its tax rate on homes and other buildings is only one-sixth as high as on land.

One result is that average prices of new and existing homes in Pittsburgh are lower than in any other large city – \$51,300. Next lowest are Rochester and Salt Lake City – \$75,000 and \$78,400. Most are over \$100,000, led by San Francisco and Boston – \$183,000 and \$229,300.

As Pittsburgh kept widening the differential between land and building rates, *Fortune* reported that the value of new construction in the city rose 14% in 1979, 212% in 1980 almost 600% in 1981.

If this occurred, only in Pittsburgh, you might question whether the tax system – or some other private or public action – was responsible. However, it stretches belief to call it a coincidence that similar results followed in the other two-rate taxing cities.

For example, in the two years

after Scranton began taxing buildings at only one-quarter the rate that it taxed land, it saw the value of private construction rise 22%. At the same time, in Wilkes-Barre, just a short distance down the Susquehanna River, private construction fell 44%.

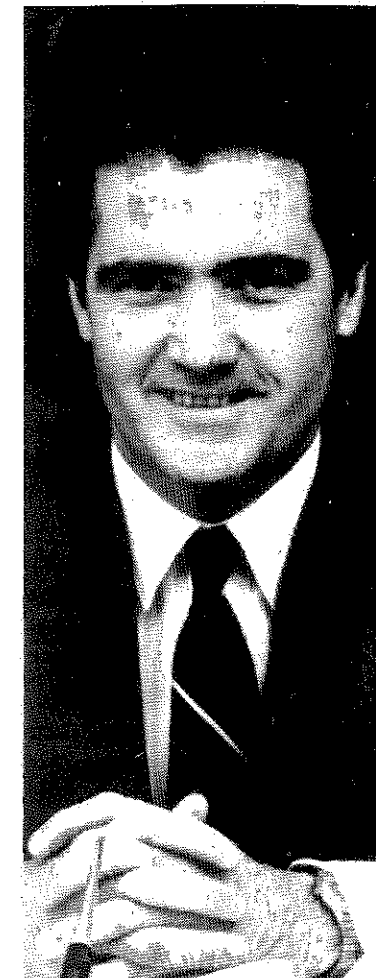
McKeesport and New Castle saw construction take off after adoption of the two-rate tax. In comparable neighboring communities, building slumped.

New construction translates into bringing more jobs into central cities where they are most needed. Another bonus of both commercial and residential in-city development is that it reduces urban sprawl. This economizes on public funds that otherwise must be used for

over-extended sewer lines, roads, mass transit and other public facilities. It also saves precious farmland from premature urbanization.

Almost every homeowner in Harrisburg, PA, saw taxes drop when that city adopted the two-rate system. What's more, the eight cities using this system are racking up equal or higher revenues than before. Unlike Proposition 13, the reform does not drain local treasuries of funds for schools and other essential services.

The only losers are land speculators who find their taxes hiked when they just sit on their land without doing anything about it.



• Bill Coyne

'SWITCH OVER'

POWERFUL interest has been shown in the publication of a major report on the US housing crisis. *Affordable Housing: A Missing Link* was published by the Center for Public Dialogue, a Washington-based think-tank which identifies the reform of the property tax as vital if decent homes are to be provided for everyone.

After the report was published, experts endorsed the proposal for a switch in the tax burden from buildings to land. Roger Starr, a *New York Times* writer, declared: "Escalation of land values is one of the most serious causes of housing problems. High land prices reflect the under-taxation of land values which makes land a prime medium for speculation."

Father William Byron, an economist and president of Catholic University, said: "It's a scandal that homelessness is growing while boarded-up apartments stand idle."

The report reveals that, since the mid-Fifties, the cost of wages of construction workers, building costs and the consumer price index had increased about 300%. Residential land prices, however, had escalated by more than 2,000% by 1980!

Walt Rybeck, Director of the Center, told *Land and Liberty*: "There has been a very good response to the report. Lobby groups, for example those representing the homeless, and organisations such as the National Association of Realtors, showed interest,

and now we are pushing hard to reach the general public."

Information on the tax reform has been sought by a number of State governors. Strong interest has been shown by the Vermont Governor, whose commission on taxation is investigating reforms. "They are looking at the land tax as an alternative to the other options," reports Mr Rybeck.

