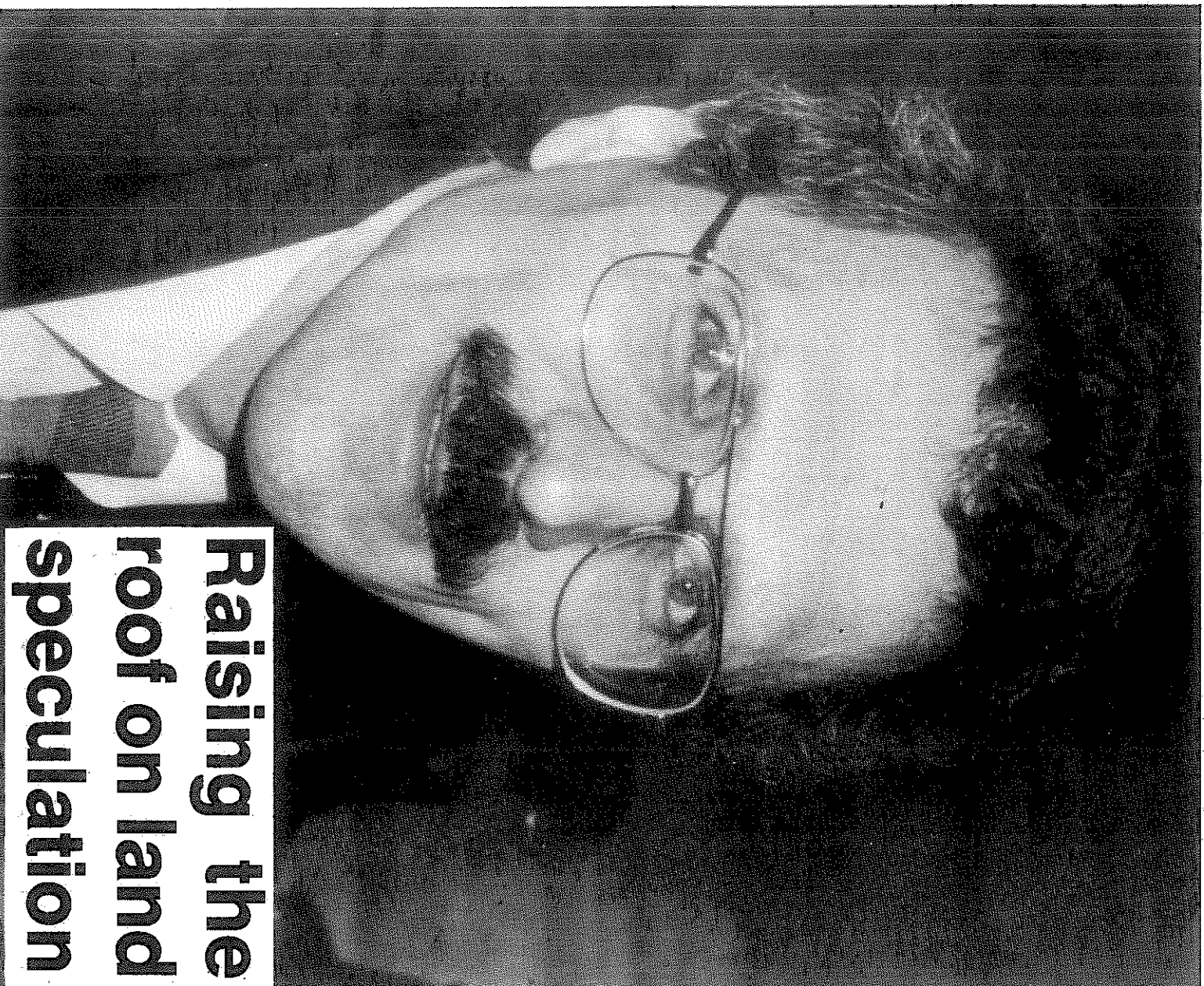


# LAND and LIBERTY

JULY-AUGUST 1990

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PROPERTY RIGHTS Centre Pages



**Raising the  
roof on land  
speculation**

# LAND and LIBERTY

Established June 1894

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COVER PICTURE: Nuffield College!  
John Muelbauer, the British economist who identified land speculation as a major problem for Margaret Thatcher's administration. Story, Page 51.

## Land is back centre stage!

HYPOCRISY reigns in the so-called market economies of the West.

Smugness will deepen as we witness the turmoil in the former command economies of Eastern Europe.

Yet many of the most vociferous advocates of free enterprise who relish the triumph of capitalism over communism are among the most active pickers of the public purse.

The market is allowed to operate, provided its disciplines do not disturb the power of the "vested interests".

Government must stay out of the way of the entrepreneur, provided it supplies protection and subsidies that prevent the bottom line sagging too far down the corporate balance sheet.

Bureaucracy must not interfere with the way of the entrepreneur, provided it is there with its regulations to keep out the awkward fellows who threaten to introduce new competition into the marketplace.

Plunder, in other words, is an institutionalised feature of the market economy today. It manifests itself in the form of monopoly power - but rarely is it labelled as such.

A variety of convoluted reasons are advanced to justify the subordination of the market to the special interests that all too often devote time and money to excluding competition from their markets.

In the United States, for example, the Bureau of Reclamation underprices irrigation water in the arid West. That subsidy is worth nearly \$15bn a year, according to one estimate.

Result: a scarce resource is rapidly depleted, while the beneficiaries are given an artificial comparative advantage.

In Europe, the common agricultural policy holds the prices of some products above world levels, at the expense of consumers and the taxpayer.

Result: marginal land is ploughed when it should be left fallow, while

the farmers of the Third World are successfully excluded from a market that would give them a living.

When analysed market distortions in the main are found to benefit the owners of natural resources. Rarely, however, do analysts employ the concept of rent, even when they are dealing directly with the economics of natural resources.

Take *The Economist*, the international news magazine that has the facts at its fingertips. On May 5, in editorialising against the distortions to market economics, it noted:

"By cutting taxes on labour, governments can remove one disincentive to join the job market; by cutting taxes on capital, one disincentive to save.

"But by taxing the use of natural resources - be they oil, or cadmium, or the dirt-absorbing capacity of the atmosphere - governments can not only pay for lower taxes on labour and saving; they can also make markets work better, by ensuring that prices reflect the full costs of economic activity."

This is the economic philosophy of American social reformer Henry George, who did not shy away from using the word "rent", or from calling his policy land value taxation.

*The Economist* advocates the economics of Henry George, but does not publicly say so: that would be to admit that the bulk of the economic theorising of the past 100 years is not worth the paper on which it is written.

A century has been wasted: in which generations were sacrificed to the vested interests of the monopolist, in the West, and his adversarial ideologue, in the East.

But the land has reasserted its rightful place in the centre of our lives; and with that new awakening, the analyst will have to retrieve the concept of economic rent from the dusty pages of the classical textbooks.

And with it will come a programme of *perestroika* for the market economies.

# Small step – but in the right direction

IN THE summer of 1987 it became clear that Britain was in the midst of a classic land boom. To the public, this took the form of a buoyant market in house prices. With unemployment decreasing, and inflation relatively low, a surge in the value of a family's prime asset – the house – was something to enjoy.

Tory politicians and academic economists wallowed in a sense of self-satisfaction: Prime Minister Margaret Thatcher's reforms to the labour and capital markets had seemed to do the trick, with productivity rising and Britain no longer the Sick Man of Europe.

