

A THEORY about history has set the intellectual world a-buzz – even not so intellectual Washington – and has been widely commented on.

It is outlined in an article "The End of History?" by Francis Fukuyama in the Summer 1989 issue of *The National Interest*. "Something very fundamental has happened in world history," he says, and that is "the triumph of the West, of the Western idea," that is, democracy.

Karl Marx had predicted that history would end with the achievement of a communist utopia. The opposite has happened – according to Fukuyama, history is ending with the collapse of communism and its hopes of achieving utopia.

Apparently, "history" is understood to take place when rival world outlooks contend with one another. The triumph of liberal democracy and a market economy is rapidly becoming world-wide and is discrediting the various command economies and dictatorial governments.

Fukuyama is undeterred by Hegel's pronouncement that history was at an end when Napoleon defeated the Prussian monarchy in 1806. The age of the "rights of man" was succeeding obsolete monarchies. However, the end of history was postponed, as we got a pack of "history" for the next 150 years.

THERE HAVE been other epochs when it was supposed that the then present order or the one just coming would be the final and permanent one. The Romans thought so in the heyday of their empire, but that ended badly. The year 1000 was widely thought to usher in the millennium – but instead there came wars, plagues and religious contentions. A century after Hegel, Wilson thought that World War I had made the world safe for democracy. But then we got more "history" in the next few decades than in any other comparable period.

Already Fukuyama speaks of the "post-historical world." His thesis has not gone unchallenged. In the same issue of *The National Interest* as his article, appeared several comments by various intellectuals and officials. (Mr. Fukuyama is himself an official in the U.S. State Department.)

Allan Bloom said fascism still has a future. He noted, however, Leo Strauss's comment that "ideology is dead but philosophy has a future."

Pierre Hassner said that democracy is more fragile than Fukuyama thinks and that communist and Third World countries are not likely to adopt it.

Gertrude Hummelfarb offered the caveat that "we only know what was, not what will be."

Irving Kristol (publisher of *The National Interest*) advised that there is no "wave of the future" and that American democracy is at risk.

Senator Daniel Patrick Moynihan predicted that lots of things will still happen. Stephen Sestanovich said that a generalization was being made on too slim a foundation, and concluded with the observation that "the strong will (still) do what they can, the weak will (still) do what they must."

Many more comments have been made far and

All over now?

BOB CLANCY reflects on 'History'

wide, most of them sceptical, possibly provoked by the very attractiveness of Fukuyama's thesis which is "too good to be true."

What is oddly missing in both Fukuyama and his commentators is attention to bad economic conditions and unsolved economic problems, those that precipitate changes, conflicts, upheavals ... history.

So it was with Rome when huge estates and deteriorating economic conditions weakened the Empire and left it a prey to ruder, freer peoples. So, too, when Hegel thought history was over, the new liberal philosophy carefully formulated civil rights but paid scant attention to economic rights.

And following the war to "make the world safe for democracy," the unsolved economic problems led to Bolshevism in Russia, then Fascism in Italy, Germany and Spain.

No sooner had World War II ended with a promise of world peace and the formation of the United Nations, than the Iron Curtain went down; then China became communist.

Now we are hearing of the collapse of communism. Let's bear in mind that if this is so it is because communism did not live up to its promises but instead led to economic shortages and hardship.

We must also remember that the concept of human rights has by no means gained universal acceptance. Whatever loosening up takes place is by "permission" of the leaders, whatever "reforms" take place is by their planning. They do not easily give up power.

WHILE WE may be gratified at the apparent triumph of western liberal democracy, we should keep firmly in focus the conditions in our midst that could easily lead to a lot of "history".

There is the growing gap between rich and poor, the plague of drugs and crime, the housing problem and the growing homeless population, the frenzy of financial markets, the increasing foreclosures of small farms, the vast problem of pollution and ecological damage, to name but a few of our economic problems.

There's enough there to ignite revolutions and disorders that would hardly be benign.

At the bottom of economic activities lies the land – and so at the bottom of economic disorders lies the land. Certainly more attention needs to be paid to inequities with respect to access to land.

Most of the world's population is landless and in poverty. A more just system compatible with the freedom we vaunt must be sought.

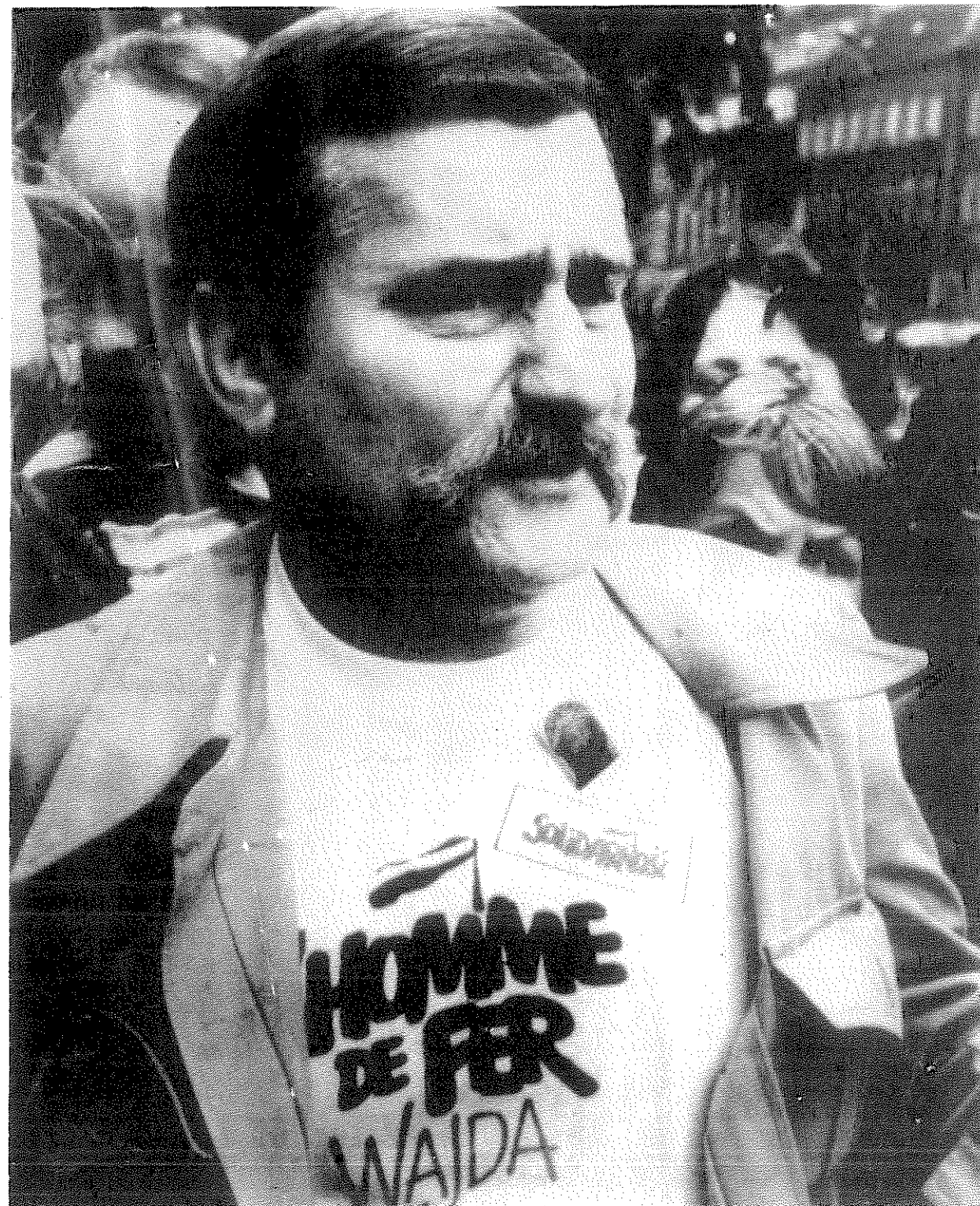
We have the key to this in the taxation of land values which would vastly improve equitable access to land. Adoption of this measure might not end "history" but it would make it a lot easier to take.