But there is also interest on Capitol Hill, where Bill Coyne, a Democrat Representative from Pittsburg, said: "The dual tax has given Pittsburgh the lowest housing costs of any large city. To stop blight and overpricing from eroding federal housing programs, cities and states should look to this pro-housing tax reform."

Officials from the Department of Housing and Urban Development have also asked the Center for information about the impact of land prices. Says Mr Rybeck: "In the past, they haven't done anything about the land problem: they have tried to work around it."

"Under the old approaches, pouring billions of dollars into the problem has been the 'solution' – which hasn't worked! The idea of a strategy for holding down land prices now excites them. It would enable the Federal government to stretch its housing subsidies further."

"The Peasant Betrayed - Agriculture And Land Reform In The Third World", by John Powelson and Richard Stock et al. Lincoln Institute of Land Policy, (1987), Oelgeschlager, Gunn and Hain.

AFTER studying 26 societies, the authors of *The Peasant Betrayed* come to the somber conclusion that land reform programs whether sponsored by regimes of the Left or the Right have "harmed the peasant more than helped him." More importantly the authors discovered that only when the peasants drew on their own strength were their gains likely to be permanent. Land reform in the main, they say, has been granted by a benevolent government or been achieved through the power of the peasants. Only land reforms negotiated from peasant strength have survived.

Powelson says he had not expected this finding, which is contrary to much of the literature. He favours land reform as a "prerequisite for equitable economic growth - without it a whole generation of landless poor will live short and nasty lives with little dignity and less security."

But land reform is not implemented to give the peasant a place in society, he contends. The pattern in most Third World countries is to centralize power and then transfer the agricultural surplus to the State through its monopoly power and price controls.

Powelson states that the result "almost without exception is that output decreases and the peasants are impoverished. The most harm is caused by interfering with the peasant. The most is to be gained by granting them freedom to do what they have done so well for so many years."

WHERE farming is left to farmers, output increases and the welfare of peasants greatly improves. This *laissez faire* approach is rarely used, Powelson says. He details the ways governments pressure the peasants to give up the surplus and to reshape their lives along the lines of new government edicts.

In most cases, the record shows, the land is taken from oligarchs and transferred to the State. Incentives are reduced. The State in Lesser Developed Countries is not a defender of the national interest, nor of the poor, he says, "except when the poor have the leverage to demand it." The governments in LDCs tend to be less accountable to the poor and often have little respect for the key role they play.

Land is worth the capitalized value of its revenues (e.g. crops). If bureaucrats skim these revenues away, leaving the farmer with no more than he could earn as a landless laborer, his newly acquired land is worth zero. If the same happens in a government cooperative, his membership is worth zero.

A 20 year review of 26 nations demonstrates that except in two, the peasants are worse off than before. Only in Taiwan and South Korea, where the peasants had more political leverage, were conditions different. Even here though, the authors believe that the benefits would have been greater if the government had not interfered in the market.

"All peasant societies have their own systems of credit, supply, markets, savings and investments and communications of technology." Yet the State often supplants rather than supports these indigenous institutions and thereby disrupts village life.

The governing elite also favour the urban residents over the rural

Land reform schemes fail

MORE HARM THAN GOOD

by Robert Scrofani



ones. They usually pay the peasant poorly for his product while charging him monopoly prices for inputs such as fertilizer and seed. Power is centralized even in the most benevolent States. Powelson emphasizes that "the economy is often much more complicated than the imagination of the government". He says "peasants can cope with economic life in ways incomprehensible to the State. The reality of land reform can only match the rhetoric when peasant power is developed from below."

This is a very readable book with an extensive bibliography which I commend to students of development and land reform. Its widespread coverage and succinct presentation suggest it as an important tool for evaluating new proposals for aiding the landless poor who make up so much of the Third World. A few of these case studies are summarized below.

IN THE 1960s many people looked to the Tanzanian experiment under Julius Nyerere. Despite his love for his people and his hopes for creating a new society, the results were disastrous. The African traditions were destroyed. Cooperation gave way to orders and interference from government "strangers." Little or no respect was paid to differing tribal traditions and many people were forcibly moved by government edict. Farms were often burned to prevent peasant farmers from returning home. The predictable result of substituting Nyerere's vision for that of the peasant was a ruined economy.

SOUTH KOREA is different because:

- (1) the reform did not lead to new government institutions in the countryside;
- (2) the rural elite which had collaborated with the Japanese during its occupation and annexation of Korea was destroyed without creating a new class; and
- (3) the value in agriculture increased 4% per year for eight years without government interference, enhancing the peasant political power.