As someone schooled in the dangers of speculation in the land market, however, I interpreted the signs as ominous. And on the basis of my readings of previous cycles in land prices, I was led to this prediction:

*"The next major economic recession – the one that will cause widespread unemployment and business closures – will occur in 1992."*

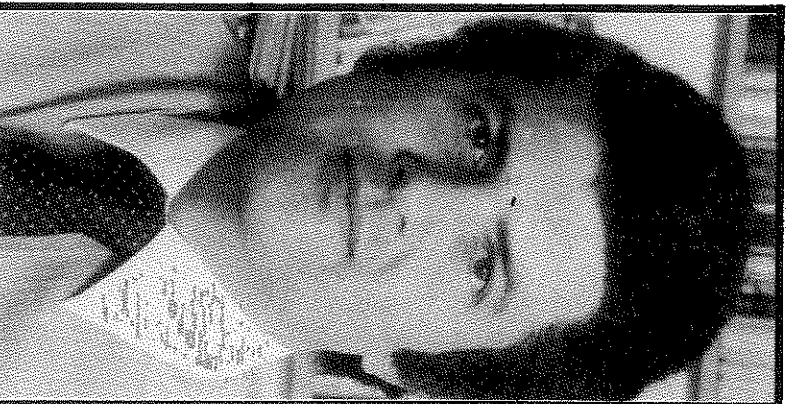
I also made several other predictions.

- "The Japanese ... will now buy real estate in the capitals of the world." They did; in the 1970s, it was the sheikhs who went on a property-buying spree, in a rush to spend the massive increase in oil-rents that flooded into the hands of the OPEC cartel.

In the late 1980s, it was the turn of the Japanese, who were at least spending the surpluses they had earned through trade with well-satisfied customers.

- "Is it possible to prevent the next great slump? Not this time. President Reagan's tax-cutting policies have left people with more money in their pockets, and the result – again, proved by history – is the tendency to push up the price of land."

The US land market exploded in the 1980s, crashing first in



**FRED HARRISON recalls his prediction that 1992 will be the year of depression.**

Texas, most recently in New England; and the banks are beginning to scream from the pain of non-performing loans to the real estate sector.

AT THE time I published these forecasts, orthodox economists were breathing sighs of relief: the world economy had not

slumped, following the crash of the stock markets in October 1987.

The economists – and government Treasuries – ought to have been sounding the alarm bells. Instead – complacency!

*They were wrong. I was right.*

But in terms of raw data, I had no more to go on than they did. The difference was that I was taking into account the trends in land prices, the historic lessons of which are there for all to see.<sup>2</sup>

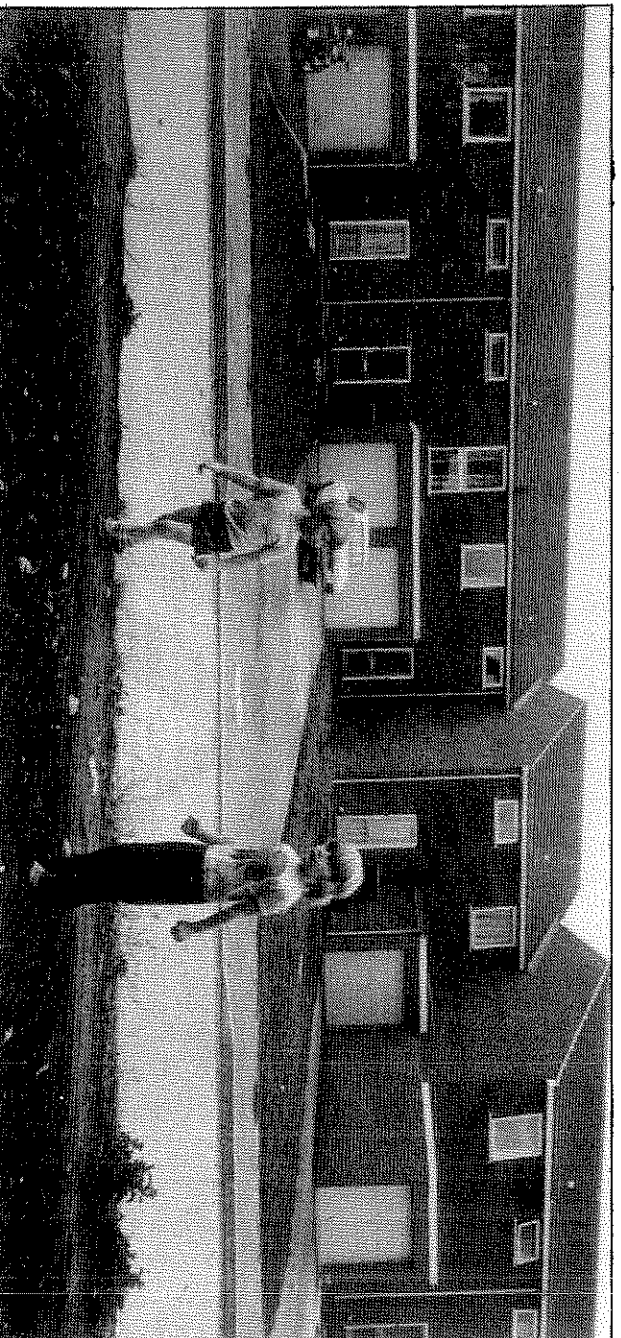
To be fair, data on the land market is not readily available. It was not until last year that we had access to a thorough assessment of nation-wide trends in land prices in Britain.

Data in the United States is in an even poorer state. Because of their fiscal policies, information is in a more accessible form in Australia, but – again, because of theoretical misconceptions – little use is made of it to alert the policy-makers.

As a consequence, the seeds of destruction were sown during the high growth period of 1985-89. And now, even the most resilient of optimists are acknowledging the possibility that the world economy could dive into a "hard landing."

There is one honourable exception to the rule that

Continued on Page 52 ►



• **When land speculation drives up prices, builders strive to make their houses affordable by cramming more units on to each acre at their disposal.**

#### ◀ From Page 51

academic economists – those without a background in the philosophy of American social reformer Henry George – are blinkered.

John Muellbauer, of Nuffield College, Oxford, has closely studied the UK economy. As a result, he has developed a unique understanding of how the land market has undermined the efforts of the Thatcher administration to break away from the boom-bust cycles.

He summarises the work by himself and a few colleagues in a recent issue of *ROOF*, the magazine published by Shelter, the housing charity.<sup>4</sup>

He identifies all the relevant pressures on labour mobility and capital investment, and unambiguously declares: “Ultimately, it is the rise in the value of the underlying land that is the problem.”

Despite the publication of Muellbauer’s essays in academic journals, and his papers delivered to seminars in Whitehall and Westminster, he is alone – among mainstream British economists – in insisting that something needs to be done to curb the rise of land prices.

He acknowledges the role of

other factors, such as deregulation in the financial markets, but returns to the comment that “Land speculation plays its part too.”

Others, like City economist Tim Congdon, have warned that a growth in the price of houses could destabilise the economy, but they failed to differentiate land from trends in the value of other assets. As a result, “neither the Bank (of England) nor the Treasury incorporated housing wealth into their quarterly consumption functions.”

Muellbauer explains: “With financial assets alone standing in for the wealth effect, one consequence was that after the October 1987 stock market crash there was a large overestimate of the reduction in consumer expenditure predicted to follow. Since house prices continued to

rise strongly, the slight reduction in aggregate wealth was quickly washed away. Not recognizing this, and overemphasizing stock market wealth, monetary and fiscal policy were left far too loose.”

