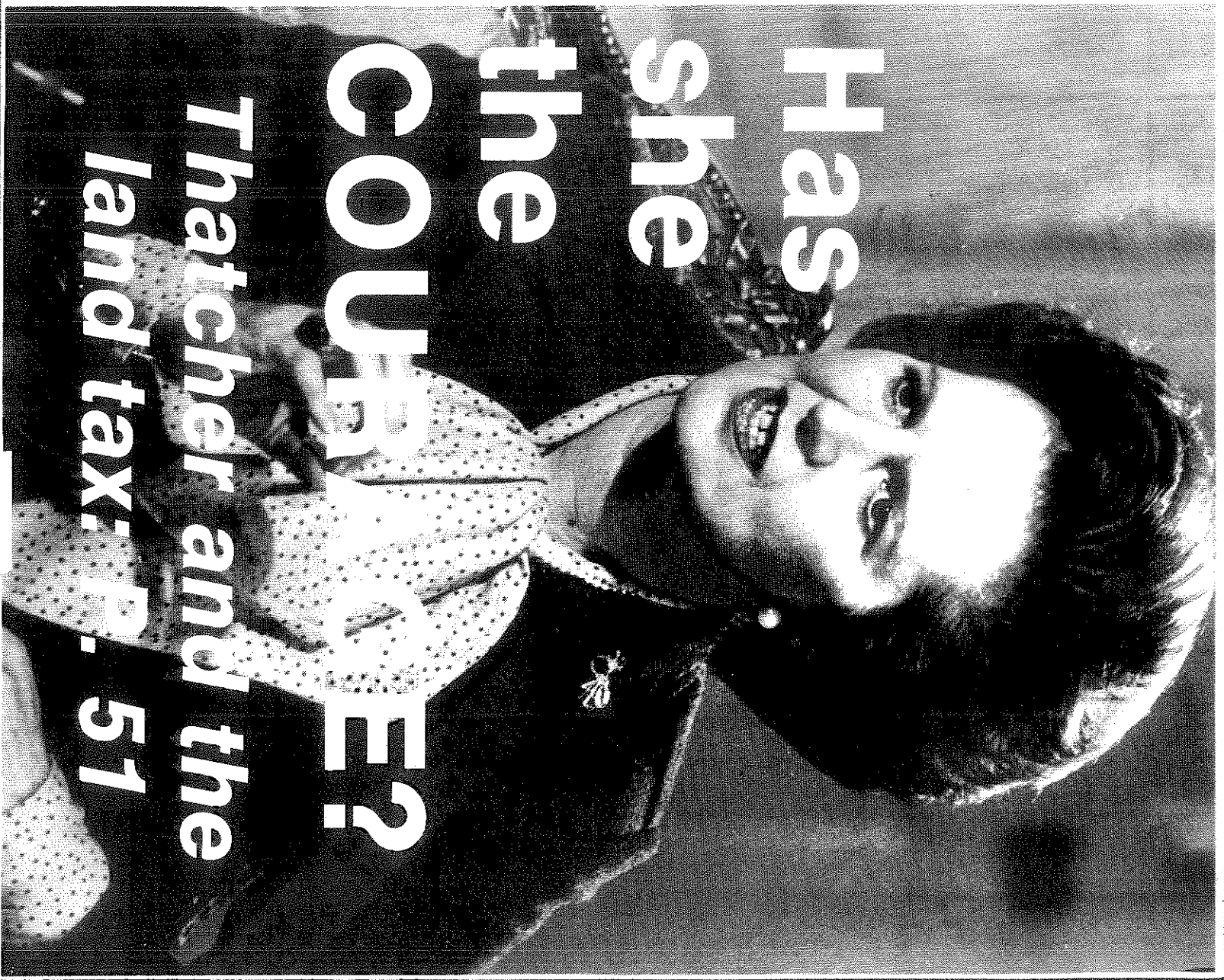


LAND and LIBERTY

JULY-AUGUST 1989

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CROFTS UP
FOR GRABS
See Centre
Pages



Has
she
the
COURAGE?
*Thatcher and the
land tax: P. 51*

LAND and LIBERTY

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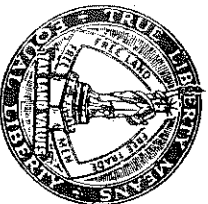
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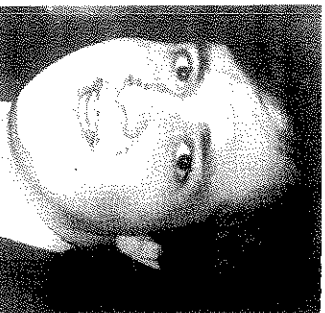
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Thatcher's LVT Challenge
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Taming the land market

SOCIALISM may be on the retreat in the East, but the free market is still a stigmatised concept in the West.

The idea that people can be left to get on with the business of living and creating wealth, without government interference, is a notion still treated with suspicion.

Why?

Memoires of the 19th century industrial economy die hard. So they should. The system was a perplexing one: the invention of systems for creating wealth that could banish poverty, co-existing with poverty and human degradation that dictated the need for the conscience of a Rowntree, who studied the London poor, or a Marx, who chronicled the failures of capitalism.

The social critics, however, could not devise anything better; hence the second best solutions like Rowntree's subsidised housing, and the millenarianism of Marx.

THE biggest problem, the one which governments will not tackle, lies in the land market.

Does the bureaucratic planner have the answers? Or should we leave individuals to make the decisions? The latter course is met with scepticism.

We believe that a land market which is efficient will dovetail with individual behaviour to create a decent standard of living for everyone while sympathetically conserving our ecological niche. It is interference with the land market by monopolists that serves to obstruct the attainment of those goals. Our case is illustrated by the history of a 63-acre site occupied by Delhi Cloth Mills.

In 1962 the city's administra-

tion ordered the closure of the textile factory on pollution grounds. It wanted clean air for its citizens. Good. Then the authorities reversed their decision and opposed the closure. They did not want the owners to reap the large windfall gains from a site that could be used for commercial and residential purposes. Bad.

The City Fathers could not conceive a solution that encompassed clean air and higher wages and profits, while denying the landowners a claim to higher unearned rental income.

The dispute has just been resolved. The Supreme Court has ruled in favour of the company, a judgment which is forecast to speed up the redevelopment of valuable industrial sites in the major cities throughout the sub-continent.

The owners of the site will now get richer, but the community - which created that land value - will not share in the economic benefits. Need it have been so?

If the Delhi authorities had spent as much time and effort in adopting the appropriate property tax - one that fell on the market value of land - there would have been no worry about socially-created windfall gains going into private pockets.

They could have secured a cleaner environment and higher-value jobs while clawing back part (if not all) of the enhanced rental value. Everyone would have gained.

There is no conflict between environmental and economic goals, providing the land market is tamed into serving the needs of the people rather than the monopolists whose activities have given the free market a bad name.

LVT could spare Thatcher U-turn!