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COVER PHOTO: Solidarity leader Lech Walesa, speaking to US citizens in Daley Plaza during a recent visit to Chicago, bridged the political gap created by the Iron Curtain by declaring: "You can love two countries - Poland and America". But can he bridge the economic gap.

Story: Page Three

Russia's chance

HISTORY is full of those turning points that are celebrated as revolutions. The explosive character of these ruptures with the past is forever studied by the learned, who prefer to skate over the objective conditions that could have led to peaceful transformations.

There are few doctoral credits to be earned for these on what could have been.

Yet revolutions are the evidence that those who controlled society got it wrong and bloodshed became inevitable.

Unsung are the heroes whose voices, in between times, during the dark days which may span centuries, go unheard; who plead for the reforms that ought to happen slowly, progressively, removing the need for revolution.

These men of vision do not rank with the great military heroes beloved of historians. Their contribution to social evolution is all too often neutralised by the reactionaries who, by spurious argument, set the limits to peaceful change.

For example: justice is invoked to perpetuate injustice, as happens over arguments about property rights. Change, no matter how desirable, must not be at the expense of existing property rights; "To disappoint people's legitimate expectations now would wreak massive injustices."

The United States would still be operating a slave economy if this argument was honoured. Wilberforce would not have succeeded in influencing the House of Commons, and Britain would still be shipping slaves across the Atlantic. For the ownership of slaves was a legitimate part of property rights.

Another ploy to stifle change: the claim that the injustices were perpetrated too far in the past to be relevant to the present. This ignores the fact that, if an injustice was committed in the past, and perpetuated today, then it's an institutionalised process, built into the

system - constantly reaffirmed, a "running sore."

Failure to correct the problem directly implicates the present in the mistakes of the past.

THESE reflections are provoked by the debate in Moscow, where property rights are the heart of perestroika.

Leonid Abalkin, the deputy Prime Minister responsible for economic reform, says the state has to loosen its control over the means of production:

The diversity of the forms of property, their equality and competition, is the fundamental condition for the economic freedom of citizens which ensures the best possible utilization of their abilities.

The conservatives did not like the sound of that. So they applied pressure on Mikhail Gorbachev.

As a result, the Prime Minister, Nikolai Ryzhkov, addressing the Communist Party's central committee meeting just before Christmas, rejected popular calls for private property rights. Land would remain in state ownership; industrial enterprises would not be denationalised.

The Soviet Union now has the historic opportunity to develop along a unique path - rejecting the extremes of both the collective and individualistic forms of property ownership.

With land in social ownership, the state can now grant individual use rights within a market economy: this is the most effective way of spiritually liberating people and maximising material welfare.

And by charging the full rent for the right to possess land and natural resources, the rights of society would also be preserved.

This sophisticated solution to the search for an alternative to Marxism could be planted in the collectivised fields of Siberia as a fitting memorial for the millions of peasants who died because the men of reason were rejected in favour of a revolution.

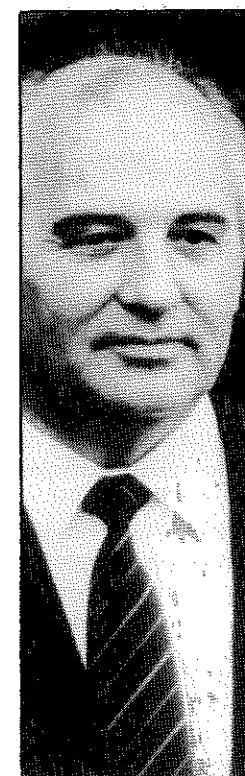
FROM "Prague Spring" to "Romanian winter", the spirit of freedom remained alive behind the Iron Curtain despite the brutality of the secret police. And in the space of a few months last year, that spirit emerged in the glow of a thousand candles in the squares of Budapest and Bucharest and the communists capitulated without a fight. Only the tyrant Ceaucescu sent in his killers, to no avail.

Life in the former satellite countries of Eastern Europe can now only improve. But are they compromising their prospects, by fleeing into the hands of western financiers? The IMF, in extending loans to Poland and Hungary, is insisting on turning these countries into carbon copies of the western model. The market system has proved its superiority over what Mikhail Gorbachev calls the "Administrative-command" method of regulating production - an approach which he blames on Stalin.

Gorbachev still maintains that the USSR will remain a socialist society in the image of V.I. Lenin. We are sceptical: *perestroika* is made up of concepts such as democracy and the market mechanism which, if they were to find institutional expression, would destroy socialism. Much now depends on how these countries develop their tax policies. These are inextricably linked with the transitional programme of freeing prices by removing subsidies.

Privatisation is also a key ingredient in the new strategy. Western advisers flying in to Warsaw are advocating across-the-board sale of the means of production. That is a fundamental error of historic proportions. A

Irony after Marx



• Gorbachev

more sophisticated appreciation of property rights and the way the free market works would enhance the prospects of a peaceful transition from socialism. Gorbachev, addressing his party's central committee in March last year, realised that the cutting edge of this debate was the tax system:

We must enter the next five-year period, having a smoothly operating mechanism of financial relations between enterprises and the state budget. In this connection there is a need to speed up the working out of scientifically substantiated rates of income tax and rental payments to go to the budget. It is of paramount importance to establish a procedure for replenishing the local Soviets' budgets.

A scientific examination of these issues would lead Gorbachev to scrap all ideas of an income tax. Instead, he would fund the Soviet Union with a tax - at the rate of 100% - on the rental value of land and natural resources. This "tax", of course, would actually be a user fee. Natural resources already belong to the state. All the benefits of individual enterprise would be secured by the use of leases granted on payment of rents, the levels of which must be determined by supply and demand - the market.

It is ironical that the first Single Tax society - the vision of Henry George, the American Social Reformer and powerful advocate of individual freedom and the free market - could emerge from the entrails of Marxism

Don't look West

LECH Walesa returned to Warsaw in December after touring the US and UK to argue for western assistance for Poland

The Solidarity leader did not carry a begging bowl; what he wanted, he told Prime Minister Margaret Thatcher, was more British firms to enter into joint ventures with Polish firms. A derisory 10 or 15 companies were exploiting the economic possibilities, compared with 380 West German firms.