Officialdom was therefore caught by surprise when the balance of payments tipped deeply into the red. To curb demand, it was therefore necessary to raise the cost of borrowing money; high interest rates are now crippling entrepreneurs – all because the land speculators were given a free hand to grab something for nothing!

THE ROLE of the land market on wages has also been monitored by Muellbauer.

High house prices crowd out workers from areas where the jobs are in plentiful supply, which helps to push up wages. In addition, as people’s disposable incomes decline – with the rise in mortgage payments – they are compelled to seek high wage deals with employers, to restore their former living standards.

In the face of these fundamental pressures, the exhortations by politicians – “one man’s wage increase costs another man his job” – means little. Mrs

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Thatcher is currently claiming that workers and their employers hold their fate in their own hands: the government has yet to learn the lesson that the fate of the labour market was sealed in 1985, when speculators started to buy and sell land at rates of profit that had nothing to do with the productivity of the economy.

This is the logic of a trend measured by Muellbauer: "Between 1981 and the second quarter of 1988, the price of an average building plot relative to personal disposable income per head in the UK, rose from 1.6 to 4.1 in England and Wales, and from 2.3 to 7.2 in the rest of the south-east."

The expansion of borrowing

on the back of the increase in asset values also drove up interest rates, at the expense of investors who wanted to create jobs and wealth

Completing the vicious downward circle into depression, Muellbauer notes the effect on the housing market. "With house and land price to income ratios at current levels, there is little scope for landlords to make good economic returns from renting property at affordable rents. Thus, there is little hope of expansion in a private rented sector offering affordable rents and so little hope of achieving improved labour mobility."

Throwing more money at the problem - Thatcher's solution.

which Muellbauer rejects - only aggravates the crisis.

The distortions need to be eliminated - yet, surprisingly, these have been ignored by Margaret Thatcher. Surprising, because the central tenet of her economic philosophy is the need to free up the markets in favour of efficiency.

Instead of doing so, however, the government's abolition of the residential property tax merely consolidates the inefficiencies in this sector. What needs to be done? Muellbauer declares: bring back the tax on residential property - ideally, tax exclusively the value of land.

"First, it would be a tax on

Continued on Page 61 ►

# CONFUSING WEAKNESSES

IN SEARCHING for the flaws in conventional economic theory, Britain - as ever - provides an illuminating starting point. For two reasons: the UK is the neatest of the major economies to monitor, statistically, and the most volatile in behaviour, writes *Ian Barron*.

Take inflation. Margaret Thatcher came to power as a "monetarist". Since 1979, however, Milton Friedman - arch exponent of monetarism - has disavowed key elements of the Conservative Government's actions. Not surprisingly, because much has happened that is inconsistent with the Chicago School's theoretical expectations.

Right wing economists in Britain - especially the ones associated with the Institute of Economic Affairs, who have taken a pride in advising a complacent Thatcher government over the last 10 years - are now faced with the extreme embarrassment of explaining why the economy is sliding into recession.

Events are rapidly depreciating professional reputations, but theories are also back in the melting pot; especially monetarism, which - as practiced - has been found to be wanting in the real world.

Christopher Huhne - an advocate of a tax on land values, who has been acclaimed joint winner of this year's Harold Winicott prize for excellence in financial journalism - (the premier award in Britain of its kind) notes:

"Some analysts became worried by the growth of credit and 'broad' money - bank accounts - in 1987. But why was the growth then any more worrying than the similar pace of growth in the preceding years, when there had been no ill effects? Why worry when M4 - the main broad money measure - had grown even more rapidly in 1981 and inflation had fallen?"

"The broad money measures were roundly discredited as an indicator of spending and hence of potential inflationary pressure. But other indicators hardly fared

better. The main 'narrow' money measure, M0 - notes, coin and bankers' cash at the Bank of England - failed to capture the inflationary problem of 1973-4. During the recent episode, it only began to accelerate above a growth rate of 5% at the beginning of 1988 when most of the problem was in the pipeline."

One reason for the confusion is the failure to define "inflation" properly. Another is the failure to isolate the unique dynamics of the land market. These weaknesses are evident in a study by Geoffrey Wood, professor of economics at the City University Business School.<sup>2</sup> As a consequence, he emphasises a monetary strategy for future reforms:

"Control of the money supply implies a tight constraint on the rate of growth of the balance sheet of the banking sector as a whole. Even more basic is control of the rate of growth of the central bank's own balance sheet. Discipline should start at the top. The Bank of England should limit the growth of its balance sheet."

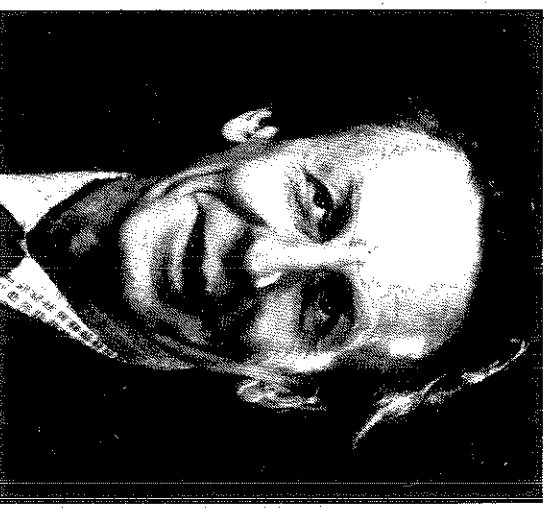
The USA has a well-disciplined, independent central bank which the British are now proposing as a model for the Bank of England. And Japan is not noted for financial laxity. Yet both have suffered from a boom in land prices, which is at the heart of current economic traumas.

No matter how stringent monetary policy, speculation will take place when the balance of advantage shifts in favour of the land market. That's where the trouble begins and ends: and monetary policy, lax or tight, does not play the prime role in starting or stopping it.

Monetarists need to get out into the real world.

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- The property tax will feature prominently when Margaret Thatcher seeks a mandate for another five years in power. She has now abolished the tax on residential properties, but Britain's Labour Party threatens to reinstate it.
- The Liberal Democrats returning to their philosophical roots, say they want a tax on site values only, for commercial property. But Mrs Thatcher will fight tooth and nail to

preserve her "flagship" policy, the Poll Tax, as the means for raising revenue for local governments.

- Are there lessons from history for these politicians? ROY DOUGLAS, a lecturer at Surrey University, has written a classic book on the history of the politics of the property tax. Here, he warns of the practical problems that may confront reformers even when they have parliamentary majorities.

# TORIES' LAND TAX POSER



BEFORE 1914, there had been massive interest in land taxing. Then most people decided that they were much more interested in killing Germans than any other kind of activity, and the issue was swept aside. Nevertheless, there were plenty of people in both Labour and Liberal Parties who had understood the land question clearly before the War, and when peace returned they soon began to recollect what it was about.

For most of the inter-war period, Conservative opponents of land taxing had large majorities over all others combined, but there were two exceptions, when there were substantial – though composite – majorities in favour. On both occasions a really keen land taxer, Philip Snowden, occupied the crucially important position of Chancellor of the Exchequer.

In the General Election of December 1923, 258 Conservatives, 191 Labour and 159 Liberals were elected. When the new Parliament met in the following month, the Conservatives were defeated by a combination of Labour and nearly all the Liberals. A Lib-Lab coal-

ition would have seemed the natural upshot, but Labour refused to entertain the idea and a precarious minority Labour Government emerged.