• The team: Fred Harrison, left, John Loveless, Dr Alex Hardie, Ron Banks, David Richards, Harry Orenstein (who dropped out) and Dr Duncan Pickard. They contributed to *Costing the Earth*, published on June 14.

THIS BAND of scholars, who first met in 1987 to study the British land market, intuitively feared that achievements in the labour and capital markets – the results of reforms instituted by the Thatcher government during the early 1980s – would ultimately be destroyed by land speculators.

This was the lesson of the history books, but in the past the process has always been blurred by the presence of other factors which appealed as explanations for slumps in business.

Testing the hypothesis that the land market seriously undermines the wealth-creating process has been impaired by the paucity of data. Twentieth century economists have made sure of that: they have all but ignored the land market.

This was not the intention of the leader of the neo-classical revolution, Alfred Marshall (1898: Bk VI: Ch IX), who emphasized the need to dis-aggregate rent from the profits of man-made capital. Unfortunately, the economists who followed him chose to conflate land into capital and treat rent as part of interest received by the owners of capital. This created the theoretical confusions which have been at the heart of the failures of public policy.

The authors of *Costing the Earth* suspected that the incentive to create wealth was distorted by the greater rewards of land speculation. But to test this hypothesis they needed to fill in the huge gaps in the national accounts.

The general view among economists is that rent

INSITE reports on the first major study of the value of a nation's land and natural resources in modern times. The results reveal why the British economy is under siege. Can Margaret Thatcher meet the challenge?

represents a small fraction (2.5%) of national income. The UK team, led by property developer and foreign exchange broker Ronald Banks, concluded that in 1985 the rental value of Britain's land and other natural resources was £58bn. This was over 22% of income as measured in the national accounts.

In the last half of the 1980s there was an explosion of speculative activity in the land market. Did this lead to a shift of income in favour of the land-owners? The consequences of such a trend were well summarised by Margaret Thatcher in 1980 when – in recalling the property boom of the early seventies – she told a radio interviewer:

We got an artificial boom, and do you know where the money went? It did not go into investment or expansion, it went into the biggest property boom we've ever seen and I don't wish to see the like of it ever again. It did the Conservative Party immense harm, it not only went into these enormous prices of

property, the boom eventually collapsed, and in the meantime inflation rose and rose and the moment inflation goes up you are much less competitive and eventually unemployment rose again Spending more money than you've got when you are already over-spending is not the answer. What that does is to have another artificial boom, have prices going into property going up and up, and that would finish up with increased unemployment.

Because the land market operates in 18-year cycles (Harrison 1983), it was reasonable to anticipate that - with the previous peak in 1973/4 - the next real-estate led crash would occur in 1991/2.

The study found that rent as a percentage of national income increased dramatically, from 22% in 1985 to 28% (1989), moving on to a peak estimated at 30% next year. This trend suggests that, if land speculation can destabilise the industrial economy, Britain was heading for trouble.

THE British government's dramatic reform of the economy between 1979 and 1985 focused exclusively on the labour and capital markets. Trade union legislation banned wildcat strikes and other labour malpractices, and the movement of capital was liberalised to make it easier for entrepreneurs to create new businesses and jobs.

These institutional and legal transformations produced the supply-side revolution which the UK desperately needed. Productivity soared ahead of Japanese levels. Why, then, did the balance of payments crisis strike in mid-1988, followed by the sterling crisis in mid-1989? These mysteries dissolve once the trends in rental income are uncovered and properly analysed.

A housing boom originated in the South-East in 1985 which enriched existing homeowners - in the first phase of a land boom that went on to benefit those who owned land suitable for industrial and commercial use.



• Last but not least, the seventh member of the *Costing the Earth* think tank, Dr. Francis M. Smith. He took the picture on the previous page!

Result: the *wealth effect*. As the asset value of people's homes soared they increased their borrowing and consumption.

A full 80% of the credit base since 1985 has been built on the increase in the value of residential land - which this summer has been fetching up to £2m an acre in some parts of the South-East.

The economic consequence was inevitable: consumer demand grew faster than the supply side of the economy. The imbalance in foreign trade was the result, for - in the time available - British manufacturers could not hope to satisfy the property-boom based expansion in consumer demand. The table shows what happened: people went on buying spree, and personal debt - including mortgages - is now estimated to be equal to income.

PERSONAL DEBT IN THE U.K. ECONOMY

	Outstanding debt as % of income
1985	72.8
1986	80.1
1987	89.1
1988	95.0
1989	100.0 ¹

¹ Henley Centre data, reported by Sue Thomas, 'Shoppers losing their taste for plastic debt', *Sunday Times*, May 30, 1989. The 1989 figure is for the first quarter only.

THATCHER did "name" the labour market, but the *demand-pull* on the economy has generated a *cost-push* which must find its expression in wage settlements that will now outpace gains in productivity. This is the inevitable outcome of the need to preserve existing living standards.

Employers will agree to larger wage deals to retain the services of their employees - particularly in the South, where the residential land market has been identified as the major obstacle to the fluid operation of the labour market (Boyer *et al* 1988).

The rate of increase in the rental value of urban land has far outstripped the rise in other forms of income, especially wages. In relation to housing, employees will now have to secure substantial pay settlements to restore a tolerable ratio between their wages/salaries and mortgages.

The Thatcher government adopted a policy of high interest rates to combat inflation and the growing balance of payments deficit. This monetary strategy seriously damages the supply-side of the economy. High interest rates raise the costs of production (making UK goods less competitive in foreign markets) and undermines the ability of entrepreneurs to create new businesses and jobs.

This might have been toler-

able for the sake of relative price stability, if it was the only tool available. It isn't. The solution has to be found in fiscal policy.

TAX-CUTTING has been one of the government's most popular policies, but the 1988 budget is blamed by Opposition politicians for the current crisis. In fact, it is impossible to attribute the growth in consumer demand to the increase in disposable incomes which fed into the economy late in 1988: by then, Britain was already robbed of the longterm benefits of Thatcher's attempt at a supply-side revolution.

The error in fiscal policy was to ignore the land market. The classical economists, from Adam Smith and David Ricardo onwards, spelt out that if you improved productivity the net economic benefits would show up as higher land rents.

This economic law has been effectively disguised both by the prejudices of post neo-classical economists and by the trend in tax policy over the past 200 years. The shift towards a tax structure biased against the incomes that people *earn* concealed the way in which land values rose as entrepreneurs improved the capacity of the economy.

Costing the Earth begins the process of proving that a tax on the annual rental value of land is the only policy that could prevent a recurrence of the traumas now being inflicted on the British economy.

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POLL TAX THREAT TO LAND MARKET

NEXT YEAR the weakening of the economy ought to be reflected in a weakening of rents.

In the course of the traditional rent cycle the peak in the rate of increase in land values signals a depression by 18 to 24 months - hence the prediction of a crash in '92 by the London-based Centre for Incentive Taxation.

This time, however, the process is further complicated in Britain by the introduction of the Poll Tax. The abolition of the residential property tax will deepen the impact of the land market as landowners respond to the logic of the market.