Time is fast running out for *perestroika*, but the worst is yet to come. The restructuring of the command economy will generate hardships before the shops begin to fill with the food and consumer goods that everybody

INSITE reviews the future for the East European countries that are abandoning the command economy - and are appealing to the West for help

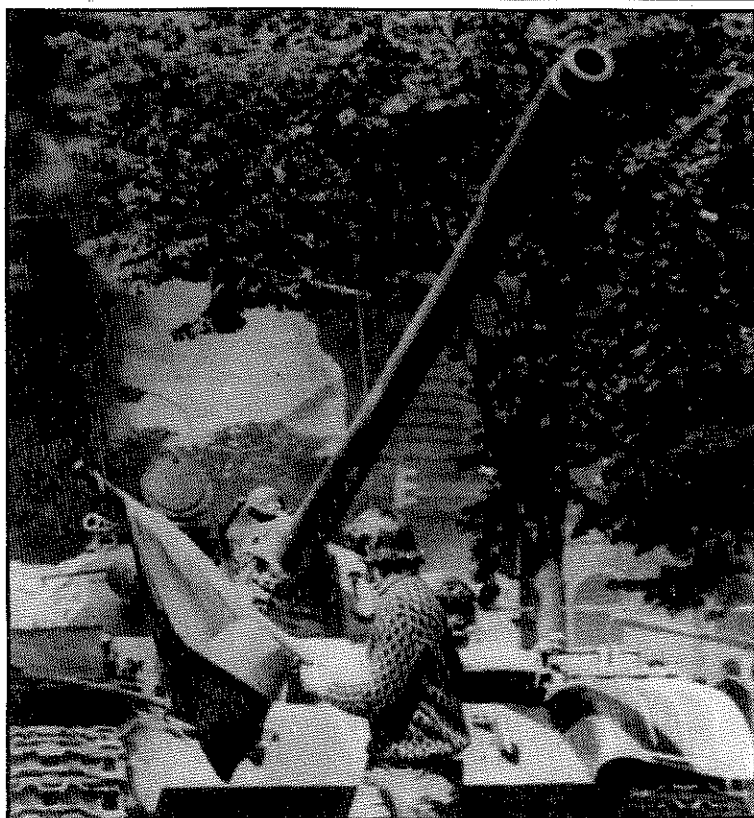
east of the crumbling Berlin Wall wants. And Mr Walesa places some of the res-

pensibility for the future on the West.

"If by March we don't get Poland, Czechoslovakia and Hungary on the road to reform, then the West will have problems with integration on the scale of, I don't know, millions," he warned one western correspondent.

"Help us get reformed one after the other, and you will be able to live in peace. We want to keep all Poles, Germans, Czechs, Romanians in the places

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• Troubled past: Russian tanks subdue Prague in 1968

◀ From Page 3

where they live. If not, we are losing as a nation and you're losing because you can't absorb it all."

But far from being a time for fear, the prospects offer historically unique opportunities. And ironically, the reformers of post-communist society ought not to be looking westward for the answers: they already hold in their hands the single most powerful weapon for successful change.

THE mere identification of the problems confronting President Gorbachev is sufficient to throw up the correct answers. These focus on the need to create a new system of pricing, remove the subsidies that distort the allocation

CORRECTION

IN THE Sept-Oct. 1989 issue we stated, in a report from Washington, that unemployment during the 1980s reached a peak of 30bn people in the OECD countries. The figure should have been 30m.

tion of resources, and redeploy workers from inefficient state-controlled firms.

None of this can be accomplished without first articulating the appropriate fiscal system, one that will facilitate the goals of *perestroika*. And we find that at the heart of the debate ought to be the concept of land-value taxation.

• The USSR will have to establish a new system for raising government revenue consistent with the objective of a market economy. This provides the opportunity to create the first rational tax structure in the world.

The lessons that can be learnt from the West are those of fiscal failure or inefficiency. Capitalist societies extract exchequer revenues from earned income, consumption and profits on the basis of a tax system that constitutes a built-in contradiction to the economy, a direct obstacle to the process of growth and prosperity!

According to all economists, the only frictionless fiscal policy is the This failure stems from a con-

tax on the rental value of natural resources.

• **Economic growth.** Between 1985 and 1988, the major brake on the Soviet economy has been the failure to improve on the efficiency with which natural resources were used (Aganbegyan 1989: 243-44).

This failure has seriously distorted investment and production in the urban/industrial sector, slowed the pace of change and retarded the standard of living. As Abel Aganbegyan, one of Gorbachev's expert advisers, notes of the last three years of Soviet "reform":

The gross imbalance in favour of our raw material production is a burden to the whole structure of our national economy, retarding it and preventing its development.

ceptual error that can only be remedied once market-determined rents have been imputed to natural resources. But even if an efficient market in land and natural resources were created, the best results would not be achieved if a major part of rental income were privately appropriated; for this would permit the land market, under the influence of people seeking to pocket part of the socially-created rent of land, to generate frictions that would prevent the optimum level of economic growth.

• **Prices.** Other taxes are treated as costs of production; they are incorporated into product prices and passed on to consumers. This raises the general level of prices in the economy. For the USSR, this would be a disastrous turn of events as it is now confronted with the urgent need to cut subsidies.

Put another way, it has to raise prices so that they accurately reflect the costs of production. It would not be rational to aggravate this vital transitional

Community package to benefit everyone

A HIGH tax will do one thing, reduce the quantity of that thing - with one exception, a high tax on land. Land in its natural state, especially as space, has not come into existence because someone paid to get it produced. Yet we pay a very high price for the use of some land. When we do so, the payment does not go to someone for creating the land.

Perhaps the person who gets the payment, and certainly prior owners through history, will have invested money and effort in making the parcel and the neighbourhood more desirable. Something of what present users pay will represent compensation for such investment. Most urban land, however, brings prices which are vastly greater than the worth of such inputs.

The amount paid will generally exceed whatever was needed to get the land (broadly defined) in its present state. What city today has more land because the average price which people must now pay is three or four times that of a generation ago? If more of the payments for land had been channelled into the local government treasury, the land as space would still be available. For the future is not such action sensible?

Price has an economic function other than getting things produced. That other function consists of guiding the use, of preventing waste in consumption, of allocating resources according to their relative productivities and scarcities. A "high" price for some land is essential for guiding it to the best available uses.

• The virtuous impact of land value taxation is explained by C. LOWELL HARRISS, Professor Emeritus of Economics at Columbia University, New York.



A good market in land, one built around prices, is important for inducing the most productive use of this resource.

To assure efficient allocation of land, the user must pay; but the owner need not receive all that is paid. Therefore, government can take much of what the user pays, while keeping pressures and incentives for efficiency in use. But not take all.

Present owners have made outlays in good faith and ought not to be deprived of investment made in accordance with established rules, except as noted below. Moreover, an owner must feel confident that his effort in finding a use yielding more return will bring him benefit.

As private owners get less and the public treasury obtains more, the price system would still allocate land use. The effective supply of land would go up in the sense that more would be offered on the market. And the tax rate on buildings and machinery could be

kept much lower than perhaps otherwise - as in the United States, where much man-made capital is taxed more heavily than seems to me desirable.

Investment by owner (or tenant) - or by a land developer - in improving land ought to be treated as the input of capital. To the extent practicable, such inputs deserve the same tax consideration as investment in structures.

Over the longer run, landowners would get less of the increment in land values. The general public would get more. On this score, the equity results commend themselves. The community can capture in taxes some of the values which it has created - including values resulting from local government spending on streets, schools and other facilities. Localities can obtain funds to pay for local government by absorbing part of the values created by society.

