

LAND AND LIBERTY

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EDITORIAL RUSSIA: TIME TO PLAY THE FREE TRADE CARD

HOW THE "leading" nations respond to the challenge presented by Russia will reveal the state of the world in the 21st century.

The decision by the G7 countries to extend \$3 billion in aid is pathetic. The money - much of which will remain in the West - serves a political, rather than an economic, function. It is tied to the "privatisation" of enterprises; fine, except that privatisation of state-owned property is not Russia's primary problem. The formation of privately-owned capital will occur naturally, as the latent energies of the Russian people are released in a free society.

What really matters is the creation of conditions for competition. On this score the United States is doing precious little. Boris Yeltsin asked President Clinton to drop US trade barriers to exports. Clinton intends to drag his heels.

So why should Russia open up her markets? Free trade - the two-way flow of goods and services - would do more than western aid to inject the market dynamic into Russia. Many Russian enterprises are bankrupt monopolies that need to be broken up. This could be most effectively accomplished under the pressure of competition from suppliers who have achieved world standards of efficiency.

The EEC is no more constructive: it is refusing to open its market to Russian aluminium. Why? Because European producers cannot match Russian prices! In other

words, the advocates of the free market don't want to compete in the market-place!

The IMF is no more constructive (see p.3). It insists on a macro-economic strategy that maximises social disruption without nurturing entrepreneurial skills.

Nor is Yeltsin's adviser, Prof. Jeffrey Sachs of Harvard, of great help. He is lobbying for western cash which, when poured into Russia, would somehow (he says) help to curb inflation, which is currently running at 15% a month. Doesn't he know what happened when the silver of Latin America was poured into Spain?

Billions of dollars shushed into Russia would increase demand without increasing the supply of goods. That means more inflation. And greater social discontent, which is a serious threat to the reform of the economy.

The implications are clear. The West wants to re-create Russia in its own image. That image, which is one of unemployment out of control and a decline in social welfare which is imposing intolerable strains on the public purse, is one that scares the leaders of the G7 countries (see EI/39, p.2).

Moscow would be better advised to take independent advice, and work out a strategy of self-help that is more likely to "deliver the goods" than a mess of silver pieces minted in the West.

IMF BLOCKS RENT REVENUE STRATEGY

EVIDENCE that the International Monetary Fund actively opposes the introduction of a rent-based fiscal policy has been obtained by Nicolaus Tideman, an American professor of economics.

In the past two years, Prof. Tideman has made extensive visits to countries of the former Soviet Union, to explain the powerful attractions of a new approach to public finance.

That strategy entails the abolition of taxes, and replacing the lost revenue with rent from land. The theoretical attractions of the policy were elaborated by 30 major US economists and property specialists, including Nobel prize winners Robert Solow, James Tobin and Franco Modigliani, who realized that the clean-slate start facing the ex-communist countries enabled them to create conditions for the most efficient market economy in the world.

They noted that there was a risk the former communist countries might "adopt features of our economies that keep us from being as prosperous as we might be. In particular, there is a danger that you may follow us in allowing most of the rent of land to be collected privately".*

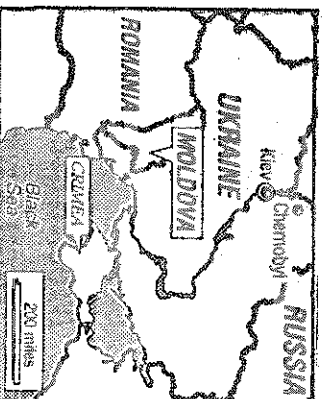
The economists know, from empirical evidence and the theoretical insights of the past two centuries, that optimum economic results are achieved when taxation is replaced by rent-revenue to finance public sector projects.

PROFESSOR Tideman took that message to the East. He was welcomed

practically everywhere.

In Moldova, the First Deputy Minister, Mr. V.S. Kisan - who had been visited by Tideman - wrote to the professor from Virginia on January 29 to say that they had introduced a land tax law. He added: "Your interesting work should be studied more deeply for the purpose of practical application in the future."

Two months later the professor visited the IMF's plush offices in Washington, DC, to lecture to the Fiscal Affairs Division. He did so, knowing that the IMF - on which the eastern countries are heavily reliant for aid to reindustrialise their economies - was hostile to the rent-as-public revenue policy.