This is reportedly already happening: the Poll Tax comes into existence this year in Scotland, where private

landlords have been accused by Shelter, a housing charity, of demanding a windfall profit estimated at over £40m a year - because the residential property tax is no longer payable.

The sum will be measured in hundreds of millions of pounds throughout the UK, when the basis of local taxation is changed for England and Wales next April.*

The change will buoy up the rental value of residential land and protract the economic problems at the turn of the decade. What would happen if a tax on annual rental values was quickly introduced?

Empirical studies in the United States and Australia verify that this would have several in-

mediate beneficial effects of a countercyclical nature.

The house construction industry would be given a new lease of life by the spontaneous release of vacant sites that are being held idle for 'speculative' purposes, and by the fact that the value of capital improvements would not be liable for tax.

As the land value tax rate was incrementally raised the government could reduce the damaging forms of taxation that inhibit personal incentives and deter people from investing their savings for the future.

* Nick Cohen, 'Landlords "profiting from the poll tax"', *The Independent*, May 99, 1989.

Margaret Thatcher is not in

the pocket of the landowning elite that traditionally manipulates the Conservative Party - but does she have the courage to confront the most powerful forces in Britain and radically transform the tax system in favour of people who earn

their incomes?

Without this reform it will be impossible for a radical free market government to institute changes of a permanent nature. The cyclical property booms will continue to periodically disrupt the supply-side, distort individual incentives and encourage governments (no matter how reluctant they may be) to intervene and "manage" the economy.

Margaret Thatcher has to either adopt the land value tax, or perform one of the most embarrassing U-turns of modern politics and return to the Stop-Go policies of yesteryear.

don: Centre for Economic Policy Research.

Harrison, Fred (1983) *The Power is in the Land*, London: Shephard Walwyn.
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Follow that pop star!

THE issue of land value taxation has sorely suffered over the ages from its enthusiasts on the green ink and sandals wing of the Liberal party. It deserves better. Taxing the increase in land values makes sound economic sense while also serving a pressing present need.

If Britain's cities are to be stopped from becoming vast Tokyo-style sprawls, it is vital to maintain their green belts. But it is equally important to curb the soaring house prices which such planning restrictions help to create. If this circle is not squared, the green belts will be steadily eroded by development, simply because the profits to be had are so high.

House prices are, of course, really land prices. The cost of constructing the bricks and mortar on the land has risen only a little more than the general rise in inflation. What has soared is the cost of the site. In London, an average house – a semi-detached family home – has risen in price from less than £50,000 in 1984 to more than £110,000 today.

This land price boom has already done serious damage to the economy by encouraging fresh borrowing and spending, and sending the balance of payments into sharp deficit. It has introduced an arbitrary element into the distribution of wealth between those who bought before the boom, and those who are still too young or too poor to have put a foot on the housing ladder. It has erected an obstacle to mobility. It has made a nonsense of economic incentives, since many south easterners have made more in tax free capital gains on their home in the last four years than they have earned at work.

There is only one possible solution: an increase in land supply. And if that supply is not to come from environmentally important farm land and green belt, it must come from the better use of the land within our cities. First and foremost, that must involve bringing back into use the estimated 200,000 hectares of

vacant land in England, most of it in the inner city, and about a third of it privately owned.¹ Secondly, it should involve encouraging existing owners of land to use it to the full potential allowed in the local development plans.

A tax on the increase in potential land rents would be ideal. It would impose a cost for the first time on anyone holding on to wasteland merely in the anticipation of gain, and would thereby encourage development or sale to someone who would build. It would be a tax on the rental accruing to the land if it was fully used according to the limits set out in the local plan. If the site is zoned for a six storey office block, then the tax would be on the rental value of the land as if the block were already built. The incentive to develop to the full potential allowed by the planners would thus be great. There would be no increase in the tax once the block was actually built.

The economic argument for such a tax is exceptionally strong, because economic rent is a basis for taxation which distorts the economy less than any other. Rent, for an economist, is defined as that extra payment to a factor of production which is over and above what would be necessary to entice it to its present role. A pop star might be prepared to play for £10,000 a

By Christopher Huhne

Christopher Huhne is economics editor of The Guardian, London and was a parliamentary candidate at Oxford West & Abingdon in 1987. This article first appeared in New Democrat (Vol. VI, No. 5).

year rather than become a merchant banker, but in fact receives £100,000 a year. The extra £90,000 is thus 'rent', and a high tax on it will not affect the pop star's decision to be a pop star. The same principle applies to land, but even more so. Land is in essentially fixed supply, which means that its price is determined by the demand for it. This point has the important corollary that a tax on rent cannot be passed on to the consumer, and therefore cannot distort consumer choices.

There is also an important moral basis for taxing land rents, because they benefit particularity from whatever is happening in the surrounding area. If a new underground line is built, then local shops and homeowners see the value of their land (and their land rental values) rise even though they have done nothing to cause that rise, and may not even have contributed more than their share in general taxation to the building of the amenity.

This was the moral basis for the ill-fated development land tax introduced by the Labour government, but Labour had sadly forgotten the well-springs of the idea in the work of Henry George, the path breaking Victorian land tax economist. The development land tax recognised the principle that the community should share in the

increase in land values, but it was a tax on development, which thereby discouraged it. Surely, it is far better to tax the full potential development, and thereby encourage it to occur.

There is another reason too for taking the land issue seriously. By the time there is a non-Tory government, the poll tax will have replaced the rates as the main source of local government finance. Such a regressive and unjust tax should be repealed, but what is to replace it? Part of the answer may be the local income tax, as the Layfield committee recommended. But the politics of a new income tax are likely to be just as difficult, if not worse, than the politics of a tax on potential land rents.

Moreover, if local authority spending is genuinely to be financed locally, with only a minimum of redistributive transfers from central government, a local income tax system would at least need to be supplemented.

1. Chisholm, M. and P. Kivell, 'Inner City Wasteland' Hobart Paper 108, Institute of Economic Affairs.

2. Fred Harrison, 'The Power in the Land' Shephard Walwyn.

ted. Some will suggest a revival of the rates. It would be better instead to rely on a tax on land rents: or if you prefer, rates with the buildings derated.

Some sort of tax on developed land values has been close to the statute book in this country on a number of occasions, most recently when it was championed between the wars by Sir John Simon and later by Herbert Morrison's LCC. The consistent charge against it, albeit a cloak for vested interest, has been impracticability. It cannot be made to stick. In Britain, a pilot valuation study was conducted in Whistable in the early sixties which showed that the surveys need be little more complicated than the assessment of rateable values. More to the point, several overseas cities, including Pittsburgh in the United States

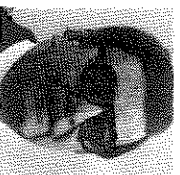
and many in Australia, tax site values rather than buildings, as well.