Land taxing was undeniably popular. In April 1924, a resolution seeking lease to introduce a Bill "to provide for the valuation of land, and for the rating of values, and other purposes connected therewith" was supported by both Labour and Liberal Parties, and was carried by more than a 2 : 1 majority.

Thereafter, however, a complex series of inter-Party and intra-Party intrigues, related to completely different questions, ensued. The Government was far too weak, far too brief, for dramatic reforms in the land taxing direction, and in October it was defeated – more or less by accident – over the notorious "Campbell case".

In the 1929-31 Parliament, the two land taxing parties again had an overall majority; but on that occasion Labour was the largest single Party in the Commons, and far ahead of the

Liberals. Towards the end of 1929, the Chancellor received a petition in favour of the introduction of land taxing in the next Budget, supported by 165 Labour and Liberal backbenchers. Unfortunately, there were two vital problems.

The first was technical. Land taxing is a two-stage operation. First you must value land, then you tax it. After the Parliament Act of 1911, the House of Lords lost its power to block a taxation Bill, but retained the power to hold up a valuation Bill for close on three years – and, of course, the House of Lords was overwhelmingly opposed to land value taxation.

When and if the valuation Bill at last got through Parliament, the process of valuation would itself be protracted. Thereafter, land value taxation would presumably be introduced in gradual stages. Thus the road to full-scale land value taxation à la Henry George would be a very long one.

The second problem was much more urgent in character, but it made any kind of controversial long-term reform peculiarly difficult to set in oper-

ation. The Wall Street Crash occurred in October 1929. In 1930, the Great Depression hit Britain -- with unemployment figures more or less doubling in the course of the year. Thus in 1930 most people became far more preoccupied with these immediate economic problems than with long-term reforms.

Nevertheless, Snowden batted on. After many difficulties with his Cabinet colleagues, it was decided that land taxing proposals should be omitted from the 1930 Budget, but a valuation Bill should be brought forward soon afterwards. The Bill got a First Reading in June. Then there were second thoughts, and at last it was decided to drop the Bill but introduce its provisions into the next Budget.

Snowden in fact was seeking to dodge trouble with the Lords by a highly technical expedient. The Budget should include proposals for a small land value tax; but that tax would not be operative for two years. In order to service the tax, valuation should be introduced in the current Finance Bill. A resolution in favour of the appropriate proposals got through the House of Commons, with support from the Labour and Liberal Parties.

As in the 1924 Parliament, there were strong party-political overtones. The depression was

rapidly getting worse. Many of the Labour people, while not dissenting from the desirability of land taxing, gave it a low priority in the current scheme of things.

The Liberals were beginning to split catastrophically into those who sought to coerce Labour to adopt their own anti-slump proposals and those who preferred to put out the Labour Government even at the price of putting in the Conservatives. Lloyd George, for practical purposes the Party's leader, was trying somehow to stop it falling to pieces.

Snowden and the Liberals were on pretty bad personal terms, and there was a good deal of "brinkmanship" by Lloyd George. Despite all these vicissitudes, Snowden's proposals got through the Commons. The Lords had no constitutional power to resist, and at the end of July 1931 the Finance Bill received Royal assent.

Triumph for the land taxers? Not a bit of it. Within a month, the Labour Government had fallen on completely different issues, and a National Government was in office. The history of that Government is mainly outside our story. Suffice to say that within a day or two it had been repudiated by the Labour Party; that, before 1931 was out,

a new General Election gave the Conservatives more than three-quarters of the seats in the House of Commons. Demise of the land-taxing proposals was certain, although they were not formally killed until 1934.

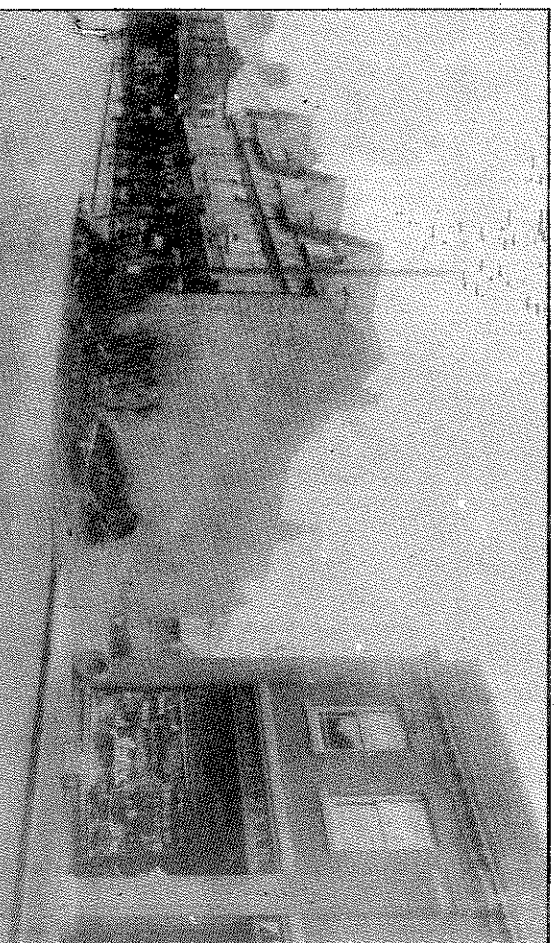
WHAT, then, are the morals for the future? Some of the difficulties faced by land taxers in the past are no longer operative.

The House of Lords survives on sufferance, and can probably do little further harm. The Conservative Party is far less rooted in the landed aristocracy than it was in inter-war days, and it is by no means impossible that Conservatives can be brought to see the value of land taxing as an alternative to taxes which exercise a profoundly disincentive effect on production.

Nevertheless, there are many other possible obstructions, and reformers must always ponder that there is all the difference in the world between a passive Parliamentary majority in favour of a particular measure and an adequate head of steam to set that measure into legislation.

Best solution of all would be to interest people of disparate party allegiances in the idea, and eventually get it through as an almost uncontentious reform. *Stranger things than that have happened in politics.*

• 1932: Britain was in the midst of a depression — would jobs have been created if Parliament had successfully implemented a programme of taxation on the annual rental value of vacant sites?



• Professor T. NICOLAUS TIDEMAN claims that courts in the US are responding to what he calls a "not-yet-consciously acknowledged idea" that land is a common heritage.



• Nicolaus Tideman

# Just mo

• If correct, this suggests making which would have economics of the West as

## PROPERTY

THE PUBLIC assumes that laws are made on its behalf by a democratically-elected assembly of politicians. Sometimes, however, law is made by judges.

An article in the *Columbia Law Review*\* claims that the courts are beginning to signal limits to the rights of private property. If these hints of change are carried through by the political process into a full-blown revision of the law of property, American society would be subjected to a peaceful transformation, the likes of which have not been seen since the Civil War was fought over the right of plantation owners to keep slaves.

The analysis by Nic Tideman, an economics professor at Virginia Polytechnic Institute and State University, in Blacksburg, Virginia, relies heavily on the notion of an evolving sense of morality which must affect the rights of the individual to claim absolute power over land and natural resources.

Prof. Tideman begins by presenting a concept of justice that addressed four concerns: equality, stability, efficiency and authority. The first is the most important, and is written into the American Constitution in one of the best-known phrases in the English language: "We hold these truths to be self-evident, that all men are created equal..."