And as he delivered his lecture at a private seminar, his fears were confirmed: he had hit a raw nerve.

"I couldn't get them to look at me," recalls Prof. Tideman, who is a third-generation advocate of the fiscal philosophy most prominently associated with the American social reformer Henry George.

The evidence that the IMF was an opponent of this fiscal reform came during a private meeting between Tideman and George Kopits, head of the Fiscal Affairs Division. Present at that meeting was one of the IMF's economists, Fred Ribe, who had visited Moldova as part of an IMF delegation.

Recalls Prof. Tideman: "Ribe told

me he had just come back from Moldova. They told me that the Moldovans wanted to tax land, and they discouraged them. They were spouting the party line; their corporate people in general take the view that land taxation does not work.

"They explained that various under-developed countries had passed taxation on land, but they hadn't been able to get people to pay. The result was that nothing happened, and they had to find other sources of revenue."

MIGHT the IMF modify its opposition? Prof. Tideman, speaking after delivering a lecture on the ecological benefits of fiscal reform at a conference in St. Petersburg, said that he hoped the IMF might mellow in its attitude.

He says: "They might be willing to see, now, that their standard position - that it cannot be done - might not be valid."

He has proposed to the Fiscal Affairs Division an empirical investigation into the link between economic growth and the taxation of land. "I have got a PhD research assistant who has gone to get data on taxation on land around the world, to do a statistical estimation project. It is possible that that kind of thing might have an impact on the IMF."

* John Strasma, a professor at the University of Wisconsin, has uncovered one reason for the World Bank's hostility to land value taxation. Bank economist Hans Binswanger arranged a loan for Argentina that was supposed to be used to measure the value of land for tax purposes. But President Alfonsín did not use the money for its intended purpose, which has now coloured Binswanger's attitude to the policy of rent-for-public-revenue.

The Impossible Dream

BILL CLINTON has passed his first 100 days in office and is now well into his presidency. Presidents have gone through the "100 days" scrutiny since Franklin D. Roosevelt, whose first few months in office were marked by cascades of sweeping legislation submitted to Congress to combat the Depression, and which Congress, almost mesmerized, passed.

Not so lucky was Clinton. His \$16 billion economic stimulus package was defeated by Republican opposition. While it is unlikely that public spending will improve the economy, the Republicans did not come up with anything better.

Clinton was also faulted for caving into western interests by not raising fees for the use of public lands, and for reneging on campaign promises, such as admitting Haitians to the U.S. and stalling on social programs. In spite of a charismatic personality, approval of his performance has fallen in public opinion polls.

Clinton has endured comparison with other Presidents. Elected at a time when the country was longing for a way out of stagnation, as with Roosevelt, Clinton suffers the comparison of not coming up with a bold new program. About the same age as John F. Kennedy when elected, Clinton is not credited with a "Carnegie" vision. He is criticized as being indecisive, like Jimmy Carter.

WAITING for the economy to improve seems more and more like "waiting for Godot". There was an expectation, or hope, that Clinton would pull the country out of its turgidity, and this is fading.

The hope was not well founded. Candidates promise better days ahead and the electorate want to believe it. Neither are regarding the fundamentals of economics, which go deeper than a few proposed stimulations.

The Clinton program did sound promising. But, as usual, the goal of less in taxes, more in public services and a reduced deficit is the impossible dream. The President succeeded in pushing through his \$496 billion budget deficit reduction plan by the narrowest of margins (50:51). This does not suggest a confident break in the traditional congressional gridlock. And the President has paid a heavy price, in the deals that he had to strike to secure the votes he needed. And despite the rise in taxes for the "rich" (couples with joint incomes greater than \$140,000 a year),

the national debt is predicted to rise by another \$1000 billion during the President's 5-year plan.

Besides the electorate at large, even the business community looked with favor on Clinton. *The Wall Street Journal* gave him some good marks during the 100 days. But now the confidence of the business community is eroding. They are chafing at the kind of taxes coming, which they say will further discourage business initiatives and the creation of jobs.

Clinton has some things going for him. He has as Vice President Al Gore, who has had a good reputation as Senator and environmentalist, and is regarded as an improvement over Bush's Vice-President Dan Quayle, an amusing non-entity. However, Gore has yet to show that he will make anything more of the vice-presidency, traditionally a do-nothing job.