The effects of site value rating, even when the rate is levied at relatively low levels, are persuasive. One study which compared 27 cities in Australia which use site value rating with 15 which also tax buildings found that the SVR cities saw a 2.8 per cent rise in new private dwellings compared with 1.9 per cent rise elsewhere during the upswing of the housing cycle. The SVR cities also had smaller declines in house-building on the down trend of the cycle.² Taiwan, one of the most successful of the Asian Newly Industrialising Economies, has long had a land value tax, introduced at the instigation of Sun Yat Sen who was one of Henry George's most influential admirers.

Land value taxation can hardly be called a new idea, but it certainly has a fresh relevance to today's problems. The contrast between the development pressure in the green belt and the existence for years on end of wasteland in the inner cities makes a nonsense of concern for the environment in which most people live. The Government has no solution to the erosion of the green belt: indeed, the Environment Secretary is part of the problem.

As for the inner city wastelands, the Government's statist solution is to impose an organisation like the Docklands development corporation and to marry big business and big development. A graduated tax on potential rents, which might rise with each year a site was left vacant, would be a more elegant and liberal solution. It is more likely to lead to a multiplicity of developments on a human scale, rather than the new giantism favoured in docklands. And in many cases it might stop blight arising in the first place.

Lost to reform



• Will Lissner



• Perry Prentice

NEW YORK: The campaign for social reform in the United States has lost the services of two top journalists.

* Will Lissner, who founded the American Journal of Economics and Sociology 47 years ago, has retired as Editor-in-Chief. His journal favoured an interdisciplinary approach to social issues. While insisting on the highest degree of theoretical rigour, the journal displayed a commitment to develop policies that would have a practical effect on the world.

"The policy goals of the social sciences - applied science, if you will - can only be achieved with realism if we study problems as

they exist in the real world, usually calling for the expertise of several of the sciences and of philosophy for their understanding," explained Mr Lissner.

* Perry Prentice, a former top executive of Time Inc., died at the age of 89. He became convinced of the need to reform the property tax - with the burden falling on land values - when, as editor and publisher of House and Home magazine, he published a special issue on housing.

Mr Prentice retired to Florida, which he called "the land of boom and bust [which] is notorious for giving a free tax ride to land investors who don't earn the gains on their land values."

BY FRANK RENNIE

THE intimation this March by Lord Sanderson, Minister for the Highlands and Islands, to the annual conference of the Scottish Crofters Union that the Government was beginning to look actively for ways to enable the transfer of state-owned croft land to the private sector should have come as no surprise to anyone in the Highlands. Recent information, however, confirms that the Scottish Office are making a more speedy progress towards this stated objective than most observers would have expected.

The 1976 Crofting Act granted crofters the right to purchase their crofts, but most tenants have shown a marked reluctance to exercise this option. This has frequently perplexed the Government in what they see as their drive towards self-employment and individual initiative. The Government is anxious to promote increased participation in home and land ownership.

The vast majority of crofters have chosen to have nothing to do with owner-occupancy primarily because it would offer them very little they do not already have. They would be able to own trees which they plant, and to use the croft as security to raise working capital, but they would stand to lose their right to security of tenure and would be means tested on all grant applications for croft improvements.

With this in mind, the compulsory disposal of the Department of Agriculture (DAFS) crofting estates, state-owned croftland that is spread throughout the Highlands and Islands, is an obvious step for the Government in its attempts to persuade crofters to develop the Thatcherite property-owning ideals. In his book *Who Owns Scotland*

LABOUR LIMITS

SCOTLAND'S Labour Party proposes to set a limit on the amount of land - any block of 5,000 acres or more - over which anyone can automatically expect to exercise sole ownership rights, writes PAUL KNIGHT.

In its document *A Rural Policy for Scotland*, the party also raises the possibility of compulsory leasing of tracts of under-used land, with compulsory purchase as a last resort.

The document is intended as the basis for Labour campaigns in rural communities between now and the General Election.

"The objective is to make available land for farming to allow entry into the industry by many currently excluded because of the high price of land," states the document.

Large landowners would

have to demonstrate that their use of land in blocks of over 5,000 acres was consistent with the "Local Rural Development Plan". Also under threat:

- Absentee landlords, against whom new curbs are proposed.
- Restrictions on weekend farmers.

The party dominates the urban constituencies in Scotland, but its electoral support is weak in the countryside. Conservative supporters have warned Prime Minister Margaret Thatcher that the Government is likely to have a rough ride from voters, with the major gains likely to go to the Scottish National Party.

Labour, which is doing well in the national opinion polls, hopes that its land use policy in Scotland will help it to gain a majority at the next general election.

Press build on croft

SCOTLAND has the great Europe. Disputes over land upheavals that have left it Liberty writers describe the have developed different

John McEwen calculated that acres of land in Scotland.

The Department manages of State for Scotland as are the Congested Districts Board the last decades of the 18th

They were a direct attack on social unrest spreading through some small estates and shared and redistributing them added together in the adjacent

On several occasions, croft ownership of the DAFS crofts to the resident communities to ensure that the benefit local people.

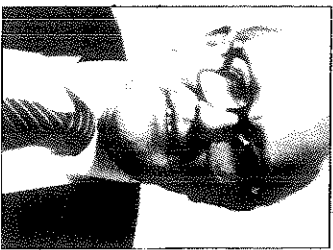
Unfortunately, there is a correlation of costs and benefits is operated by the Stormow Lewis, has often been proposed

Under this system the unchanged, while allowing collectively and elect a committee The Stormoway Trust has presented as a gift to the previous owner, Lord Leve his dreams of creating an islanders' de

THOUGH the road is frustratingly slowly, the Scottish Government wants to rid the Stormoway Trust of its community Land Trust for croft

The increasing pressure on croft and to diversify their occupational pluralism in

'S



• Lord Sanderson

tion of land ownership in , caused turbulent social the clans. Now *Land* and socialists and Conservatives sharing out title deeds.

owns nearly half a million under crofting tenure.

as on behalf of the Secretary ive land purchases made by the Board of Agriculture, in first part of this century.

al government to stem the Highlands by taking over ated during the clearances idless population still huddled, crofting townships.

ives have suggested that the might be better transferred l manage these areas collected estates were best used to

mparable models to enable system similar to that which 000-acre estate on the Isle of

ffers as tenants would be are ownership of the estate astees to manage its affairs. r 60 years since the land was e Stornoway Parish by the etired from the islands with e in Lewis and Harris fruscess to the land.

ulties, Lord Sanderson des-e of over 1,000 crofts. He is ew that some form of Com-a good thing. to reduce surplus produc-ore on the manner of the communities makes it all the

more interesting that the Secretary of State appears to be getting genuinely enthused about crofting matters.

Lord Sanderson is known to have developed a personal interest in crofting and is said to find the challenge of rural development crofting-style more intellectually stimulating than that of straight-forward agricultural production. In the long run, however, crofters are reserving their judgement on whether the direction of his enthusiasm is good or bad for them and for the crofting community as a whole.

The Minister has claimed he is well aware of the "actual or potential problems relating to crofting tenure", and the fact that it is a social rather than a purely economic system. He has also noted the fears of crofters that they might lose their access to crofting management grants if they decide to buy their crofts individually and become owner-occupiers, but he still seeks a way of bringing more state land into private ownership.