But justice also requires that society should be both stable and operationally efficient, important considerations when an individual finds himself in dispute with the community over a decision to deprive him of what he has come to regard as his property rights - called "takings" in the United States.

"Our commitment to stability is reflected in the constitutional requirement that takings be compensated and in the general sanctity of property rights, which may mean anything from the right to traverse a path to the right to be employed in a particular job," writes Prof. Tideman.

Legal disputes originate when the individual decides that his property rights are being unfairly eroded by the actions of society. "We are willing to impose some unanticipated costs on people, to tax them, to protect their entitlements by liability rules rather than property rules, to reduce the value of their entitlements through regulation, but in our pursuit of efficiency we stop short of taking all of the value of a thing. That would be considered unjust."

IN THE ideological disputes over property rights, there are those who claim that the law has assigned all property rights, and that the political process should not be used to erode those rights without full compensation.

Wrong, argues Prof. Tideman, who explains: "The development of our moral knowledge periodically requires us to introduce discontinuities into the claims that we recognize, and the political process is the principal arena in which we decide what these discontinuities will be and when we

\* "Takings, Moral Evolution, and Justice," *Columbia Law Rev.*, Vol. 88, No. 8, Dec. 1988, pp. 1714-1730.

will introduce them. While the process, they cannot be the principle provide substantially equal pe Slavery is the classic exam attitudes can seriously erode pr argues Prof. Tideman, a proces which could radically alter pr "Often in the development o can in retrospect be seen to h before it was stated, and some That principle commands a ciple that human beings can something is happening, in his for the concept of equality in jus common heritage, to which we c This principle, notes Prof. Ti ago by Henry George, the Au that land had to be managed generations. To support this co knowledge this principle, Pr takings.

"Indirect evidence of the Si natural resources require diffe cases is provided by the rule th backed expectations' is a takin "While this rule is too new f be applied, it is noteworthy th not the purchase of an asset th rather an increase in the stock produce other goods). Thus ponents of capital. From an ec natural resources does not qu Prof. Tideman illustrates th

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## : Part Two

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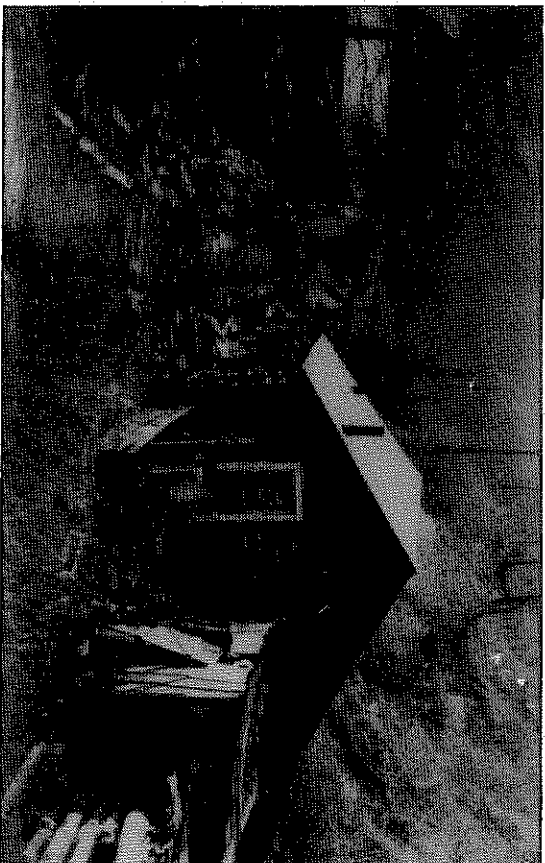
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• **Sleepy Hollow, Kentucky, is in the Appalachian mountains, where land-owners are mineral-rich but homeowners are income-poor: is a new sense of moral justice emerging to transform the rights of Property?**

along a beach in California. The other involved an ordinance that prohibited people from ever making any use of their property. The fourth case he cites, in which "there is possibly a hidden influence of the idea that land and natural resources are our common heritage," involved a dispute over communal lands owned by the Sioux tribe.

PROFESSOR Tideman's detective work would be regarded as controversial by lawyers who articulate the case for property owners. Indeed, he concedes that the issue is not settled in favour of his interpretation that "land and natural resources are common property (which) has had a hidden influence on recent takings decisions."

And he stresses: "Courts will be unable to employ this idea openly until it gains widespread public acceptance, for any unpopular rule that courts sought to impose would be seen as inconsistent with our traditions of popular government and would be overturned by democratic processes. Courts can sanction moral evolution, but they cannot compel it."

Employing his economic insights, Prof. Tideman explains that the logic of the trend which he perceives would find its best expression in the formulation that land ought to be individually possessed by users, but that the rental value ought to be taxed for the equal benefit of everyone in society. This would create a socially just and economically efficient system, which was both stable and sustainable.

The problem with politics, he notes, is that special interest groups – the "rent-seekers" who want privileges – can manipulate the process. How do we know that the politically dominant group is not making decisions that have nothing to do with morality, and everything to do with lining their pockets? Prof. Tideman offers a solution to this dilemma:

"One way of trying to encourage takings that represent moral understanding while inhibiting mere rent-seeking is to permit constitutional amendments to take without compensation, but require compensation for all takings resulting from the regular legislative process."

For it is far more difficult for the vested interests to manipulate the process involving amendments to the constitution. Nor could the courts interfere with the outcome:

"Since the Supreme Court does not pass on the constitutionality of constitutional amendments, our existing institutions permit an amendment to take without compensation. For example, the thirteenth amendment declares that slavery shall not exist in the United States and the fourteenth amendment declares that 'neither the United States nor any State shall assume or pay...any claim for the loss or emancipation of any slave.'

# GEORGE THE GREAT!

HENRY George's teachings involved more than the prescription of specific remedies for particular evils. The specific remedies which he proposed were means to an end. The end was the philosophy of freedom as applied to human relations.

I do not say that the majority of the people of the world have given acceptance to many of his most important teachings. Indeed, in view of the world tendency since his death to aggrandize the powers of the political state and limit and subordinate the power of the people, it is self-evident that in this environment the principles of Henry George could not have won general acceptance. Had they done so, the world would have made greater progress toward the attainment of the goal of human freedom and economic contentment which is still the unrealized aspiration of humanity.

Moreover, many who have believed in the necessity for basic social changes preferred to ignore the simple and fundamental teachings of Henry George, and to adopt, instead, the philosophy of Marx and Lenin. It is the wide acceptance of the doctrines of these false prophets which has contributed to making the economic condition of the masses worse, has reduced their standard of living and has made of Europe an armed camp. It is their disciples who are now attempting to introduce here the political and economic theories which in other countries have culminated in the totalitarian state, together with the host of iniquities which are inseparably connected with it.

Henry George never wrote a line which could be tortured into the support of the principles of the totalitarian state, or that gave sanction to the theory that men in their individual and social activities should be regimented and directed by great bureaucracies such as all our modern states, including our so-called democracies, have set up.

Henry George believed in the state, but it was a state that was the servant, not the master, of the people: a state that was to be

• AS THE former socialist countries of the east search for a new role model, and as the market democracies of the west enter yet another phase of economic instability, the time has come to re-examine the philosophy that has been waiting in the wings.

• Henry George campaigned to reverse the drift of 19th century history. His failure was the world's loss. But the principles he elaborated in a string of best-selling books on social and economic problems remain relevant, waiting for the call of destiny.



kept within bounds, and whose powers were strictly limited and to be exercised in subordination to the will of the people – a state, in short, such as is defined in our national and state constitutions.