After WWII the large landholders (as in Taiwan) were discredited and thus were politically impotent. The government also did not con-

trol the input markets until much later than other countries. Resistance to the Japanese increased the power of the peasants who emerged even stronger when their electoral support was needed in the American sponsored elections. They were educated (50% literate). They diversified their output from crops (60% rice, 8% barley) and increased vegetables and livestock such as pigs, rabbits and chickens.

Later as population grew in urban areas, grain imports skyrocketed from 490,000 metric tons in 1956-60 to 2,560,000 tons in 1961-75. The government encouraged internal growth by increasing the price for agricultural goods above the market price and subsidizing the consumer. The record of success is clear. In 1945 there were 13.8% farm households and in 1964 there were 71.6% farm households. One-half of the land had been redistributed to two-thirds of the rural population.

TAIWAN is often cited as the most successful model of land reform in the post World War II period for its equitable distribution of income. Studies by the Overseas Development Council indicate that the gap between the top 25% in society and the bottom 25% closed to 4.5% after the reform. Population growth rates and infant mortality rates dropped significantly.

Taiwan's success story is described in three parts:

- (1) Rent reduction in 1949. The landlord's share was reduced from two-thirds of the production to one-third and the tenant's share increased to two-thirds;
- (2) sale of public lands in 1952; and
- (3) "Land to the Tiller" in 1953. Above a certain limit lands were confiscated and sold to the tenant farmers at set rates. Public land sales and rent reduction had both served to lower the land costs.

In 1949 the Nationalists defeated by Mao came to the island. They needed rural stability and food for 1,000,000 troops and officials. They decided the key was the land reform which they had neglected on the mainland. Despite its enormous success, the authors report that the government did skim 50% of the marketable rice for its civil servants and army. It also bought rice at lower than the market price while charging more than the market price for inputs.

The authors give grudging respect to the Taiwan experiment which was "by ordinary standards, a great success," but fail to balance their criticisms with the enormous success of Taiwan as reflected in its high standard of income, the enormous jump in trade and the number of successful farm family entrepreneurs. As one of the "tigers" of Asia, it deserved a more comprehensive examination.

IN 1934 Somoza owned no land. In 1937 he was President. By 1946 the Somoza family had monopolies of coffee and beef exports and domestic milk production; by 1970 they owned 46 coffee farms, 7 sugar plantations, 51 cattle farms, 400 tobacco farms, and 60% of all meat packing, fish and cigar industries. In 1979 Somoza was overthrown.

The Powelson study "shows":

- (1) The Sandinista government is centralized and authoritative;
- (2) agricultural decision making, pricing, production and techniques are tightly controlled; and
- (3) cooperative committees although freely elected by tenants do not make basic decisions; the government does.

They say that "We see in Sandinista Nicaragua a replication of pro-

Blemished broadside

PRINCE Charles cares for people, but the constitution prevents the next King of England from engaging in politically sensitive issues.

He cannot speak bluntly about the roots of poverty, for example. For that would bring him into conflict with his mother's ministers.

So the Prince of Wales sticks to worthy causes for which he is applauded. For example, he vigorously criticises architecture. He has made a film for the BBC in which he lampoons some of the major postwar buildings in Britain and castigates them with the purple prose of the pamphleteer of a bygone age whose vicious pen had to serve as a substitute for political power.

"There is no need for London

INSITE REPORT

to ape Manhattan," he mused as he chugged up the Thames on a launch, lamenting the loss of the skyline created by Wren and immortalised by Canaletto.

One building designed for men of learning he described as more like "an academy of secret police". Another looked to the royal eye like an incinerator of books rather than a place to store and study the volumes. "We don't have to build towns and cities we don't want, in which we feel manipulated and threatened by the architecture".

The Prince returned to his "small is beautiful" yardstick and provided a fair account of what people wanted from their built environment, which should "raise our spirits".

"Man is much more than a mere mechanical object whose sole aim is to produce money. Man is a far more complex creation. Above all he has a soul, and the soul is irrational, unfathomable, and mysterious."

This was acknowledged by man's ancestors, who embellished their buildings accordingly. Our age, alas, has abandoned the past, which amounted to the "denial of God's place in the scheme of things".