By the same token he is certain to appreciate the extent of the public outcry which would result if he should offer to sell the estates to the highest-bidding Arab Sheik who should come along.

With this clear indication from the Scottish Office and the focus upon land reform measures in the recent Rural Policy document of the Labour Party, it seems that land ownership and land use in Scotland is once more back on the political agenda.

Though the Highland clearances are more than a century ago their history has often been repeated by each succeeding generation and their emotive connotations are still unusually strong, even among residents of the urbanised Central Belt who have never even seen a croft, far less fought for one.

However favourably crofters on DAFS estates will react will depend upon how many strings the Minister attaches to his offer. Their first major concern will be about how the transfer of ownership might infringe upon their current legal status as crofters.

Under Crofting Law a landowner has very little real power to prevent individual crofters from carrying out normal crofting operations. As tenants they cannot be dispossessed so long as they continue to pay their rents, which can be fixed by the Scottish Land Court, and the owner has no control over what crofters grow or how they use their land. This would not change by a simple transfer of ownership.

Another big question is whether crofters will be expected to pay out hard cash to be guinea-pigs in Lord Sanderson's Thatcherite experiments in crofting. It is widely accepted that the social obligations of crofting and its reliance upon a wide variety of other employments make it unacceptable to simply 'float' crofts on the free market. To do this would be to threaten the entire fabric of many rural communities and concern is already widespread in certain crofting areas about the scale of speculative decrofting for second-house sites.

When the 'Soap Baron' Lord Leverhulme (of Unilever fame) left Lewis in 1923 he offered to make each crofter a gift of their croft, but only the people in the Stornoway area accepted, largely for the same reasons that would be justified today. The immediate fear is that history may repeat itself and present day crofters will refuse to par-

Continued on Page 58 ➔

CONTROLLED INJUSTICE

DONALD Trump, who made his billions out of New York real estate, claims that rent control "stopped protecting the people who needed it the most" - and cites some examples in his autobiography.*

• **Actress Mia Farrow** has 10 rooms overlooking Central Park. She pays about \$2,000 a month for an apartment that might rent for upward of \$10,000 on the open market.

• **Singer Carly Simon**, lives in the same building and pays

\$2,200 a month for her 10 rooms.

• **BBC broadcaster Alastair Cooke** pays \$1,100 for an 8-room Fifth Avenue apartment.

• **New York's Mayor, Ed Koch**, has "a very nice three-room rent-controlled apartment with a terrace in a beautiful part of Greenwich Village" for which he pays \$350 a month - perhaps one-fifth of what it's worth, claims Trump.

* *Trump: the Art of the Deal*, London: Arrow, 1988, pp.168-169.



• **Mia Farrow**

Move for 'George' reforms

ARGENTINA: The Bishop of Viedma, capital of the Rio Negro province, has called for social justice based on the introduction of an economic programme of reforms of the kind proposed by American reformer Henry George.

Said Monsignor Miguel

Esteban Hesayne: "The land is a gift of God and it is not moral to use it so that its benefits [economic rent] fall upon few people, leaving others - the great majority - excluded."

Known as "the Father Bishop", Hesayne is a leader of the progressive wing of the

◀ From Page 57

ticipate in what could be an ambitious new phase of crofting because of their (albeit justified) deeply rooted suspicions of Highland landowners and their hidden motives.

Morally, DAFS cannot easily relinquish their responsibilities to their present tenants. It would seem reasonable that they should be directed to devote substantial help, in financial and administrative backup, in order to safeguard the legal interests of the crofters. Any changes to the status quo will take some time to become established and the Scottish Office must realise this.

Some pragmatists are already saying that if the Scottish Office are determined to privatise the DAFS estates then it is up to crofters and the Scottish Crofters Union to take the initiative in proposing a scheme which will limit the potential damage and safeguard the wider interests of crofting.

The recent history of the Thatcher Government indicates that there is little point in ignoring the issue in the hope that it may go away, for it now seems certain that some new venture will shortly emerge from the Scottish Office. Local discussion has already begun among crofters in an attempt to contemplate the proposed changes, to consider the range of alternative options and to ensure adequate presentation of their case if and when the situation should arise.

The worst scenario of all would be for the crofting communities at the receiving end to have no constructive answer at all when Lord Sanderson makes his next move.

Catholic Church in Argentina. His contact with Georgist economics was through Juan Carlos Zuccotti, a graduate of the Henry George School of New York.

SOUTH AFRICA: Cape Town City Council is to re-evaluate its property tax, which some people believe to be inefficient, expensive and a "turn-off" to developers.

A new councillor, Mrs Patricia Sulcas, called for an urgent investigation into the attractions of a tax that fell exclusively on site values. She argued that site value rating was the simplest, most efficient and equitable basis of property taxation.

Added Mrs Sulcas: "If land is more heavily taxed, it will not stop speculation but it will become more expensive to hold land."

FINLAND: Plans for Helsinki's new property tax have become law, and come into effect this year. Prof. Pekka Virtanen reports that *Land and Liberty* was inaccurate in stating that the 10% tax rate on the taxable value of land zoned for multi-family residential dwellings diminishes to 5% in subsequent years.

"In fact," writes Prof. Virtanen, "the first year's rate of 10% increases by 5% in each subsequent year until it is 50% of the taxable values."

Restriction unbecoming

HENRY GEORGE'S *Protection or Free Trade* (PFT) was published in 1886. Readers should find the exposition both revealing and stimulating. Examples abound. "Trade is not invasion. It does not involve aggression on one side and resistance on the other, but mutual consent and gratification." (PFT, 46)

Yet restrictions imposed by political (governmental) force have a long history. For example, one complaint of the American colonists against Britain was London's imposition of restrictions on trade. After achieving political independence, some leaders of the new republic advocated restrictions to encourage manufacturing.

For nearly a century before 1886 the tariff for protection was a major issue of domestic politics. Influential groups pressed for restrictions as a means of encouraging specific types of industrial development.

Man-made obstacles to trade, it was argued, could foster economic progress; opponents pointed to adverse effects for consumers and exporters. It was the pro-restriction argument that George attacked. The term "protection" carries overtones of merit, connotations of something beneficent. Does it not prejudice the case somewhat? "Restriction" seems to me preferable.

The division of labor and exchange facilitate man's efforts to rise from barbarism to civilization, from poverty and gross inequality toward generalized economic well-being. *Where each family raises its own food, builds its own house ... none can have more than the*

• 150 years ago HENRY GEORGE was born at his parents' home in South 10th Street, Philadelphia. He grew up to become one of the most radical home-grown social reformers produced by the United States.
• Among George's famous books was *Protection or Free*

barest necessities ... This social condition, to which the protective theory would logically lead, is the lowest in which man is ever found — the condition from which he has toiled upward. He has progressed only as he has learned to satisfy his wants by exchanging with his fellows and has freed and extended trade. (PFT, 51).