Socially created values would go for government rather than private uses. The localities doing most to make themselves attractive would have most of this revenue.

As for the future, the tax on land value above present levels would be almost burdensomeless, except as owners of land and their heirs get less "unearned increment" from rising values. Where land values drop, the annual tax at the higher rate would decline.

The necessity of paying higher tax on land would put pressure on the owner to get the best income possible - "higher and better use."

process by adopting taxes that raise prices higher than is necessary for the sake of efficiency.

LVT is the one tax that falls on the surplus income (rent) and cannot be passed on to either the wages of labour or to the profits of capital; it is a tax that remains where it falls - on the annual rental value of land. The British

Treasury recently explained this process:

The effect of taxes depends upon the demand and supply elasticities of the commodity being taxed. For example if the supply is very elastic the main effect of a tax is to increase the market price; if the supply is very inelastic the main effect of the tax is to decrease the net of tax price. The supply of land for

example, is relatively inelastic and the usual long term effect of property rates (taxes) is largely to reduce rents and land values (Treasury 1984: 9).

This economic fact of life ought to be borne in mind by Soviet reformers. The economic consequences can't be ducked; the failure of governments to

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IT IS A "given" in politics that facts and feelings are two different things, one not necessarily dependent upon the other. What that means in the State of New Hampshire is the recurrence of what tend to be known as "great tax debates."

New Hampshire is the least heavily taxed state among the 50 in the United States, and it is at the same time blessed with some of the most favorable conditions: low unemployment, good quality education, a strikingly high increase in average *per capita* income, and a steady gain (well above the US average) in population which some have categorized as "people voting with their feet."

For at least 20 years, New Hampshire citizens have made it clear through their ballots that they do not want, and will not accept, new taxes. They believe that the secret to solvency is not to raise more money but for government to spend less. The public prejudice is so firmly established that there has arisen what politicians know as "the pledge."

It is generally conceded that a candidate for governor must, whether to win election or even to win his party's nomination, start by taking the pledge: "If a sales or income tax bill comes to my desk I will veto it."

Since governments thrive on money, however, political hopefuls searching for new spigots keep probing for a clue that feelings have somehow parted company with facts. Hence these "great tax debates," the most recent of which is going on right now.

THERE have been recent public tax proposals from lesser known legislative leaders in both parties. Newspapers have given those proposals more space, and some radio stations more time, than might otherwise be expected, for at least two reasons. First, taxes are news, particularly in New Hampshire; and second, many journalists (especially those who have moved here from papers and stations in other states) are a little embarrassed to find themselves in a state so different from all the others, having neither a sales nor an income tax.

It was State Democratic Party chairman Joseph Grandmaison who stuck his neck out

for the most visible round in the debate: a day-long conference held in Concord, the state capital, on a Saturday in mid-September. He was criticized by some members of his party for even talking about taxes, and the absence of a number of his party's leaders was noticeable.

One leading Democratic State senator had actually stomped out of a party meeting not long before, when a visiting politician from another state got on to the subject of new taxes. Grandmaison solved that one by inviting the senator to moderate a "plenary session" in the afternoon, following "panel sessions" Saturday morning when three costly "needs of local communities" were aired separately. As it turned out, the day was spent talking about almost every other "crisis" than that of the property tax.

Grandmaison, politically nimble, insulated himself from criticism in several ways. He asked the president of the state's Business and Industry Association, a recent import from Massachusetts whom Grandmaison had sharply criticized several years before when he was an advisor in Michael Dukakis's bid for gubernatorial

TAXING DEBATE IN THE STATE OF LOW TAXES

BY RICHARD NOYES

reelection, to deliver the keynote address on a safe subject: the business profits tax. This, everyone agrees, is a monstrosity, driving major industry away now that there is a national economic downturn, and it must be changed.

He invited two major critics of new taxes - Dartmouth College economist Colin Campbell and Tax Relief, Inc., President George Lovejoy - to add their voices with the "broad-base taxers" during the plenary session. And he asked a long list of local government leaders, selectmen, planning board chairmen and the like to attend, that being the select group of New Hampshire citizens most closely exposed to necessary government spending, and thus the "rising" property tax. They are the people most likely to see the property tax's continuing flood of money as a crisis.

The title given the event - Conference on the Property Tax Crisis - is one clue to what chairman Grandmaison thought might be accomplished. The largest single tax in New Hampshire's state/local fiscal package is, in fact, producing more and more money, and only last year (the most recent one for which we have all the facts) crossed the \$1 billion threshold. It had produced only \$887.7

million in 1987. The property tax share of state/local revenue is somewhat down from a decade ago, but it still produces about as much as all other taxes combined.

A second clue to the chairman's strategy is the phrase printed in capital letters on the ear of the envelope in which all the invitations were mailed out. "FIGHT PROPERTY TAX HIKES!," it said, a choice of words which backfired on him when one practical and knowledgeable educator during the panel session on schools rose to speak. Property taxes pay for education, said School Superintendent Randy Bell, "so what are we doing here fighting against their increase?" Bell has a long history of frustration with trying to get more money for schools from a sales or an income tax.

Grandmaison's political perspicacity in inviting local leaders, many of them nonpartisan, was borne out Saturday morning as the auditorium began to fill up. They were, far and away, the largest single group of attendees. Some party leaders were conspicuous by their absence. It would have been pretty lonely without the local leaders.

It turned out, all in all, to be an amicable day. No one was booed. The day's logic was summed up, in a closing session, by one of the party's young leaders who has been able to stay aloof on taxes, and who admits he wants some day to run for governor, "but probably not yet."

Edgar "Ned" Helms, a former State Commissioner of Health and Human Services, put the stress in his summary on "facts". Here are some of those facts about New Hampshire:

1) There are two states in the American union which have neither a general sales nor a general income tax: New



• Richard Noyes

Hampshire and Alaska (which, had one until the discovery of rich oil reserves there, which have since made other sources of revenue redundant).

2) New Hampshire, at 8.36 percent in the 1986 ratio between state/local taxes and average per capita income, is the least heavily taxed state in the Union. (Alaska, coincidentally, is the most heavily taxed state at 25.29%, although the natural resources factor in that total sheds a different light). 3) The state's Business Profits Tax, at \$143.2 million, was the biggest single source of general fund revenue for the state, and is the biggest single source of money for that fund. It raises more than a third of everything the state Department of Revenue Administration collects.

4) The Property Tax, however, about a third of which pours in from steadily increasing land values, raised \$1.03 billion in 1988, making it far and away the major fiscal factor.

5) Land values in New Hampshire, even using local assessments which fall dreadfully short of market values, are rising ever so much faster than the other half of the property tax base, capital improvements. The total base was up 11.5% in 1988 over 1987. And land values increased more sharply.

6) The gain in assessed land values for 1988, over 1986, was about 37% per annum compounded.

7) Land values, adjusted from assessed values by the ratios for each town and city established by the state, comparing asse-

ssments with sales, went up \$9,091,827,642 in the two-year period, while property taxes - supposedly in a "crisis" - were drawing off only about \$1.9 of those billions. Thus all the new homes, stores and factories added to the base during that year, a busy one for construction, in effect escaped taxation entirely.