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More involved in the view at the top is Clinton's assertive wife Hillary. (The quip has been made that the administration is "Hillary")

By and large, the public has not turned against some of Clinton's aims: development of a national health care system, gay rights (including enlistment in the military) and, of course, "improving the economy". Clinton also has foreign problems, such as what to do about Bosnia, how to help Boris Yeltsin and how to handle international trade.

Most of what Clinton wants to do, domestic and foreign, requires lots of money, and that is where the shoe pinches, as it generally does. How to improve the economy by public spending, give foreign aid - and reduce the deficit? How to raise taxes with the least amount of squawking? There is talk of increased taxes on higher incomes, also a Value Added Tax.

Amid all the talking and planning, there is no talk of a sensible program of taxing land values. Perhaps that is too much to expect at this time. Clinton's backing down on raising fees for public lands may give a hint of the much fiercer ruckus that would take place if higher taxes on land-rents in general were proposed. And yet this measure would accomplish many of the goals of the present administration. Without it, it is difficult to see how these goals can be attained.

BOB CLANCY

Round the world

HALIFAX
Free as the wind?

ECOLAND in Yorkshire is increasing in value, because owners have found a way to charge rent for the wind that sweeps over their hills.

Twenty-three windmills have been erected on the moors, which has prompted 10 new planning applications. And, according to a report in *Planning and Development*, a journal of the Royal Institution of Chartered Surveyors (Vol.2/9), there is a formula for capitalising the rental value:

"The wind passing over the land is an endless resource generating a certain energy, proportional to the cube of the wind speed - twice the speed, eight times the power and hence eight times the revenue. If the site is large... The development can be self-funded, jointly funded with a commercial developer, or the wind rights leased to a commercial developer for an annual rental, or share of the revenue.... A government contract is the most attractive proposition. Typical returns on capital are high."

But the Yorkshire windmills, which power 4,500 homes, are opposed by local people who object to the despoilment of the landscape.

"In Wales, residents are angry at the noise level generated by 100 turbines in the valley of Llandrindam, Powys, which one environmental-conscious builder said was like "an aircraft engine [with] occasionally a thumping noise like a helicopter rotor blade. We can't even open the windows at night because the noise keeps us awake."

"Last year, wind generators in California produced enough electricity to power San Francisco and Washington DC.

SAO PAULO
Land of slaves

BRAZIL has about 500,000 child prostitutes - more than any other country except Thailand - according to a congressional enquiry. In mining areas in the Amazon basin, some girls are held as virtual slaves, some of them are murdered and thrown into the river to be eaten by fish, according to one woman who recruited child prostitutes for gold and tin miners.

The girls are daughters of landless peasants who are lured from their families on the pretext of being hired as cooks.

GUATEMALA
Land tax plan

THE National Association of Municipalities is expected to introduce legislation in Congress calling for a property tax on land alone. "As the process unfolds, other developing countries will be looking to Guatemala to learn how to tax land more effectively," reports *Landlines*, the newsletter of the Lincoln Institute of Land Policy in Cambridge, Mass.

SYDNEY
Land rights

ABORIGINAL people have stepped up their claims to land rights in Australia. The mining industry has been served with its first land title: an aluminium producer in northern Queensland has received a claim on its bauxite mine.

The political recognition of ancient rights is most advanced in Canada, where the Eskimos have signed an agreement that gives them self-governing status in the Arctic territory of Nunavut (850,000 square miles, about a fifth of Canada, with 22,000 people). Nunavut means "Our Land".

The conquest of aboriginal peoples continues apace, however. The latest "lost" tribe of stone-age nomads has just been discovered in Papua New Guinea, where three rival Christian groups are now racing to introduce them to God.

HARARE
Land grab

PRESIDENT Mugabe of Zimbabwe intends to buy or appropriate farmland for redistribution among the nation's landless poor - and, he declares, if necessary, he will defy constitutional and legal norms.

"If we have to resort to a unilateral declaration of independence on land we will do so," he has announced. "We will get any land we want from anyone, be they black or white, and we will not be restricted to underutilised land," he revealed, after introducing the Land Acquisition Act.