Who would possibly challenge the historical record? No one. Yet the lesson is denied implicitly in arguments advanced time and again. Tariffs reduce the total real income of the economy.

However protection may affect special forms of industry it must necessarily diminish the total return to industry — first, by the waste inseparable from encouragement by tariff, and, second by the loss due to transfer of capital and labor from occupations which they would choose for themselves to less profitable occupations which they must be bribed to engage in. If we do not see this without reflection, it is because our attention is engaged with but a part of the effects of protection. We see the large smelting-works and the massive mill without realizing that the same taxes which we are told have built them up have made more costly every nail

Trade, a clear exposition in favour of breaking down the barriers to the free movement of wealth produced by nations.

• C. LOWELL HARRISS, Professor Emeritus of Economics, Columbia University, argues that the lessons contained in that book are still relevant today.

driven and every needleful of thread used throughout the whole country. (PFT, 101).

Or today the steel industry's success in restricting imports makes us worse off. Workers in factories that require steel for export products — e.g., heavy machinery — suffer. Getting anything like rational discrimination in a policy of governmentally determined restrictions is impossible. As one industry benefits, those which use its higher priced products must suffer.

But to introduce a tariff bill into congress or parliament is like throwing a banana into a cage of monkeys. No sooner is it proposed to protect one industry than all the industries that are capable of protection begin to screech and scramble for it. They are, in fact, forced to do so, for to be left out of the encouraged ring is necessarily to be discouraged.

... Now every tax that raises prices for the encouragement of one industry must operate to discourage all other industries into which the products of that industry must enter. Thus a duty that raises the prices of lumber necessarily discourages that industries which make use of lumber, ... a duty that raises the price of iron discourages the

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Bold home plan aids local young

The soaring price of residential land has driven young, first-time buyers out of the housing market in Britain, writes Ian Barron.

House land in the south of England can now fetch £1m an acre. In a bid to overcome the problem, Pershore Council is collaborating with two builders to provide land at below market prices. Buyers, who will have

to be local residents, will pay only 70% of the market value of their new homes, which will be on 99-year leases. The remaining 30% will be rented for £1 per annum.

Known as the Wessex Shared Ownership scheme, the development in Worcestershire will be privately funded "and can only be made workable by using land at significantly less than

market value of building land," according to a spokesman.

Land for similar schemes will have to be obtained in one of two ways:

- Local authorities can provide sites at subsidised prices, to help families to overcome the problem of house prices that have soared beyond their budgets; or
- Farmers and land-owners can sell farm-

land (worth up to £2,000 an acre) for £10,000 to £50,000 an acre. Clive Puthrey, director of Wessex Housing Ltd., says that these prices, "although considerably [less] than for building land, compare very favourably with agricultural land values."

The hope is that land-owners will offer land which would otherwise not receive planning permission.

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innumerable industries into which iron enters: ... a duty that raises the price of sugar discourages the fruit-preserver, the maker of syrups and cordials, and so on. (PFT, 168-9).

Note that the recent restrictive decisions of the U.S. government have applied to lumber, steel, and sugar! In discussing the relationship of tariffs to wages, George says:

It is not true that the products of lower-priced labor will drive the products of higher-priced labor out of any market in which they can be freely sold, since, as we have already seen, low-priced labor does not mean cheap production, and it is the comparative, not the absolute, cost of production that determines exchanges. (PFT, 198-9)

People subjecting themselves to restrictions on trade deprive themselves of opportunities to satisfy their wants. Elsewhere in PFT it is said:

It might be to the interest of [lighting] companies to restrict the number and size of windows, but hardly to the interests of a community. Broken limbs bring fees to surgeons, but would it profit a municipality to prohibit the removal of ice from sidewalks in order to encourage surgery? Yet it is in such ways that protective tariffs act. Economically, what difference is there between restricting the importa-

tion of iron to benefit iron-producers and restricting sanitary improvements to benefit undertakers?

George's advocacy of free markets and his condemnation of restrictionism included the explicit prediction that fraud and corruption are to be expected. The larger the scope of governmental action, the larger the scope for corruption (which will not be corrected by bankruptcy in the market place). Political realities can lead to results rather unlike the dreams of advocates.

One chapter after another of *Protection or Free Trade* deals with these misleading arguments of a century ago - some are still alive - which favor protection. For example, in referring to the infant industry argument, Henry George has words relevant to recent proposals for a new "industrial policy."

So it is with the encouragement of struggling industries. All experience shows that the policy of encouragement, once begun, leads to a scramble in which it is the strong, not the weak; the unscrupulous, not the deserving, that succeed. What are really infant industries have no more chance in the struggle for governmental encouragement than infant pigs have with full grown swine about a meal-tub ... On the whole, the ability of any

industry to establish and sustain itself in a free field is the measure of its public utility, and that "struggle for existence" which drives out unprofitable industries is the best means of determining what industries are needed under existing conditions and what are not. Even promising industries are more apt to be demoralized and stunted than to be aided in healthy growth by encouragement which gives them what they do not earn (PFT, 96).

Today's advocates of restriction use somewhat different arguments from that of George's day. They now focus more on the need to reduce competition from abroad that challenges activities already established in this country - steel, garments, textiles, lumber, autos etc.

THE STRUGGLE for human freedom as against restriction of trade in America brought more defeats than victories for much of the half century after George began his efforts. The Smoot-Hawley Tariff of 1930 set new levels of restriction. Then this country took the initiative in reducing barriers, first on a bilateral basis, then on a broad scale. Drastic reduction in U.S. tariffs has been one of the outstanding achievements of political economy.

We owe much to Cordell Hull.

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LAND VAT INVESTMENT BLOW

BRITAIN'S construction industry is about to be hit by the introduction of Value Added Tax (VAT) on non-residential land.

The tax was forced on the Thatcher government by Common Market rules, and it will be levied on the transaction price when land is sold.

But under a new clause slipped into the Finance Bill passing through Parliament in May, the tax will also be payable by firms redeveloping land which they already own.

And the tax will fall on current market value, not on the historic cost of the site to the owners.

Barclays Bank is the first to fall foul of this change, for it plans to redevelop its £150m Lombard Street site. VAT at 15% adds £22.5m to costs, with

another £22.5m VAT on the £150m cost of the building.

According to the Bank's managing director, Mr Andrew Buxton, about 4% of the land in the City, London's financial centre, is redeveloped each year. That means over a 20 to 25-year period all the land in the City is redeveloped.

So within that period all property in the City will have been liable to VAT. If City land is worth £20bn, that is £3bn VAT at today's prices – and according to Mr Buxton, the tax will seriously damage the City's ability to compete worldwide.

Ian Barron comments: a tax on the sale price of land seriously

undermines investment and the growth of the industrial economy. This has been shown by

successive Labour government attempts in the postwar years to capture part of the increase in land values for the benefit of the community.

Landowners will now have less incentive to develop or redevelop their land, which will reduce productivity and curb both economic growth and the creation of new jobs.