MACHIAVELLI and Hobbes in their writings expressed the foundations for despotism, and disclosed the cruelties, subterfuges and deceptions by which alone a despotism can be achieved.

Marx and Lenin, because of their belief that the rights of the individual were fictional rather than real, built upon those principles of Machiavelli and Hobbes which constitute the foundation of the modern totalitarian state. The whole idea of the totalitarian state, whether it finds expression in a system of

**Word by word  
..... the verdict  
delivered by a  
fearless New  
York judge**

• Samuel Seabury, a New York judge, was an articulate exponent of that philosophy. Judge Seabury campaigned fearlessly against corruption in his city, first heading an inquiry into corruption in the magistrates' courts and then serving as chief counsel for an investigation into graft in government.

• In this slightly edited essay, delivered in New York on September 2, 1939, Judge Seabury locates the Georgist vision in the forefront of any principled programme of social and economic reform.

fascism, either of the Italian or the German variety, or in the equally odious system of a dictatorship of the proletariat, rests upon a disregard of fundamental human rights and the substitution of an autocratic will for the encouragement of individual initiative among the people.

The tragic menace implicit in the despotism of the totalitarian state, which makes it an offense to God and man, is its claim of absolutism to crush the individuality and destroy the conscience of men.

The principles of freedom enunciated by Henry George are utterly inconsistent with the Marxian creed which ends in state socialism or in the totalitarian state, in principle identical with it. Indeed, the great French economist, Charles Gide, in his lecture on the

cooperative program, contrasts a voluntary cooperative system, which retains individual initiative as the basis of all economic activity and preserves of invention and creation, with state socialism, which is proving daily more sterile both in economic production and in affording protection to public and private freedom.

We must not delude ourselves with the belief that the great battle now going on between the dictatorships and the so-called democracies is merely a matter of the nominal form of government. It is not. The difference is much more fundamental. Opposing and diametrically opposite philosophies confront one another. The contest is between the philosophy of dictatorship and the philosophy of freedom.

*Irrespective of the name we give our form of government, or the method by which we choose its administrators, the philosophy of freedom cannot be realized unless the world recognizes the common rights of men in the resources of nature, unless it recognizes the right of every people to trade with other peoples, unless it safeguards the individual rights of life, liberty and property and unless it insures tolerance of opinion.*

These principles are the essential life-giving attributes of freedom: without them there can be no civilization in the sense in which that term is used by a free people.

The modern world is so closely knit together by reason of the new inventions which have eliminated distance and made communication easy, that a world divided against itself cannot stand.

The issue is vital to the welfare of mankind. The conclusion of the coming struggle cannot be forecast with certainty. Often before in the world's history, opposing and mutually destructive philosophies of life have



• Judge Seabury, from the portrait by Alfred Hoen

clashed. One of these ways of life must prevail over the other.

If the rule of despotism shall triumph by the use of modern armaments - and if it triumphs it can only be resort to these agencies of destruction, because the rule of reason and justice is necessarily outlawed in every despotism - then the light of our civilization may be extinguished and mankind may for a long night relapse into barbarism.

But if we shall be true to the philosophy of freedom: if we shall make our democracies in fact democratic, so that they shall express and recognize the principles of freedom, no dictatorship can prevail over us or destroy our civilization, and in this age of marvelous invention, with its capacity to produce wealth in abundance, force the people of the world to adopt a lower standard of economic social life.

THE MOST serious threat to democracy which exists is that the democracies themselves have not as yet achieved social justice for their own people. If they would achieve it, they would have nothing to fear from the dictatorship states. In this

country we have approximately eleven million unemployed and are now in the tenth year of an acute economic depression. We certainly cannot claim to have achieved social justice.

True, we offer many advantages over what the despots offer, but in any country people will submit to regimentation and political and social despotism rather than go without food and shelter. In such circumstances, ignorant of the value of the liberty they surrender, they will sell their birthright for a mess of pottage.

Instead of addressing ourselves seriously to the task of establishing social justice - the most momentous task which has ever confronted this country in all its history - we have wasted our energies and resources in adopting shallow and superficial measures not in harmony with the realities of social life and which ignore its natural laws; erecting great bureaucracies which have attempted to regiment our people, while the mass of regulations which they have prescribed have served only to demoralize industry, prevent its recovery and obstruct the cooperation between labor, capital and consumer which the interests of all require.

As we look at the complications of our social and economic system, no fair-minded student can avoid the conclusion that many of the principles which Henry George expressed are applicable to it. The philosophy of Henry George is so far-reaching in its implications that hardly any accurate conception of it can be gathered from such brief remarks as are appropriate to an occasion like that which brings us together today.

It is, therefore, possible to refer to only three fundamental

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principles which Henry George enunciated, and which are as vital and important in our world of today as they were at the time that he affirmed them. Indeed, if we try to envision "The World of Tomorrow," I have no hesitation in saying that if the world of tomorrow is to be a civilized world, and not a world which has relapsed into barbarism, it can be so only by applying the principles of freedom which Henry George taught. The principles to which I refer are:

## EQUAL RIGHTS TO RESOURCES

First, that men have equal rights in natural resources, and that these rights may find recognition in a system which gives effect to the distinction between what is justly private property because it has relation to individual initiative and is the creation of labor and capital, and what is public property because it is either a part of the natural resources of the country, whose value is created by the presence of the community, or is founded upon some governmental privilege or franchise.

Henry George believed in an order of society in which monopoly should be abolished as a means of private profit. The substitution of state monopoly for private monopoly will not better the situation. It ignores the fact that even, where a utility is a natural monopoly which must be operated in the public interests, it should be operated as a result of cooperation between the representatives of labor, capital and consumers, and not by the politicians who control the political state.

We should never lose sight of the fact that all monopolies are created and perpetuated by state laws. If the states wish seriously to abolish monopoly, they can



• Henry George

do so by withdrawing their privileges; but they cannot grant the privileges which make monopoly inevitable and avoid the consequences by invoking anti-trust laws against them.

It is strange that the state, which has assumed all sorts of functions which it cannot with advantage perform, still persists in neglecting a vital function which it should and can perform - the function of collecting public revenues, as far as possible, from those who reap the benefits of natural resources.

In view of public and social needs, it is remarkable that no effort has been made by governments to reduce the tax burdens on labor and capital, which are engaged in increasing production, by transferring them to those who restrict production by making monopoly privileges special to themselves.

## FREEDOM TO TRADE

The second principle to which I wish to refer is Henry George's

advocacy of freedom of trade among the nations - not free trade introduced over-night, but freedom of trade as an end toward which the nations should move. When he wrote his great work on *Protection or Free Trade*, he demolished the protectionist argument and in chapter after chapter he showed the absurdities to which the protectionist principle led if carried to its logical conclusion.

But even he, penetrating as his vision was, could not foresee that mankind was heading for a world order of economic nationalism and isolation, based upon the principle of protection carried to its utmost extreme. And yet that it precisely the doctrine which is now currently accepted. If it becomes general, it can serve only to sow the seeds of destruction of that measure of civilization which we now have and force a lowering of the standard of living throughout the world.

There are two ways by which the people of one nation can acquire the property or goods of the people of another nation. These are by war and by trade. There are no other methods. The present tendency among civilized people to outlaw trade must drive the states which prescribe such outlawry to acquire the property and goods of other peoples by war.