Zimbabwe's 4,300 commercial farmers own 27.5 million acres (nearly 40% of the farmland). They produce about 80% of the cash crops. Mugabe is trapped between the need to maintain productivity, while stemming the loss of electoral support in rural areas.

LONDON
Crown land

BRITAIN'S Crown Estate - officially owned by the Queen - paid a dividend of nearly £76 million to the Exchequer last year, despite a drop in the value of the property portfolio.

The Estate's portfolio is made up largely of commercial property, including Regent Street in London's West End. The Estate out-performed all major UK property companies during the property crash, because the estate had antici-

ipated the recession and terminated development projects in 1989.

• Not so lucky were the Church Commissioners, who pay the stipends of the Church of England's clergy out of rents. Their portfolio collapsed from nearly £3 billion (1989) to £2.16 billion last year. The Commissioners have decided to reduce their investment in property.

• The Bank of England has urged banks to sell loans to property companies in the form of property-backed bonds. This support for a market in distressed corporate debt is supposed to free companies to raise new capital, strengthen balance sheets and "in some instances [it] injects liquidity into the market".

• Chancery, the first British bank to go under when land values dropped in 1991, is now being investigated by the Department of Trade.

TOKYO
Kiss and profit

THE WORLD'S richest man - landowner Yoshiaki Tsutsumi (Forbes magazine estimates his worth as at least \$9 billion) - has buried the hatched with his half-brother, Seiji Tsutsumi, who owns a hotel chain. Together, they are setting up a joint TV channel which will multiply their prospects of profits in a Japanese economy where property values have been hit hard by the recession.

LOS ANGELES
The wages of speculation

PROPERTY company director Gian Luigi Ferri sprayed bullets which hit eight people and then shot himself, as a result of his fears about the outcome of a dispute over a property deal.

News in Brief

HOUSING in the doldrums

by Ian Barron

THE BRITISH government is reading "recovery" in the drop in the rate of inflation to a 30-year low. In fact, the June rate of 1.2% is a signal of distress in the High Streets, where retailers have been running a continuous "sale" of goods in a desperate effort to stay alive until consumers decide to spend with confidence.

Government forecasters are grasping at any number that suggests an upturn from the economic trough. The problem, however, is that they do not know how to value the relative significance of the trends.

Take, for example, the housing market. Everyone agrees on the importance of the residential market in the economy. Some want prices to rise - as evidence of consumer confidence. Others, however, want prices to stabilise - so that the inflation rate is not pushed up.

On the face of it, the despondent housing market ought to be buoyant. As the Halifax Building Society's graph reveals, average house prices have now fallen back in line with average earnings. Good, say some; for this means houses are once again affordable. Bad, say others, for this suggests that earnings are rising too fast (thus eroding competitiveness).

Good, say some, who want construction to restart. Bad, say others, who feel that this would give a kick-start to land prices - the primary cause of the boom in the late 1980s, which lead directly to the recession. According to Westbury Partnership Homes, a Gloucestershire company, "We are already seeing increases in the cost of building materials and as land prices recover, proposed levels of housing investment will not be sufficient to meet the social housing movement's needs."

According to Prieda, a firm of economic consultants, UK house prices will continue to fall for at least the next two years. For there is a "wall" of 300,000 unsold properties overhanging the market, which means total supply will outstrip demand.

The crash in private sector construction (from 179,000 in 1989 to 138,000 last year) has been more than offset by the sharp rise in the repossession of 85,000 houses from families that found they could not finance their mortgages. According to Shelter, the charity for the homeless, the number

of people living in homes in arrears with mortgages payments has reached 2m - double the population of Birmingham.

Builders are one of the victims of the "success" in the fight against inflation. Cut-throat competition has slashed their profit margins to "suicide" levels, according to the Royal Institution of Chartered Surveyors. Good, for Major's government, which is making large claims for the implications of a low rate of inflation. Bad for the economy, say the analysts who know that construction is one of the leading sectors of the economy.

"This is desperate news for an industry which should be leading the country's investment recovery," says the RICS. "We are in a Catch 22 situation. Work levels will not allow tender prices to rise until late 1994 and with pressure on supply and sub-contract costs, it is difficult to see how some companies will cope."