WHO does the prince blame? Without a correct answer there is no prospect of overriding what he called the "forces of uniformity" which throw up the soulless towers.

The royal landowner took sideswipes at all and sundry - except landowners.

He blamed planners; architects who created buildings that looked like word-processors; developers in the pursuit of profit alone; the public, lamenting, "when did we lose our sense of vision?"

He did NOT explain why developers adopted the size and density of projects like Canary Wharf in the Docklands. Could it really be that the developers were barbarians who did not - as individuals - share the prince's desire for buildings of elegance

and dignity, which respected nature?

The answers are authoritatively provided by a study for the Royal Fine Arts Commission,* which concluded that the price of land was at the root of the problem.

When land is sold for the maximum price, "it has the effect of depressing the building budget to achieve an attractive price. This makes for cost cutting"

The price of land is ignored by another critic of house-builders, Environment Minister Nicholas Ridley, who repeatedly claims that part of the housing problem is the poor design of structures. He does not discuss the reasons why builders cram the maximum number of units onto a site at the lowest possible unit cost. The explanation, however, is offered by the Royal Fine Art Commission study:

"Shortage of land leads house-builders to trim 'inessentials' in order to produce affordable houses. Relaxation of green belt and countryside constraints would, according to the House-builders Federation and the Building Societies Association, make housing less a seller's market, reduce the cost of housing, and leave more room for manoeuvre for better design."

But even this study chickens out of a full-blooded attack on the land market *per se*; its strictures are limited to public landowners:

"Government land disposal policies for public held sites are geared entirely to maximum financial return with seemingly no attention to design quality."

Not surprisingly, therefore, the recommendations for action are limited to what the public sector can do: "The Commission should lobby the government for a mechanism that would

* Tony Aldous, *Inner City Urban Regeneration and Good Design*, London: HMSO, 1984.

BALTIMORE DREAM

THE Royal Fine Art Commission survey discovered one solution in Baltimore, the US city frequently quoted by British government ministers as a success story of urban revitalization.

"The chairman of the developing agency, Walter Sondheim, is emphatic that architectural and overall environmental quality would have been greatly inferior if his board had not been able to accept lower initial price on land while reserving for its paymaster (the City of Baltimore) an equity in the commercial success of each development."

Sondheim argues strongly that a "highest upfront price" requirement leads to developers over-bidding and then cutting on quality.

In Britain, urban development corporations - bureaucratic devices created by the government to unlock land tied up in dis-

use for years, even decades - may not be able to adopt the Baltimore option.

"UDCs either believe they are bound to accept the highest bid for land irrespective of design quality or doubt whether they have discretion to take a lower price."

The desperation to obtain land is evidence of a malfunctioning market - one in which the landowner is able to exact a monopoly price, and thereby distort rational decision-making.

Landowners can impose conditions. New York's Battery Park City is cited as "not in general inspiring," but "the imposition on all developers and their architects of a unifying pattern of two-storey colonnades with uniform cornice line above them does much to bring human scale and 'liveability' to the development".

Restrictive covenants on land affects the price. Some public landowners might forego part of the value of the land to satisfy royal aesthetes; but private sector owners will not do so.

For as even Prince Charles conceded, in his film, as Duke of Cornwall his large landholding has to be run as a business.

There is a solution to an erratic supply of land at uncompetitively high prices: a high tax on the annual rental value of all land. That would clear out the bottlenecks in the market and smooth out the price.

But Prince Charles would not be free to advocate this general solution: for in Britain, taxation is the prerogative of commoners, ever since their lordships sought to block Members of Parliament from introducing a tax on land values in 1909!

allow public bodies selling land to take a smaller initial payment and an equity in the developer's future performance. This would, it is argued, put a premium on quality - and durable commercial value - instead of what is often a penalty."

The report draws on the Baltimore model for this solution (see story above). What does it amount to? Landowners are invited to defray part of their rental income, which reduces the start-up capital costs of a development.

In other words, land prices are so high that they kill investment in the aesthetic nuances of architecture, a conclusion which is highlighted by the examples of fine architecture selected by

Prince Charles. They are derived from periods in history which were not dislocated by property speculation; or from people - principally patrons of the arts who acquired their money from the ownership of vast estates - who could afford to indulge their artistic whims.

These facts seem to be lost on the prince, who as the Duke of Cornwall has at his command tens of thousands of acres.