Early in man's struggle for existence the resort to war was the common method adopted. With the advancement of civilization men resorted to trade as a practical substitute for war. The masses of men wish to trade with one another. The action of the states alone prevent them from so doing.

In prohibiting trade, the state gives an importance to territorial boundaries which would not exist if freedom of trade existed. In accentuating the importance of mere boundary dis-

putes, rather than assuring the right of peoples to trade with one another, the nations put the emphasis upon the precise issue which is, itself, one of the most prolific causes of war.

All the great modern states are turning away from freedom of trade, and indeed, from trade itself, and forbidding their people the right to earn their own livelihood and to associate freely with one another in industry. In order to accomplish this end they are compelled to regiment the lives of their people under state bureaucracies and this can be accomplished only by a despotic state.

If the powers of the modern states are to be augmented by conferring upon them the right to run all industry, despotism is inevitable. A dictator may, by reducing the standard of living and regimenting the people, run all industry within the state over which he rules, but a democracy, which, if it is to be true to itself,

must preserve individual initiative, can not do so without transforming itself into a dictatorship.

### BANISH POLITICAL CORRUPTION

The third great principle which Henry George gave his life to promote was the necessity for government, especially in democracies, to free its processes from the influence of corruption. Indeed, in the great municipal campaign in New York City in 1897, Henry George waged a relentless warfare upon the corruption in both the Democratic and Republican parties of that day. The people of New York flocked to his standard. He had stirred them to their very depths; but his physical strength was not as strong as his indomitable spirit, and a few days before Election Day of that year, after three wonderful speeches the night before calling upon the

people of New York City to free themselves and their city from the corruption which debased and degraded them, he died.

He laid down his life in that great campaign - the corruptionists won that battle, but his leadership in this direction generated a spirit which has asserted itself many times since then, and Henry George's stirring words in that memorable campaign made an impression upon many of the young men of that day who had been proud to enlist under his banner.

Since that glorious but tragic battle the spirit and the ideas embodied in Henry George's philosophy of freedom have gone marching on. Throughout the world he is known and his influence is profoundly felt. The truths which he enunciated have not yet been adopted, but they can never be forgotten. Those of us who believe in the Democratic ideal believe that they will triumph.

# 1992 AND ALL THAT ...

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residential land and land zoned for residential use. Second, it would be indexed annually to local land prices indices. Third, it would be collected by the Inland Revenue with the rates of tax being set nationally at uniform levels.

"Such a tax would have the major macroeconomic benefit of preventing house and land price to income ratios from beginning their upward march once again when interest rates eventually come down.

"It would permanently prevent the sort of overshoot in this dominant form of personal wealth, which has done so much

damage in the last three years, both by reducing the housing wealth/income ratio and by dampening down the dynamic process we have analysed. It would therefore make it possible to run the British economy with permanently lower interest rates, thus stimulating business investment."

Muellbauer recognizes that this fiscal reform would have enormous knock-on benefits - for example, permitting the reduction of taxes on business, and ensuring balanced growth as between the regions, as well as "recouping to the Treasury part of the benefits accruing to land-owners of public investment projects."

The proposal to tax the

annual rental value of land is crucial, but ought to be generalised to encompass all land.

Britain, like other industrialised countries, is now beginning to suffer from the boom in the price of commercial and industrial land. Retailers facing rent reviews have already begun to close down their businesses; but we can expect to see a sudden increase in vacant office blocks, too, as the property speculators discover they have over-reached themselves.

But while John Muellbauer's proposal may be a partial one, it is a vital first step in the correct direction. It remains to be seen whether his colleagues also see the light, come the depression of 1992.



# How to make an endless frontier

BOB CLANCY ON A BOLD CHALLENGE

IN 1893 at the Columbian Exposition in Chicago, a young historian, Frederick Jackson Turner, delivered an address before the American Historical Society. It was entitled "The Significance of the Frontier in American History".

His thesis was that the frontier was the cutting edge of American civilization and determined its democracy, its individualism, its culture.

This process took place as settlers pushed westward into the expanse of the frontier where land could be obtained cheaply or even free.

At this same Columbian Exposition Henry George attended one of the earliest Single Tax conferences. It does not appear that George or Turner were aware of one another's presence there. George most likely did not know the 32-year-old history professor, but Turner knew about George and was influenced by his views on the importance of free land.

Turner's short essay (later expanded into a book) had a greater impact than any other single work on the interpretation of American history.

Up to then, historians did not quite know what to make of the multifaceted mosaic of "American history." Here was a clear and plausible unified theory.

Turner came at a time just as the frontier was closing. He was not the first or only one to notice this. Others were concerned about it – and not just Americans – Lord Bryce, for instance. But Turner put it all together. He had his critics but his thesis held its own.

Now the whole Turnerian hypothesis is being challenged. A historian, Patricia Nelson Limerick – herself a westerner – has written a book, *The Legacy of Conquest: The Unbroken Past of the American West*.\*

Instead of heroic trail-blazing she sees an often sordid story of greed and conquest. She sees

complexity rather than simplicity, a fragmented set of stories instead of an onward march, dependence on federal government rather than independence.

Ms Limerick complains that Turner has written from the "white male" point of view and did not give the plight of women and minorities due attention – Indians, blacks, Chinese, Mexicans.

Many other historians, in rebellion against Turner, and in an exercise of "deconstruction" that is now in vogue, are also exhuming bad deeds of frontier times. But these are hardly new revelations. We knew about outlaws, feuds, gold rushes, Indian decimation and the plight of other minorities.

And, asks Ms Limerick, "what about land monopoly and land speculation?" What indeed!

This certainly happened (and continues to happen) and it hastened the closing of the frontier. Jefferson thought there was enough land in America to provide settlement for hundreds of years. Instead the frontier was closed less than three-fourths of a century after his death.

But despite all that, an opportunity was offered by the expanse of the American frontier that was unique in history. It offered multitudes of immigrants and people from the east coast a

\* *The Legacy of Conquest: the Unbroken Past of the American West*, by Patricia Nelson Limerick. W.W. Norton & Co., New York and London, 1987.

## MUGABE 'TIME BOMB'

**PRESIDENT Robert Mugabe of Zimbabwe, fresh from electoral victory, is facing the demand for drastic action to satisfy the land hunger of millions of farmers.**

**Britain played a key role in leading Rhodesia to black majority rule: but the price of political freedom was an agreement that left most of the best land in the hands of a white minority.**

**"Either the government reacts to it or we are sitting on a time bomb for revolution, because the cornerstone of the revolution was the question of land," warns Saeih Dube, political commissar for the ruling party in Bulawayo, in a *Wall Street Journal* article (March 27).**

# 'CLIMATE' FUND TO RESCUE

## RAIN FORESTS



• Gro Harlem Brundtland

ALL the industrial nations will have to pay billions of dollars in "rent" to protect the world's rain forests, their genetic resources and ability to stabilise the world's climate, says President Virgilio Barco of Columbia. This was an "ecological debt to pay to mankind."

The Prince of Wales has already called for "mechanisms of compensation" for countries that controlled the destruction of their forests. Mrs Gro Harlem Brundtland, a former Norwegian Prime Minister, believes that the developed nations should pay 0.1% of their GNP to a "climate fund" to finance curbs on "greenhouse gases".

None of these advocates has yet proposed internal social and economic reforms that would probably do more for conservation of

the environment, and the quality of life of third world citizens, than the simple transfer of "rents" to developing countries.