On the basis of past experience, we can expect that this effect will more than offset the tendency for the tax to reduce the profit from the sale of land (the tax cannot be passed on by the landowner). A lower supply of land means that prices will actually rise in the market place.

Lord Set-aside's bonanza

LORD Sainsbury "farms" a 367-acre holding in Hampshire, one of the Home Counties with some of the most fertile agricultural land. Except that the lord, one of Britain's richest men, receives £30,000 a year for doing nothing to grow food.

He has joined the government's set-aside programme, which is supposed to reduce surplus food stocks. But now that he does not actively work the farm, Lord Sainsbury has decided to sell it to whoever wants to buy the acres and do nothing with them!

Asking price: £650,000 complete with buildings.

Says Euro-Member of Parliament Richard Cottrell, who thinks the EEC's farm policies are the height of folly: "It's complete madness. We don't want to give dockers a job for life so we abolish the dock labour scheme. Yet here we are giving a farmer a job for life while his green wellies are hung up never to see a farm."

According to Dr. James Jones, a lecturer at the Royal Agricultural College School of Business, land that is registered for the set-aside scheme "must be some kind of asset to the saleability of the farm."

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As he became Secretary of State in the 1930s, he set the course of tariff reduction which spread through much of the world. His ideas were formed in an era when George's efforts must still have been rather directly influencing opinion.

Every U.S. president for half a century has spoken out for free-trading trade. The issues have not been markedly partisan for two generations at least until recently. With many more indepen-

dent countries, the opportunities for obstruction have multiplied.

The variety of restrictive devices has increased. Non-tariff barriers are numerous and often largely hidden. We hear about unfair methods of discouraging imports and encouraging exports – a complex and frustrating set of conditions.

Competition grows more intense for several reasons. Consumers benefit. Some industries and their employees suffer. Typically they seem to prefer

burdening their fellow Americans by favoring restrictions on trade as against wage-rate reduction – an understandable reaction.

The potentials for mutual benefit from international specialization and exchange grow as incomes rise over the world. Areas not so long ago poor, Taiwan for example, are now the source of consumer goods that appeal to Americans and the market for American goods and services.

JACK F. Kemp, the new Secretary of Housing and Urban Development in President Bush's administration, is interested in the problem of homelessness and is exploring it first-hand in various cities. He need not travel very far, as this spreading urban disease has also hit the nation's capital, Washington. What he and HUD come up with will be interesting to follow.

Inscribed on the Statue of Liberty in New York Harbor is an invitation to the Old World to send the "homeless, tempest-tossed" to these shores. A few generations later, many are homeless in this land of refuge. Where should they go now?

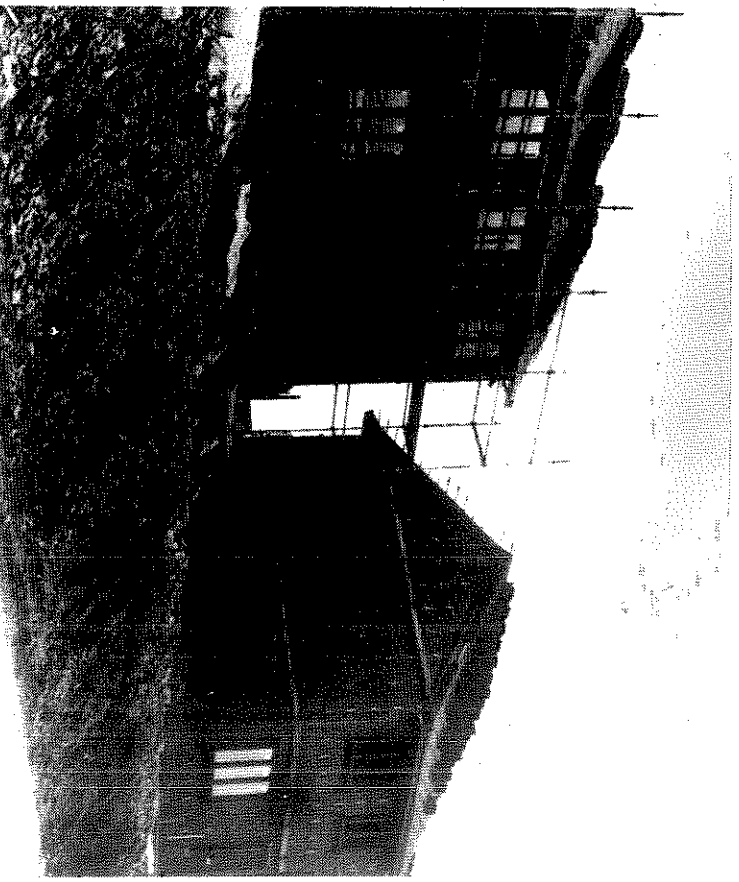
It is surprising to note that those who comprise the homeless population do not all fit the stereotype of the drifter, the lazy, the incompetent and the mentally ill. Many of them are young people, and distressingly enough, families with children. They are not all unemployed - there are people with jobs who cannot afford a place to live. Nobody has counted the homeless but their numbers are growing.

The reaction of most of the rest of the population is to get the homeless out of sight. Why not build shelters for them or convert empty buildings into shelters? With this "remedy" comes the "Nimby" corollary - Not In My Back Yard.

NOT ONLY do most neighborhoods resist homeless shelters, but many of the homeless do, too. They say it is not safe, for there is a proportion of muggers, drug addicts and mentally ill among them. And so a considerable number would rather take their chances with life on the streets, begging, foraging, getting meals at welfare facilities and finding warm spots wherever they can. One is the network of underground tunnels and passages beneath subways and railroad stations. (Does any one remember the Morlocks in H.G. Wells' story, *The Time Machine*?)

As for those who remain visible, sleeping or begging in streets and public places, busy people going to and fro, commuting, shopping, simply walk

It must be LVT for HUD



• New houses - with price tags beyond the reach of the homeless

From BOB CLANCY in New York

around them. One gets used to everything.

Liberals say the government is not doing enough, conservatives say it is doing too much. Liberals want the government to spend more money to help the homeless. But this follows the well-known trend when money is thrown at a problem - more and more is spent for less and less. New York City now spends over \$12,000 a year to shelter

each homeless person. Bureaucracy, inefficiency and worse are the fruits of this approach.

Conservatives say that government-imposed rent controls have given rise to the problem. But this does not explain the current situation. Rent-controlled apartments are those that have been around for almost half a century and are occupied by people, mostly aging, who have been there for a long time and don't dare move. It can be argued that it is unfair for them to have this privilege while others, including many young people, are having such a hard

time finding a place to live. But new buildings are being built that are not rent-controlled. Furthermore, the homeless problem exists in places where there are no rent controls.

Despite the controls, New York has the highest rents in the country. They are simply out of reach of the average wage-earner.

This is the core of the problem. But self-evident as it is, it is avoided. Arguments instead revolve around the question of whose responsibility it is to take care of the homeless after they become homeless, rather than preventing homelessness. If escalating rents are the reason people are homeless, the right question is how to bring them down.