The \$1.9 billion drawn off to pay for schools, police and fire departments, human services and all the other good things which serve to make New Hampshire's not-quite 9,000 square miles more valuable, still left more than \$7 billion of new market value on owners' hands.

WHAT CHANCE is there that political ingenuity can turn these facts into a widespread feeling that there really is a "property tax crisis?"

Economist Colin Campbell points out that actual property tax rates are coming down. Using full value assessments, the real rate fell from more than \$20 per thousand in 1983 to less than \$15 in 1988.

The property tax share of state/local revenue was running at about 60% a decade ago. It is more nearly 50% now.

Dr. Campbell's view of the situation, moreover, has given at least some people the impression that he is advocating a higher property tax. One recent account of his views carried this headline: "Taxes too low, says former professor." He may not have said quite that, but close.

Campbell does not go quite so far as to point out that the 37% hike in land values here over the two years 1986-88 is not an entirely healthy situation, but one that could turn around to haunt the prosperous state. Land prices began to fall in New Hampshire in 1989; not so fast as they fell in Texas a few years

JAPAN'S war-torn economy recovered some semblance of normality in 1955. Eighteen years later, at the height of the land boom, Prime Minister Kakuei Tanaka was disgraced when his dirty deals were exposed.

Tanaka made his fortune as a construction contractor. He became Japan's youngest Prime Minister in 1972, at the age of 54. From this position of power he initiated large-scale public works projects under an ambitious programme for remodelling the archipelago. He even wrote a book about his urbanisation plans. Government spending pushed up land prices, and Tanaka pocketed some of the proceeds. His career as Prime Minister came to an end in November 1974.

Two years later he was arrested on charges arising from the Lockheed bribes scandal. He was sentenced to four years in prison (he has appealed against the judgement) but he continued to wield influence as head of one of the most powerful parliamentary factions.

Tanaka, now aged 71, earned his reputation as the "generalissimo in the dark." He says he will not seek re-election this year. His departure, however, does not remove scandal from the highest political circles; scandal which has its roots in the get-rich-quick psychology of land speculation.

WITH THE slump of the mid-seventies, the land market cooled off. People got down to the serious business of making wealth for the benefit of the world's consumers.

But if there is anything in the theory that the land market operates in cycles of 18-year duration,¹ we could expect a land boom in the late 1980s — and heading for a pre-crash peak around 1991. And that is how events are panning out today.

- Urban land values tripled in the 1980s, making it even harder for wage earners to save enough money to buy homes for their families. Japanese workers, the most productive in the world, are among the worst housed in the industrial nations. According to a recent Nomura Research Institute report, the average cost of residential land in the whole of Japan in 1985 was Y69,000 per square meter, compared with Y3,000 in the US and Y4,600 in Britain.

- The Paris-based secretariat of the OECD has revealed that the land of Japan is worth more than the combined value of the US, Canada and France.² This makes it extremely difficult for foreign entrepreneurs to establish bases in Japan, in contrast to the prices that Japanese firms have to pay for industrial sites in the US or the UK.

- The most "over-heated" market is Tokyo's. A factory cleaner recently retired and sold his central city home — and pocketed millions of dollars from the sale! Not surprisingly, even foreign embassies have had to close down because they cannot afford Tokyo rents.

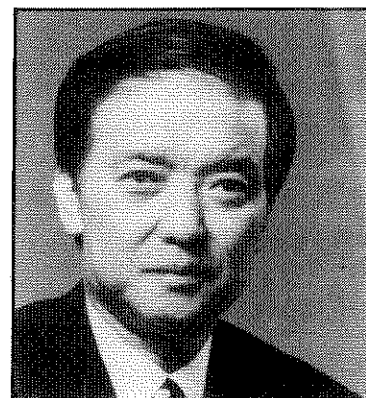
FOR the last two years the financial authorities have urged banks to curb their loans to land speculators — to no avail. Speculation has become a national sport. That sport spilled over into politics when a newspaper revealed that property shares had been generously salted out to influential politicians by Recruit, a company that knew how to make friends of men in power.

Property tax shambles cost Japanese dear

A CRISIS meeting of the Japanese government's cabinet was convened by Prime Minister Toshiki Kaifu just before Christmas. This was the latest official recognition that the land market is having an ominous impact on the Japanese economy. Corruption in the land market is also spilling into the political arena, and could cost the ruling Liberal Democrats dearly in February's elections. Ironically, writes FRED HARRISON, the story is a re-run of events in the early 1970s.



• Disgraced: Kakuei Tanaka



• Prime Minister Toshiki Kaifu

Those politicians — or their front men — sold the shares and made a handsome profit from the booming property market.

Land scandals, once again, tarnished the reputations of some of Japan's top leaders. Because of the high prices, ordinary punters could not buy land itself, so they turned their attention to the shares of firms that were identified as owning valuable, undeveloped sites. This has been the main drive behind the record rise in the price of equities.

Early last year, however, investors realised that the prices of shares of firms located in Tokyo had reached unsustainable levels. So they switched their attentions to firms with land outside the capital. Result: real estate agents now report that there has been a sharp rise in the price of land in provincial cities.

These prices are catching up with levels in Tokyo. According to the Japan Real Estate Research Institute, prices in Osaka were traditionally 60% of those in Tokyo; they are now closer to parity.

Against this alarming trend, the Japanese authorities now concede that they need to reform the property tax. This new awareness is partly the result of pressure from Washington, which has recognised that the Japanese land market has distorted inter-

national trade. For high land prices are behind the average savings ratio, which in turn has led to a high rate of capital accumulation — which has given Japanese industry low interest rates and high productivity, a lethal base from which to attack foreign markets.

Proposals for action are usefully summarised by *Financial Times* correspondent Ian Roger. The Economic Planning Agency recommends that farmland in urban areas should be taxed as residential land. It calculates that, if such a change had been made in 1976, land prices in the Tokyo suburbs would be 28% lower than they are today.

Speculators have held that land idle — pretending that it is used as farmland — to benefit from the derisory low tax rates imposed on agricultural acres.

A family with a 1,630-square metre "farm" in central Tokyo, worth Y790bn, paid just Y22,300 in property tax last year. Even if the site had been classified as residential, the owner would have paid only Y1.65m in property taxes, which is equivalent to 0.002% of the real land value.

THIS means there is no pressure on low-income owners to sell land which they could not afford if taxes were at realistic rates. In fact, the property tax serves as an incentive to hoard land, which in turn causes urban sprawl, a poor environment and lower living standards.

But the biggest gains have gone to the companies that own the valuable sites: some firms, in fact, have avoided bankruptcy solely because of their land-based assets.

And the banks are the major beneficiaries. The value of all banks' outstanding real estate loans rose 14% in the year to last July, a business which the authorities are desperately trying to stifle. According to Satoshi Sumita, governor of the Bank of Japan:

"Banks must never carry out financial activities that may cause land price hikes, thus giving rise to inflation sentiment and destabilising the public's day to day life."

The banks, and the cash-rich corporations, have done their level best to ignore the warnings. Money has been piled into the land market, from which the best — speculative — gains are to be made.

In any other country, the lopsided structure of the markets now evident in Japan would guarantee the onset of a severe recession; it remains to be seen whether Japan can avoid that fate.

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WORLD NEWS ROUND UP

TWO female heads of state have weathered attempts to unseat them.