But even if he was aware of the disruptive effect of the land market on architecture and aesthetic values, Prince Charles could not discuss the matter, for he would find himself challenging the most powerful people in the land - his fellow landowners!



• Charles on the River Thames, lamenting the loss of the Wren skyline

OPPOSITION FUNKS POLL TAX TEST

BRITAIN'S impending Community Charge, generally known as the Poll Tax, is a gift to the two main opposition parties. But unless they have a sound alternative to offer, their debating position is weak. Sound alternatives to the Poll Tax are, unfortunately, what neither party has managed to come up with so far.

The Labour Party has managed to shoot itself in both feet by advocating a combination of both a local income tax (LIT) and a domestic property tax based on capital values.

Under the Democrats' scheme, put forward by the Association of Liberal Councillors, employers would deduct the local income tax at a standard rate of, say 5%; at the end of the tax year, residents of areas where the tax rate was less than the standard rate would receive refunds. Those in areas with higher LIT rates would pay the difference; 70-80% of people would get refunds.

This proposal is probably the most thoroughly worked out arrangement for collecting LIT so far devised, but that is not saying much. At least five difficulties come to mind immediately:

- Tax rates would be high in

Bullets in their feet!

By HENRY LAW

areas where incomes were low or unemployment was high - creating a disincentive to work other than in the Black Economy.

- The year-end system of adjustment payments and refunds would create serious administrative problems for local authorities.

- It would be unfair, and a source of hardship, if local authorities were holding £150 or so of each tax-

payer's money, awaiting refunds.

- When people moved in the course of a tax year, there would be a problem establishing precisely when they had done so, especially as this would substantially affect the size of their payment or refund.
- Local authorities would receive no income from empty houses and residents of second homes.

IN A SMALL country like Britain, a local income tax would pose particular problems because people frequently move

DEMOCRATS PROBE LVT PROSPECTS

THE new Social and Liberal Democratic Party approved a "green" paper at its first annual convention in Blackpool which backed land value taxation in these terms:

"A tax on the value of land is not only easy and cheap to collect but can encourage positive planning. For example, vacant land designated for development could be taxed as though it were developed, so providing an incentive for development."

"By relating the tax to the planning system, such a tax could also be used flexibly to encourage those land uses desired by any particular local authority."

The paper, *A Green and Pleasant Land?* was produced by the Land Use Planning

Working Group. An amendment calling for the adoption of the paper was supported, which proposed further research into the practical implications of land value taxation.

The document argued in favour of "the return to the community of a reasonable share of the increase in the value of land when planning permission is granted for development."

And the Working Group wanted "recognition of the fact that land is a natural asset and that the community can therefore expect some financial return from people who either waste or profit from this asset."

Adoption of the paper does not commit the party in policy terms, yet. The proposals now go forward for further consideration, and will be embodied in a "White" paper for further debate within the party.

* Federal Green Paper No 6, 4 Cowley Street, London, SW1P 3NB. £2.50

from one local authority area to another. This is why a property tax is the most practical way of raising revenue for local services; people are mobile but property is fixed. In coming up with a scheme like this, the Democrats' case is going to be demolished by the supporters of the Poll Tax - and deservedly so.

If replacing the Poll Tax with LIT is a doubtful proposition, the Labour Party seems intent on getting the worst of all worlds. Labour would use local income tax to raise between 10% and 20% of the total contribution made by residents to local authorities, with the balance coming from the domestic property tax based on capital values. The national business rate would go, and business rates would be fixed locally once more.

The first snag is that any form of tax costs a certain amount to administer, regardless of the revenue that it raises. For the sake of efficiency, tax systems should not be allowed to proliferate. If LIT was used in addition to a property tax, the cost of collecting it would amount to 10% of the yield!

Nor is there much to be said for Labour's version of a property tax based on capital values. It would revive the most unfair feature of the present rating system: rates penalise improvements. A higher rate would be paid on a well-maintained and modernised house than on a property which had been neglected. Does Labour really wish to use the tax system to encourage neglect of the housing stock?

ASSESSMENT on capital value would cause other problems, too. The basic value of a pro-



• Dave Wetzel

erty is its annual rental value. Capital values are derived from the annual value, and dependent on factors such as interest rates, expectations of future increases in value and the mood of the market. Rental values are fairly stable. Capital values are not. Capital value assessment also gives rise to a further difficulty: the tax erodes its own tax base, because capital values are themselves affected by the tax liability.