The best way is to reduce - better still, eliminate - the tax on buildings and to increase the tax on land values. This would give builders a greater incentive to build and decrease the incentive to hold land for a higher price. It is the high price of land with high taxes on buildings that is

QUOTE: "Every night, 100,000 American children sleep on streets, in cars or in temporary shelters. The total number of homeless people, estimated at somewhere between 1m and 3m, continues to grow rapidly. Roughly a third are working people. The poorest one-tenth of renters spend 70% of their meagre income for housing. And for the first time in half a century, home ownership is on the decline as middle-income families, especially young marrieds, are priced out of the market." - Walter Rybeck, Director, Center for Public Dialogue, Washington DC.

keeping rents out of the reach of the average person.

Years ago, New York had a similar problem of insufficient housing at moderate rentals. The city fathers then offered a ten-year tax exemption on new multiple dwellings, but the land tax was retained. That did the job - new buildings sprang up and the housing problem was solved.

This simple remedy has been proposed to New York City and State leaders in these days, but they fail to see it, or say that things are more complex, or cannot accept that such a visible thing as an apartment house should not be taxed. And so we go on with escalating rents, an

increasing number of homeless persons, and each level of government blames the other.

Now we have the federal government enquiry. It is at least encouraging that the Department of Housing and Urban Development is interested. HUD responded favourably to a seminar sponsored by the Center for Public Dialogue in Washington, bringing out the relevance of land value taxation to the housing crisis. Past Secretaries of HUD have also shown interest and we hope the present Secretary will sit up and take notice. It's high time that attention be paid to a constructive measure that has proven itself.

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Yat Sen did not follow the full-blown Georgist programme. He thought of land "value" as being land "price", and he lent towards the idea of John Stuart Mill that an incremental land tax should be put upon profits from land price. The intentions were good, but the understanding of the economics was, in my view, not quite on target.

The Taiwan fiscal system certainly embraces a land tax, but it is just one tax among many. To this extent, Taiwan is not really a better model for the world than any other free-enterprise/mixed economy. The fundamental relationship between land occupancy and use and the necessities of human existence is not expressed in its fiscal policy. Were it so, the taxation of land rents would undergird the whole economy. It doesn't!

The insufficiency of the fiscal policy in Taiwan is evidenced by a number of facts. • High land prices are a serious social problem. • Taiwan has unfortunately turned, along with Europe, and now Japan, to V.A.T., which does not tackle the problem at all. • A rich employing class co-exists with many relatively lowly paid workers who have no prospects of equity either in the land or in the businesses that employ them. In South Korea this kind of situation

has made for serious social unrest. So the ultimate benefits from "land reform" have yet to be achieved. It is an entirely new ball game from the Fifties.

WITH THE passing of the decades, there will be a convergence in the methods of economic management in the "four little tigers". They have to compete with each other, and with Japan, in similar fields.

For what my opinion is worth, given the proven record of competent management that the Taiwan administration has constructed, it will gain the edge on the others only if it drops, for one thing, the burden of V.A.T. and relieves itself of the burden of high land prices by treating land rents as its major source of revenue.

Henry George drew the distinction between "young" countries where land was still comparatively cheap, and the tired old countries of Europe where the land had become fully monopolized. Taiwan is still a vigorous, young country. It ought not to allow the private capitalization of land prices to turn it into a tired, old country.

Sun Yat Sen had his dream for China - it is spelt out in *San Min Chu I*. That dream must never be allowed to fade. Dr Li's book is reassuring in that, given the will, Taiwan has the expertise to ensure that this need not happen.

REVIEW BY
KEN GRIGG

Kwoh-ting Li, *The Economic Transformation of Taiwan*, London: Shephard-Walwyn, 448 pp. £19.95.

A little tiger burns bright



• Kwoh-ting Li

THIS book is prescribed reading for every captain of industry, every small businessman, every trade union official, every educationist and every politician. It reprints a collection of papers and speeches made over the last two decades by Dr K.T. Li, a nuclear physicist by training who has, in the past, been Minister for Finance and Economics in the Executive Yuan of the Republic of China on Taiwan. He is currently senior adviser to the President and Minister without Portfolio in charge of planning towards the development of "high" technology in the next decade.

Taiwan is one of the four "little tigers" of Asia. All of them are marked by intense emphasis upon education and upon willingness to work - "he who doesn't work doesn't eat!" The Welfare State has not been heard of. Dr Li states that the initial land reforms in agriculture set the stage for the orderly progression in Taiwan to a steady growth in secondary industry. With expert management they learnt to walk before they ran. And they are certainly "up and running" now.

National welfare - improvement in the livelihood of the people - has come about because, consonant with Dr Sun Yat Sen's precepts of equalisation (or "equitableness") in land rights and of the regulation of capital, the division of incomes between the rich and the poor is less marked than in the other growth centres of Asia.

Dr Li states that three major factors have contributed to Taiwan's success: education, savings and a free economy. This theme runs throughout the book, which is divided into seven categories: national economic development and planning, regional economic development, international economic co-operation, industrial and technological development, agricultural development, economic development and social change, and research on mainland China's economy.

What emerges is an account of the impressive level of competence in the higher echelons of the administration of the Republic of China in Taiwan. President Lee Teng-hui is himself a Ph.D. in Agricultural Economics. The emphasis on higher levels of education cannot be overstressed. It has been said that adversity is a great concentrator of the

mind. The defeat of the Nationalists on the mainland was one such adversity.

Yet it has had the effect of bringing together, in concentrated fashion, a team of brilliant administrators in every field, who had studied abroad in the 1930's and 1940's and were dedicated to bringing into play the precepts of Dr Sun Yat Sen. Free of foreign incursion and of civil war, they were able to proceed carefully. Today, Taiwan is one of the advanced creditor nations of the world, and is projected as a model for the mainland and for Third World countries.

Dr Li argues that Taiwan has deliberately used fiscal policy to prevent the emergence of a great disparity of incomes. This has involved a fair amount of governmental regulation of the economy, e.g.

The principle of equitable distribution of land rights requires no taxation on labour and capital. Furthermore, site rent has to be taxed for public revenue because land has monopoly power. There is a difference between ordinary products and land. The latter is a gift of nature, which is limited and cannot be increased by human beings; its revenue has to be shared among all citizens in society.

- Tseng Hsiang, Director, China Research Institute of Land Economics.

Increasing indirect taxes to discourage spending. (That's what such taxes do - intentional or not!).

A different approach could have achieved the same result with much less arbitrary control. Henry George's case was that the distribution of wealth is skewed primarily by the private appropriation of land rents. Historically, those who pocket the economic rents of locational advantage amass enormous amounts of spare funds over and above what labour and capital can command. These spare funds come to constitute "capital" in the monetary sense, the owners of which become the employing class. Hence the development of antagonism between "capital" and "labour".

The "single tax" on land rents terminates this skewed situation and, in socializing rent, enables the natural distribution of wealth to take place. Rent becomes "the common wealth". To be sure, Dr Sun

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