In **Pakistan**, a coalition of opposition forces in parliament failed to topple Prime Minister Benazir Bhutto. But she had to cut short a foreign trip to enter into horse-trading with minority parties, to shore up her government.

The nature of these details was implied by a Reuters report, which stated: "Most MPs are rural landlords or businessmen. Governments have enormous powers over licensing, taxation, bank loans and siting of development projects. These have been used freely in the past to persuade politicians to switch sides".

In the **Philippines**, a faction of the army did its best to unseat Corazon Aquino. The Government was saved by the intervention of US fighter planes.

At the heart of the discontent, according to a correspondent writing in *The Guardian* (London): Almost everyone agrees that one of the glaring inequities and obstacles to economic growth is the grossly unfair pattern of land ownership, which can be traced back to the 19th century.

"The purity of Mrs Aquino's attempt to break up the baronial estates by limiting land ownership to a few acres has been questioned by the way she appears to have reached for a lawyer to limit the impact on the Aquino family estates".



• Aquino

Aquino, Bhutto sternly tested

Fury

PRIME Minister Margaret Thatcher has published her Bill which aims to capture the air rents now being pocketed by TV broadcasters. In future, TV licences will be auctioned: the highest bidders will receive the broadcasting rights.

Existing franchise holders are furious; and they claim that the quality of programmes will suffer, because they will be forced to cut back on budgets in order to bid high rents which will benefit the general taxpayer.

They say that programmes will deteriorate to the quality suffered by US viewers — where,

over Tories TV auction

in fact, air-rents are not fully captured from the commercial companies.

Provision in the Bill is made for taking into account the programme-making abilities of companies that bid for broadcasting rights. But opponents of the air-rents auction system are not convinced. They point to Australia, where TV companies are supposed to be in trouble because they desperately over-bid for broadcasting rights.

Mrs Thatcher is not being deflected from her insistence that the full value of the natural resource being used by commercial companies should be paid to the community, but considerable opposition is expected during the Parliamentary debates on her Bill.



• Margaret Thatcher

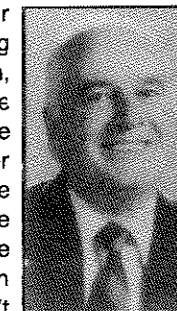
DANGER HOMES

LONDON: About 250,000 homes could be at risk from cancer-causing radon gas, according to Alan Blythe, Director of Environmental Health for Woodspring Council, in the county of Avon. Radon, a naturally occurring radioactive gas, kills 2,500 people each year through lung cancer.

But Mr Blythe says the hot spots should be kept secret. "We have advised local environmental health officers that householders could sue local authorities for compensation if potentially damaging information is released which could affect property values and could reasonably have been foreseen to have that effect."

Privilege and scandal

WASHINGTON: Land is a major part of the problem of housing affordability, says James Christian, chief economist of the US League of Savings Institutions. "Where there are jobs, there are higher incomes, and where incomes are higher there are enough people who can afford to pay for the privilege of using the land to push out of the market people who can't afford to pay."



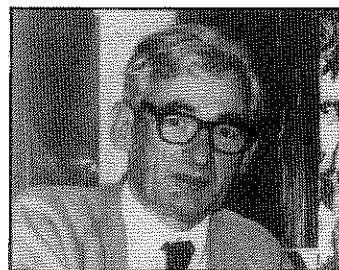
• Williams

VANCOUVER: New Democrat Bob Williams is angrily demanding explanations for what he calls "a major flip of scandalous proportions." The British Columbia government sold prime waterfront land for \$2.2m to a company which resold that day for \$10.5m.

CROTTY STEPS UP LVT CRUSADE

DUBLIN: A new political organisation is being established to fight for a change in Ireland's economic policies. A leading light of the Campaign for National Development and Democracy is Raymond Crotty, who achieved a remarkable success in forcing the government to hold a referendum over Ireland's legal relationship with the Common Market.

"We have a nucleus of 25,000 supporters in Dublin," Mr Crotty told *Land and Liberty*. "I hope to make better progress in the next European Parliament election in five years time. I intend to make land value taxation a central feature of a set of alternatives to Ireland's integration into the European community."



• Raymond Crotty

Site-value taxation a 'must' for Burger

MINNESOTA: John Burger, a candidate for Governor, has entered the debate on housing affordability in the US by publishing his plans for alleviating the problem of homelessness. In his manifesto, he describes how construction would forge ahead if the structure of taxation and subsidies was altered. The adoption of site-value taxation, he says, would reduce site costs and remove the penalties on investors who want to erect buildings.

• The John Burger for Governor Committee operates from 9920 Zilla St. N.W., Minneapolis, MN55433.

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ago, but fast enough so that not all of the "winners" may prove nimble enough to stay out of trouble as the economy slows.

There will always be those who say we need new and higher taxes. These great tax debates will continue.

Dr. Daphne Kenyon is a new resident. She lives in Windham, just across the border from "Tachachusetts" (as New Hampshire people like to call it), having moved here only a few weeks ago. She is a college economist who teaches in Boston.

Dr. Kenyon agreed with Dr.

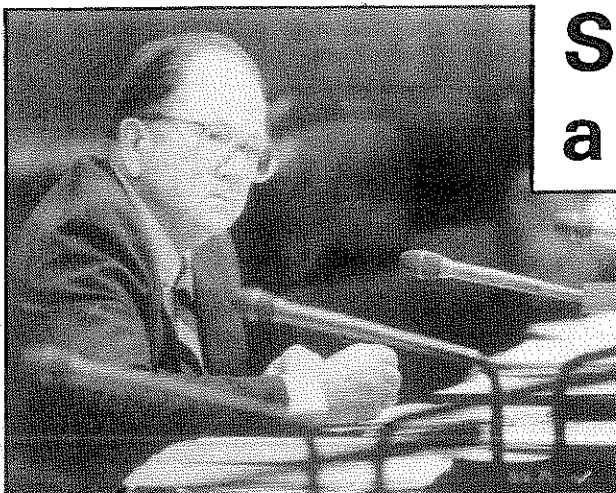
Robert Ebel of the Advisory Council of Intergovernmental Relations, a Washington-based think tank which invariably chides New Hampshire for its unique dearth of taxes. Ebel said again, and Kenyon agreed, the state needs new taxes because of the principle of diversity. Since any tax has flaws, they argue, a broader mix of "diverse" taxes is good policy.

Retired *Fortune* magazine editor Gurney Breckenfeld, on the other hand, says diversity is simply a means of "plucking the greatest amount of feathers with the least amount of squawk."

Dr. Kenyon thinks New

Hampshire ought to consider a sales tax. Her advice is bound to carry some weight. She has excellent credentials. Dr. Kenyon was billed in the program for the conference, ironically, as a Resident Fellow at the Lincoln Institute for Land Policy, which is in Cambridge, Massachusetts, and which has some historical awareness of Henry George who urged us to "abolish all taxes on labour and industry."

Such inconsistencies abound, of course, which helps explain why there is a great tax debate going on in New Hampshire these days, despite the hard facts.



THE PLACE was Compiègne, and the date the 24th August, 1774. Jacques Turgot had recently had an interview with King Louis XVI of France, at which he had accepted the post of Controller-General or Minister of Finance.