THE BLEAK outlook is forcing construction firms to diversify on an international basis, in search of cut-price land.

The UK's Taylor Woodrow has bought 2,000 lots in Florida on favourable terms, chairman Colin Parsons told his annual meeting in May. "We continue to seek other parcels of land available at heavy discounts which have planning approval and where production can start quickly."

Taylor Woodrow has disposed of most of its Australian shopping centres, is seeking to reduce its commitment to property in the USA, and rebalance its port-

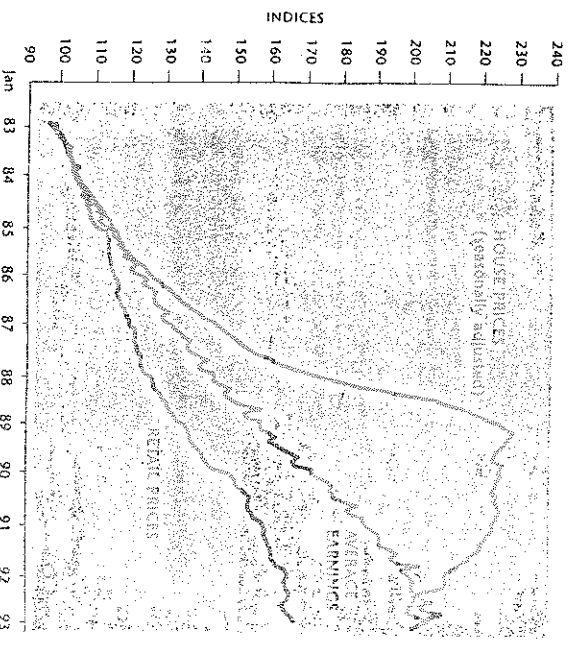
folio in the UK and Canada.

The UK industry has lost 500,000 jobs since mid-1989. According to a trade enquiry by the Building Employers Confederation

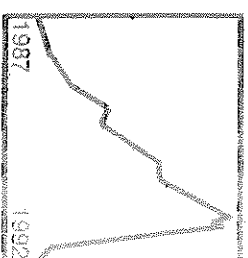
- building output is still falling after four years of decline;
- 96% of firms are working at less than three-quarters of their current capacity;
- 25% of all firms expect to continue shedding jobs.

OVERALL, then, the outlook continues to look bleak for consumers and the UK economy.

The low rate of inflation, far from encouraging people, has exposed the decline in the real value of their prime asset - their homes. In past land-led booms, homeowners have been misled by high rates of inflation which disguised the drop in real values. Now, faced with the truth, people's confidence will remain shattered for at least the next 12 months, whatever the story behind the statistics on employment being published by the government.



ECONOMIC INTELLIGENCE



EI/39 AUG 1993

MAJOR PLAGUED BY ROCKY BOTTOM

JOHN MAJOR'S government believes that the UK economy is on the mend. Various statistics, some of them adjusted to give the best possible complexion on underlying trends (such as the figure for unemployment), appear to suggest a turning point. Is the Prime Minister being rash, in claiming that Britain is "on the turn"? Ought he to heed the words of *Financial Times* columnist Samuel Brittan (Nov 11, 1992): "Never forecast a turning point because it will probably not occur in the year in question"?

Economists have had their reputations severely blow-torched by their forecasting failures of the past five years. Not so EI: back in 1988, when

everyone else was looking at the UK economy through rose-tinted spectacles, EI emphatically declared 1992 as the turning point. We were right. So what is our verdict on Premier Major's claim that Britain has now put the worst behind it? He is correct, but for the wrong reasons. His claim is based on hope, rather than grounded in a theory that reflects the way the economy really works.