The Labour Party's thinking on business rates is equally misguided. There is nothing wrong with its proposal to re-introduce some form of local business rate, but, as with its domestic rate, using the present method of assessment, improvements would still be penalised.

So long as rating valuations include buildings and plant, higher rates would be payable on a modern, well equipped factory than on an outdated building or on a valuable site which was used for some low-grade purpose such as outdoor storage. This system bears heavily on manufacturing industries such as steel and chemicals and is hardly an incentive to industrial enterprise.

The Labour Party has always complained about the way that the Conservative government has allowed industry to run down, but this proposal will do nothing to reverse the process.

Labour thinking has also

ignored the benefits which the national business rate will bring, in promoting regional development, by transferring resources from the more prosperous parts of the country to those which are less favoured.

The national business rate will do this because rates are based on rental values which reflect geographical advantage and disadvantage. The national business rate will be related both to ability to pay as well as to benefits received from the community at large in the way of infrastructure. In this way, the national business rate should help the economies of the regions at least as well as any of the bureaucratic aid schemes which have been devised over the past 40 years.

Given the Labour Party's stated aims, one might have expected that its policymakers would have acknowledged these benefits. Had they done so, they would have suggested that the national business rate should be kept in place alongside the local rate - there is no reason why it could not be. This would have given a Labour government the opportunity to reduce other taxes - for example, those which bear hardest on the low paid.

BUT THE Labour think-tankers seem to have overlooked a lot of things. Not a word is said about the long-standing anomaly of agricultural land, which is exempt from rates. And the party experts evidently ignored or failed to understand the convincing evidence in favour of land value rating which was pushed in front of them by the Labour Land Values Group, a working party chaired by Dave Wetzel, former chairman of the

blems in Egypt, Tanzania, the Philippines, Mexico and other countries we have studied," and respond to *Food First* authors' Joseph Collins and Frances Moore Lappe who wrote *What Difference would a Revolution Make?* after an extended visit to Nicaragua.

Collins and Lappe contend that the Sandinista government did not promote "Land to Tiller" programs on purpose in order to sustain the production level (which often falls after such programs) and to prevent possible inequities in parceling out land. Powelson says that the experience was the opposite of what was intended. "Production and output dropped substantially on state farms" - unlike the private farms in Bolivia and Paraguay after land reform.

Most peasants want individual ownership despite what Collins and the Sandinista say. Powelson says the *Food First* authors could

"provide a great service" by "confin(ing) themselves to promoting the priority of food first for less developed countries."

This book, *Peasant Betrayed*, in fact demonstrates, as Collins and Lappe contend, that governments in LDCs and international agencies discriminate against agriculture - even in land reform programs. "Many LDCs could feed their poor if they devoted greater resources to agriculture," Powelson says.

But he also argues that Lappe's bias - that food should be produced for local consumption first rather than planting plantation crops - may be in Nicaragua "a formula for poverty." He responds, "In a classic case of comparative advantage, countries adept at plantation agriculture - exporters of sugar, coffee, tea cotton etc. - can feed their poor better if they export these crops and buy basic food stuffs with the proceeds. *The key is not which crops to grow - exports or food consumption - but one of increasing the income of the poor.*" (emphasis added)

HE CONCLUDES by asking the question: "So then, who advocates for the peasants?"

Neither Marxists nor capitalists; neither the USA nor the USSR; not even most non-governmental agencies such as Oxfam. Only the American Friends Service Committee is cited for enhancing the power of the peasants without getting into politics. Marxists have the better rhetoric but neither Left nor Right are concerned about peasant empowerment.

"Power to the masses" to the authors means "freedom for the masses to structure their own societies, to select private, state or cooperative farming" as they like. Despite the Marxist rhetoric, "peasants have never selected a state farm except under coercion."

The authors conclude "that no foreign government or international agency qualifies as an advocate for the peasant - i.e. promotes the peasant's control over his own structures and freedom in his decision making."

There is ample opportunity to test these theories again in an era where we see formidable changes in two Marxist nations - China (where the government is giving incentives to the peasants) and the USSR (where "perestroika" may allow more private farms) and even in the USA where thoughtful concern about the inequitable distribution of wealth and access to land may lead to change.

This book is a wonderful addition to the library of those who want to first identify and then slay the dragons of land reform.