His confidence in his ability to do the job was reasonably firm and well-founded: in fact, he had described his proposals to the King in some detail, and had received His Majesty's approval.

Yet his feelings were mixed. If the programme were to stand any chance at all of success, Turgot would need the King's full and continuing support; but would he get it? In order to make as sure of it as he could, he decided, for the King's benefit as well as for his own, to send him a written summary of his plans, and to follow it with a warning of the difficulties they were likely to encounter. So he set to work on a letter.¹

Intended originally for the Church, Turgot had, in 1750, abandoned his theological studies in favour of science and philosophy. In 1752, he became *substitut* and later *conseiller* in the parlement of Paris – a set of law-courts rather than a parliament in the British sense – where he remained until August 1761, when he was appointed to be *intendant* (or royal representative) of the province of Limoges.

It was during this period in Paris that he met the leaders of the physiocratic school of thought, Quesnay, Gournay, Dupont de Nemours, the abbé Morellet and other economists, and was won over to their ideas on freedom and the governing of human affairs according to natural law.²

They advocated government by consent, a minimum of interference with the life of the individual, and, as a corollary, his security in the possession of the fruits of his labour. There should be complete freedom of exchange, and unrestricted market competition, with no monopolies or privileges.

According to their economic analysis, the only productive labours are those of the farmer and the miner; for it is they who

TURGOT'S GALLANT FAILURE

BY DAVID REDFEARN

increase year by year the quantity of raw materials available for man's well-being.

This annual increase to the wealth of the community consists of the excess of the total product over its cost of production, and was named by the physiocrats the *produit net*. The revenue of the state should be derived simply and solely from this "net product" by means of a tax on agricultural and mining land.³

Their reasoning was to this extent defective, that they did not recognise that manufacture and exchange also involve productive labour and the use of land; and this omission has undeservedly deprived them of the credit for their main thesis that, with the growth of society, there also grows a fund that is the natural provision for its material needs. For this reason, Henry George has hailed them as the founders of the true science of political economy.⁴

DETERMINED to put these physiocratic ideas into practice as far as possible, Turgot proceeded to take up his first major

official appointment at Limoges. To alter the whole basis of the revenue was an evident impossibility; but he did continue his predecessor's work on a fresh survey of the land, to arrive at a fairer assessment of the *taille*, a tax levied only on non-nobles.

He also substituted for the *corvée* (or forced labour on public works) a more evenly distributed tax in money. The success of such reforms must have added to the qualified confidence with which he undertook, 13 years later, the much more exacting job of Controller-General for the whole country.

We left him at Compiègne, on the 24th August, 1774, writing his letter to Louis XVI. After the usual formal compliments, which he cut as short as he decently could, he reminded the King of the nature of his reforms, which the two of them must already have discussed. First, there was to be no national bankruptcy. Secondly, there was to be no increase in taxation. Thirdly, there were to be no more loans.

An indispensable condition for the fulfilment of these three aims was economy in both spending and collecting revenue.

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4. Henry George, *The Science of Political Economy*, bk II, chIV, 1897.

Expenditure was to be reduced below receipts to the tune of 20m. *livres* per annum, in order that debts previously incurred might be paid off.

This absolute necessity was to override any protests by administrators responsible for spending, who were in future to make prior reference to the Controller-General.

The King himself, so he was tactfully informed, was to restrain his own liberality to hangers-on at Court, and to think instead of "the misery of those from whom exactions sometimes have to be made by the most rigorous processes...." Private profit from the collection of taxes was a source of corruption among the nobility, and was to be discouraged.

Thus far any prudent Controller-General might have gone; but Turgot the physiocrat went further. What he wanted, and probably above all else, was "a more equitable distribution of taxation, in order that the people may be appreciably relieved, without much diminution of the public revenue". In fact, he wanted the *impôt unique*, or single tax on land.

Then came the rub. Not only, he wrote finally, would the reform of an unjust system be bitterly resisted by those who profited from the injustice, but the King's own generosity, and that of the persons most dear to him (i.e. his wife and his brothers) might well attach them to a universal opposition.

This was putting it mildly. In the event, Marie Antoinette and the future Kings Louis XVIII and Charles X all unhesitatingly espoused the cause of privilege; and Turgot, though he won the struggle for internal free trade in corn, ran into more serious trouble with his attempt to make both nobility and clergy subject to taxation.

He never got round to concen-

MOSCOW AND THE SINGLE TAX

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take the impact of fiscal policy into account does not mean a neutral response in the market for land and natural resources or the consumer markets.

There is a reciprocal effect on the way that the private sector uses land and distributes income (Banks 1989: 149-53), and on the pricing structure for consumer goods and services, if alternative fiscal policies are adopted.

• **Labour redeployment.** The large-scale reallocation of employees is another unavoid-



• **Abanbegyan:** Gorbachev adviser

able prospect. The impact of this traumatic event could be minimised and even turned into a rewarding experience. But governments can aggravate the transition if they misalign fiscal policy. Here's how:

Taxes (other than those that fall on land and natural resources) tend to raise prices above (marginal) costs of production.

This causes unemployment, because less can be bought by consumers than would be the case if Price = (Marginal) Cost of production.

The tax on land values is the only fiscal policy that does not distort the pricing structure of the firm or the economy; so it represents a positive incentive to growth and the rational deployment of resources at the lowest possible prices.

The outcome of the Soviet deliberations on fiscal policy will have far-reaching consequences for world trade. The Soviet Union now wants to integrate herself into the system of international trade, as President Gorbachev reminded President Bush during their foul-weather summit off the coast of Malta.

He already has the choice of the best single weapon for providing the USSR with an export-led thrust to economic growth: a country that adopts land-value taxation acquires a major advantage in terms of price competitiveness.

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trating the revenue on the land tax at all. The King remained convinced of the rightness of Turgot's views, but, giving in to pressures that might in any case have proved to be irresistible, dismissed him. His term of office had lasted 20 months.

So France went down the slippery slope to bankruptcy, revolution and the most appalling series of wars the world had yet known. The problem that Turgot

attempted to resolve still faces us today.

Though we now have the benefit of the more accurate economic analysis of Henry George, will there ever be another statesman of the integrity and general moral stature of Jacques Turgot to try to put it into practice by means of the taxation of the value of all land? Only the future will tell.

Starved of solutions

BOOK REVIEW

Clive Robinson, *Hungry farmers: World Food Needs And Europe's Response*. Christian Aid, 1989, £4.95.

BY DAVID
REDFEARN

NOBODY would deny that a useful purpose is served by books that lay bare the mechanisms by means of which, as civilisation progresses, the wealth of a minority is consolidated and increased, while the number mounts of those whose livelihood and very existence are threatened.

Clive Robinson's book commissioned by Christian Aid, is in this category of usefulness: and he deserves our thanks. It does, however, share with the vast majority of such books the disadvantage that its proposed solutions are nebulous in the extreme.

Nowhere does it answer the question: "What actual measure should be the first to be entered in some national statute book, to point the way forward to a more just state of affairs?"

All the same, it is encouraging to see some hoary old fallacies destroyed. The baseless theory of Thomas Malthus, for example, that population tends to outrun subsistence, dissected and disproved more than a hundred years ago by Henry George, still crops up from time to time, even in supposedly well-informed circles.