**SPECULATION:-** Hundreds of squatters have settled in the desert hills, hoping the land will increase in value if a border crossing is built in Anapra, Mexico.

The population of this little town exploded from 300 families to over 1,000 families in the few months following the announcement that it may have a border crossing into New Mexico. But the mayor of nearby Ciudad Juarez warns: "The rights of those people who lived in Anapra from the beginning, 16 years ago, will be protected. They'll get title to their land. But those squatters moving in now will be removed - forcibly if need be."

safety-valve when they were hard pressed by economic conditions.

Ms. Limerick says it is America's "creation myth" that the availability of land attracted people and that a pioneer spirit moulded life on the frontier. But 19th century observers and participants saw it happen. Why deny, more than a century later, that it happened? By focusing on the particular mishaps and misdeeds, Ms. Limerick and the other deconstructionists do not see the forest for the trees.

The people who migrated west were ordinary people, warts and all, seeking a new life. Taking a

## FLIP FLOPS

NAVAJO Indian Chief Peter MacDonald Sr denies that he attempted to cheat his tribe through the deal on a 491,000-acre ranch, which was bought for \$26.2m and then immediately resold in what investigators call a "land flip" to the tribe for \$33.4m. The tribe seeks \$2.4m in damages from their chief and his co-defendants.

perspective that is less myopic, the civilization built up was, in spite of everything, a phenomenal accomplishment.

As for what to do with a society after the frontier is gone, Turner thought the government would have to become more active and involved in making up to people the benefits previously offered by the frontier.

Indeed, this has come about, what with the extensive welfare programs undertaken by the government.

Henry George had a better idea. Recreate frontier conditions by publicly collecting the rent of land through land value taxation. This would cause much good land to be disgorged by monopolists and speculators. Persons seeking land for homes, farms, businesses, would find it much easier to obtain.

A reform like this would not depend on the accidents of history and geography, but on a knowledgeable and rational creation of a perpetual frontier.

## Deadly deal springs into life

WESTMINSTER Council — Premier Margaret Thatcher's favourite London borough, which has cut its spending to one of the lowest levels in Britain — sold three cemeteries in 1987 for 15p. That triggered a political row, and now the current owners say they would agree to sell the land back for 15p plus their expenses — about £5m!

# Missing: One LAND cycle!

CAN an economic depression happen again, asked Ravi Batra in 1985? It's a crass question, because no government has yet instituted the reforms that would smooth out the business cycle. So the interesting question relates to the timing of the depression.

Batra staked a considerable reputation on the claim to know when the US would dive into depression. He said it would happen in 1990. And as one of the super-stars of the American economic firmament, he ought to know; at any rate, that's what the public believed, because they turned his book into best seller.

Dr Batra, as professor of economics at Southern Methodist University, first made his name with books on the theory of international trade. Then he wrote *The Great Depression of 1990*. The claim that there would be another depression was nothing daring, but being able to date the event five years before it happened – that was something special.

He was wrong. Whatever happens between now and December 31, the US economy will not qualify as suffering from a depression.

BATRA'S book is a hotch-potch of Indian mysticism and economic theory, so it never stood a chance of predicting the next depression with precision. A critique of the philosophical elements of his theorising is pointless. Of interest for the debate it can provoke is the economic theory.

Batra believes that depressions are caused by the concentration of wealth into few hands: "Thus, while conventional wisdom may provide a theory of recession – that it is caused by a decline in aggregate demand – it lacks an adequate explanation for the surge of speculative manias that has always preceded an economic crisis. It also fails to explain the fragility of the banking system, which collapses to generate a financial panic."

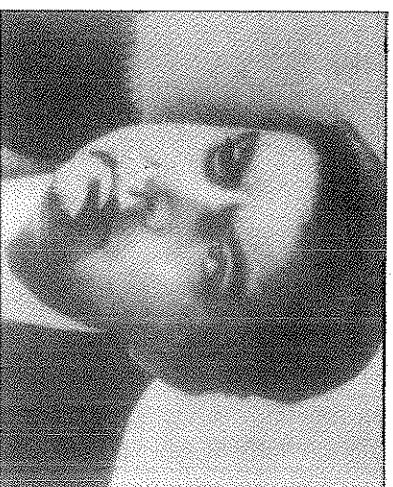
"Both these effects spring from high wealth disparity. Hence the real cause of great depressions in the past, or of depressions of any kind, was not faulty government policies but extreme inequality in the distribution of wealth. A depression, in a nutshell, is the result of a financial panic accompanying a recession."

Batra's analysis jumbles the concept of wealth with income. Example: he attributes the Great Depression of the 1920s to the reduction of taxes, which shifted income in favour of the rich. In fact, cutting taxes on the flow of income does not, of itself, create a lopsided economy that is ready to capsize.

What is important is how the money is spent. If it is attracted to speculation in land – which Batra recognises as a target for the feverish activity that tends to precede depressions – we have an explanation for depressions that is certainly the responsibility of governments, because it can be corrected by fiscal policy.

Batra's focus on the concentration of wealth is also problematic. Britain's current run-up to depression originated with speculation in land in the residential sector, and has enriched an increased number of people. That is not to say that the numbers of impoverished British people are not increasing, as well; they are, though the Thatcher government has clouded that problem by cooking the books.

More precise analytical tools are needed than those at



• Batra: A hotch-potch of doctrines

Batra's disposal. The void in his theory is symbolically expressed by the absence, from the index, of an entry for "land." Yet his book purports to be a study of cycles. He lists them all, from the Kuznets cycle to the Kondratieff long wave. But – given the importance of speculation in land, which he acknowledges in the text – where is the Hoyt cycle? Homer Hoyt discovered patterns of 18-year duration in the land market.

The cycle in land values is still a controversial one; but no more so than the epoch-spanning cycles favoured by Batra's Indian guru.

WHAT OF reforms to banish depressions forever? Batra advocates a federal property tax. This is an interesting proposal but one which he discredits with muddled thinking.

Example: he wants residential properties to be exempt from the tax. Yet speculation in house prices – viewing the property as an investment out of which to make capital gains, rather than as a home in which to raise children – is a damaging activity that could not occur without the convenience of millions of ordinary families.

Batra also recommends that banks ought to be banned from lending money for business takeovers. This betrays a prejudice that clouds the economic analysis; if adopted, the policy would be a sure way of freezing up the market economy! There is a qualitative difference between speculating in land – which hurts innocent people – and speculating, say, in junk bonds, which can only damage those who freely decide to take the risk.

"Every depression has been preceded by a speculative bubble in asset markets. But if there is no bubble, there can be no bursting, and hence no depression," insists Batra, in presenting his undifferentiated theory of wealth as a cause of depressions.

Recall the stock market bubble that burst in October 1987, which did not lead to a depression: it merely entailed a shift-around of zeros in the balance sheets of investors. When fortunes are apparently made from leveraged buy-outs, people's sensibilities may be offended.

But if investors end up losing a lot of money as a result of bad decisions, they are the only ones to suffer; there is no generalised consequence feeding through the economy. No-one else is prevented from exercising initiative, creating jobs, accumulating wealth.

It's when we turn to the land market – not property in general, but the land market – that we can begin to trace the dynamics of depressions. Henry George, the American social reformer, was the first to persuasively argue that speculation in land is the major cause of business depressions. Unfortunately, professional economists like Ravi Batra have yet to test this hypothesis scientifically.

There's much more fun – and profit – to be had from mysticism.

PETER POOLE