• E. Robert Scrofani is a Fulbright scholar, a Ford Foundation Fellow in World History at UCB, an NEH Fellow and a member of the history faculty at Berkeley High School, Berkeley, California.

Peasant farmers betrayed

HENRY GEORGE SESQUICENTENNIAL CONFERENCE

A CELEBRATORY conference to mark the 150th birthday of American reformer Henry George will be held in Philadelphia, the city of his birth, from Saturday July 29 to Sunday August 6, 1989.

This will be the 18th conference staged by the International Union for Land-Value Taxation and Free Trade, and will be held jointly with the Council of Georgist Organisations.

Plenary papers are invited from scholars, which will then be published by the newly formed Centre for Incentive Taxation in England in conjunction with Shephard Walwyn Ltd.

Editor of the book will be Richard Noyes, the IU President, whose co-authors will examine the contemporary relevance of Henry George's philosophy.

Their analyses will be presented in a problem-solving context, addressing major global issues such as ecology, social and economic justice, and the reform of socialist economies.

The conference will be held at the University of Pennsylvania. Charges:

- Conference fee: \$40 (£22.50)
- Accommodation: \$395 (£220).

Bookings should be through the IU at 177 Vauxhall Bridge Road, London SW1V 1EU, England.

THEIR LORDSHIPS' NOT-SO-FUNNY TREK

← From Back Page

which took away the powers of the House of Lords finally to nullify legislation passed by the Commons.

The Parliament Act was necessary because the Lords had rejected a Bill which provided for a tax of 20% of any increases in value of land after 30 April 1909, to be paid when land was sold or transferred, plus a halfpenny in the £ on undeveloped land.

Despite the Parliament Act, the tax itself, as well as a more radical tax in 1931, was never implemented to any sub-

stantial extent because of the power of the landowning interests.

THE TREK was almost comical. The landed Lords in the main did not normally interest themselves in the positive business of the second chamber, but on being asked by the political party in power who looks after their interests to the detriment of those who work, made the one-off visit to vote.

The comical part is that their votes could not ultimately be effective because the law, as laid down in the Parliament Act 1911, gives the ultimate decision to the Commons.

'Too mystical' for Labour?

← From Page 13

Greater London Transport Committee and author of the highly successful but short-lived Fares Fare policy.

The land value rating option was at least considered. It was rejected because, in the words of Tony Page, research assistant to Dr. John Cunningham, Labour's spokesman for the environment, land value rating was "too mystical" and "difficult to understand". Obviously, Australians, New Zealanders, Danes and Pennsylvanians are gifted with a special power which enables them to penetrate this mystery, since they have managed to live with land value rating for decades.

If Labour had come out in support of land value rating, this would have resolved the problem of capturing development value, which has been a preoccupation of the Labour Party for 40 years. As it is, the way is open for Labour to devise a Mark 4 version of betterment levy, which, like its predecessors, can be guaranteed to crash-land

before it reaches the end of the runway.

HOW HAVE the two parties managed to make such a mess of their policies? Looming over any discussion of local government finance is the 1975 Layfield Report which tends to be treated as Holy Writ. Its recommendations are constantly trotted out because policies tend to be made in headquarters offices by bright young economists with first-class honours degrees who have just completed their post-graduate qualifications.

Economics, unlike, say, the physical sciences, is not usually treated as a heuristic discipline. The study of the subject depends

on a method of working which collects as many opinions on the subject as possible, and somehow splits the difference between them; it does not encourage the student to start from first principles.

Thus, in defence of Labour's proposals, Page claimed that they had the support of lots of experts - which is a useful substitute for arguing for the policies themselves. And the youthfulness of so many of the policymakers means that they lack the experience to recognise bunkum. If they had the slightest knowledge of the world where things are paid for in cash, no questions asked and no receipts given, they would give short shrift to ideas such as local income tax.

The Conservatives will have no difficulty in tearing Labour's proposals to shreds. If they find their way into Labour's next election manifesto, the suggested combination of local income tax and domestic property tax based on capital values should help to keep the party out of office for a further term

Local Income Tax - A Better Way by Philip Truscott. Price £2.50 Published by the Association of Liberal Councillors Birchcliffe Centre, Hebden Bridge W. Yorks HX7 8DG.

Local Services, Local Choices, Local Taxes. Price 75p Published by the Labour Party 150 Walworth Road, London SW17 1JT