There can be no doubt, now that this book is available, that world food production is increasing faster than population. The food is there; but millions cannot afford to buy enough of it, and lack the facilities to grow it themselves.

Another curious idea is still prevalent that the world is divided by the equator into rich northern nations and poor southern ones. On the contrary, says our author, "...the problem is one of the groups of hungry people within nations rather than one of hungry nations". World Bank figures, he goes on, show that "the re-allocation of only 5.6% of India's food supply would wipe out hunger in that country."

Abandoning his attack on the realms of fantasy, he treats of various matters that really do bear upon the problem in hand.

The Common Agricultural Policy (C.A.P.), with its variable support levy, threshold and intervention prices, export subsidies (all

explained here for the uninitiated) and "setaside" - an eccentric scheme for paying farmers not to grow wheat - not only ruins small farmers within Europe, but does the same for those of the Third World by undercutting prices there, and closing, by means of tariff barriers, possible European markets for their products.

All this apart, readers will most appreciate understanding the overriding importance of rights to land. What the Third World needs, he writes, is for its own farmers to produce a surplus for its own requirements instead of for export; but they can do this only if they have enough land.

It is therefore disastrous that as many as one billion people living in rural areas in the Third World have no land, or hardly any, that they can call their own.

An outstanding example that he cites, and one that is notable for its topical interest, is that of Ethiopia. "At the height of the famine in 1984-5, British shoppers were shocked to see Ethiopian Melons on their market stalls. ... In the year ended September 1984, Ethiopia exported over £1½ million of linseed cake, cottonseed cake and rapeseed meal for livestock in the European Community."

Why does this kind of thing happen? Susan George provides an explicit answer in her *How the Other Half Dies: The Real Reasons For World Hunger* (Penguin, 1976). By 1970, HVA, a Dutch agribusi-

ness firm, had concessions to exploit over a fifth of all the cultivated land in the Awash Valley, on which the Afars had depended for at least 400 years; and rather smaller areas had been occupied by British, Israeli and Italian corporations.

The native population has to make do with inferior land. Mrs George mentions the 1973 famine, Mr Robinson that of 1984; and now it is all happening again, exacerbated by civil war.

It is conceded in Robinson's book that Food Aid is no long-term solution to this problem, though the further truth that it postpones a genuine one, in that it appears to relieve concessionaries of the responsibility for their actions, has so far eluded the author. Furthermore, although he advocates land reform, he seems to have no idea of what form it should take. Perhaps we can help him.

Redistribution of land, specifically in France and Ireland, has failed to achieve the desired effect; but redistribution of rent is a different matter. Where this has been done, by means of its collection for revenue, the result has been, not only to ensure that all usable land is in fact used, but also that it is used in the most productive way.

Clive Robinson knows what this is: it is small-scale mixed farming. In the Irrigation Districts of California, for example, such redistribution, otherwise known as the Taxation of Land Values, has been practised continuously since 1888 to finance the construction and maintenance of canals and dams.

Over 4m acres of semi-desert, once monopolised by a few cattle barons (just as the Awash Valley is now monopolised by European and other corporations), have been transformed into a multiplicity of fertile small holdings with an average area of 30 acres. Christian Aid needs to study this solution.

BOOK REVIEWS

IN "Poverty and War", David Redfearn goes far and deep into the origins and causes of war, providing a sort of sequel to Henry George's "Progress and Poverty". He dates his material from about 1500, and devotes much space to the two World Wars, which we are able to study closely because many of us lived through the second and a few through the first as well, and can remember the political manoeuvres which preceded them.

War is a symptom of a chronic social disease which most people deem to be incurable - another fact of life. But they are wrong. The conflict which raged world wide between 1914 and 1945 was really one war, with a long breathing space in the middle during which the combatants sulkily licked their wounds and blamed everyone but themselves for the disaster.

The real culprits - the instigators lurking behind the Kaiser and Hitler were, as usual, the land-and-capital monopolists who, by persistent exploitation of the landless created surplus goods and capital, for which outlets had to be found. There was also the problem of surplus people - the over-population myth again - including the unemployed; so, apart from Jews and other "undesirables" whom the Nazis disposed of in their uniquely horrific way, additional living space had to be sought, and that meant colonising - a euphemistic term meaning grabbing someone else's land.

But the natives of the desired new territories usually object strongly to this idea and such schemes of expansion erupt into bloodshed on both sides. Scarcely any of

Seymour Rauch. *Legalized Stealing: The American Way of Life*. New York, Peter Lang, 1989.

IT WAS way back in the 16th century that Etienne de La Boétie wrote, in his *Discours de la servitude volontaire*:

"It is the people who enslave themselves, who cut their own throats, who, having the choice either to be slaves or to be free, abandon their freedom and take up the yoke, and, capable though they are of living under good laws, and under the protection of States, choose to live under iniquity, oppression and injustice, at the whim of this tyrant."

What La Boétie meant by "this tyrant" we shall never know for certain. It might have been a contemporary king, one of the tyrants of antiquity whom he had cited as examples, or even what is now referred to vaguely as "the system".

He would no doubt have insisted on the second interpretation, in order to avoid the

Right mix!

fate of his tutor at university, who had been burnt alive for expressing opinions that the Government found unpalatable.

Luckily, governments no longer consider it necessary to burn people alive, finding at best that the "genial humbug", as Stephen Leacock put it, of what are generally considered to be democratic institutions will do much the same job of maintaining iniquity, oppression and injustice.

All the more reason then for doing one's best to convince people that this is the kind of system under which they live, and to show them how a better one may be achieved. Convince enough of them, as La Boétie saw, and no further action will be necessary. The politicians, the civil servants, the police, the soldiers devoted to law and disorder will no longer come for-

George v Marx

what we call the Western Nations have been guiltless in this respect; it is significant to note that most of the countries and states of what we call the (undeveloped) Third World have at some time or another been colonised by one or more of the former.

"If the world is to be saved for posterity," say Mr. Redfearn, "the natural instinct for common right in land must be restored and cherished. Nothing else will break the relentless sequence of private ownership - monopoly - poverty - weak home markets - competition for foreign markets - war."

In two absorbing chapters he examines the reasons why this century Marx has been followed rather than George. Put into the smallest of nutshells it is because "whereas a grasp of George's principles requires some small part of his own powers of analysis and deduction, to understand or to think one understands the principles of Marx requires no more than submission to a pair of apparently obvious propositions.

"It is necessary to accept without question the concepts of the dictatorship of the proletariat and public ownership of the 'means of production'; for neither of them survives questioning. Fortunately for would-be dictators, but unfortunately for humanity, acceptance of such vague substitutes for reason comes all too easily to the majority of people."

BOB MILLER

ward in sufficient numbers; and insufficient notice will be taken of the ones who do.

Seymour Rauch's book is no mean part of the resulting fairly scarce literature in favour of basic social justice, which needs to be composed with all sorts and conditions of people in view.

His targets are American economics specialists, graduate or undergraduate, who are not yet familiar with Henry George's or his own ideas on what constitutes right and wrong in the world of production and exchange.

For them, the rapid-fire dialogue, in a vernacular spiced but not of the Bowery, will prove an entertaining preparation for a fresh look at the present state of human affairs. The same may very well be true of their counterparts in the rest of the English-speaking world; but the book is not for the average general reader. David Redfearn