EI's model of the economy draws heavily on trends in the way that ALL factors of production are costed and used: labour, capital and land. The reason our forecasting record

is superior to anyone else's is that we incorporate into our expectations the activity in the land market, which is ignored by the other models. So what does the land market tell us about contemporary trends? The index on residential land prices produced by

Savills' Residential Building Land Price Index

	England		South East	
	Index	%	Index	%
1979	100.0		100.0	
1980	112.2	12.2	109.8	9.8
1981	119.0	6.1	114.2	4.0
1982	132.3	11.2	126.3	10.5
1983	160.2	21.1	146.9	16.3
1984	195.6	22.1	187.4	27.6
1985	234.3	19.8	225.1	20.1
1986	354.4	51.3	317.0	40.9
1987	692.5	75.7	557.7	75.9
1988	1039.5	66.0	854.9	53.3
Jun 89	817.2	-20.9	664.1	-22.3
Dec 89	627.2	-23.3	458.3	-31.0
Jun 90	520.5	-17.0	394.2	-14.0
Dec 90	426.5	-18.1	337.4	-14.4
Jun 91	415.4	-2.6	335.5	-0.6
Dec 91	402.1	-3.2	325.4	-3.0
Jun 92	393.7	-2.1	310.5	-4.6
Dec 92	400.9	1.8	308.1	-0.8

SOURCE:

Savills Residential Research, June 1993

Savills, a major London real estate agency, tells the story. It does not rely on data from the Department of the Environment but analyses the changes in the market value of 150 sites throughout England, to provide it with a sharper view of trends in land prices.

Savills started their index a year after EI warned that land prices had a macro-economic impact that was escaping other analysts. So why did Savills publish in 1989? Explains Ms Yolande Barnes, Head of Residential Research: "Developers couldn't afford

to compete in the land market at that time. We also felt that the market had over-heated. Without reliable data, one cannot look at the reasons why it might have overheated, and why land values have fallen by 60% in value."

Ms Barnes, who started the index, saw that land prices were crucial in the housing sector: "About one-third of the price of new houses is land cost. At the time when we set up the index, land prices had rocketed; and were in many cases affecting the business of our developer client base."

So what about current prospects for housing, - a leading sector of the modern economy?

The Savills data shows that, across the country, land prices have finally stabilised. In the last six months, they rose in the north and west (up 6% in both regions), where land speculation was at its weakest during the second half of the 1980s; but they continue to weaken in the east and south-

Continued on page 2.....

Continued from page 1.....

east (regions which led the land boom). Savills reports: "Land is being bought by developers in order to build houses and there is virtually no speculation in land values." This means we can expect a patchy recovery in the construction of new houses, with demand from first-time buyers in the outer regions leading the way to recovery in the residential sector.

The trends in land prices, then, confirm the thesis presented by EI in 1988: that land prices - under present tax arrangements - play a crucial role in determining the fate of the economy. Alas, the Treasury's new "Seven Wise Men" team of independent economists, who are now supposed to provide the government with better insights into the workings of the economy, have not yet incorporated this lesson into their analytical frameworks.

OVERALL, the UK economy will now grow at a painfully slow rate. The Treasury has revised its forecast upwards. But the pace of recovery will be negatively affected by government policy.

On the long-term trend, Savills predict: "As demand for housing picks up, so too should turnover in land. Big increases in value such as those in the late 1980s are unlikely to occur in the short term due to the absence of speculative trading potential. However, given the fundamental shortage of building land due to planning restrictions, it is perhaps inevitable that speculation will return in the longer term."

The land-led boom/slump will indeed return: for EI's long-term forecast, see EI/37. That cycle, however, has nothing to do with planning systems, and everything to do with fiscal policy (see p.4).

ROLL UP FOR MONOPOLY!

REFORM of the trading system is high on the political agenda, but western governments advocating free trade are defining a strategy that is likely to create a new phase of unemployment. The tensions are most likely to surface most dramatically in those Third World countries that formerly operated on the basis of socialist principles.

Vietnam is a case in point, where students are being taught "market economics" on the basis of a board game - Monopoly. The game teaches you how to corner the market in real estate, and penalise people for trespassing on your property. "They love it, you just couldn't tear them away," reports Suzanne Hosley, one of the teachers at the National Economics University in Hanoi.

The version used in Hanoi is set in Hong Kong, but it does not instruct the Master of Business Administration students that the land in the British Colony is all owned by the Crown. Students are merely led to believe that the game represents the workings of the market economy.

An indication of the impact of that system of economics is already being felt in the countryside where, according to reporter Nick Cumming-Bruce (*The Guardian*, July 19): "...observers already see signs of a return to 'landlordism' as those with money acquire control of large tracts of land and those without are reduced to selling their labour".

Memories, it seems are short; rural landlordism created the discontent that gave the edge to the Vietnam in the war which, 18 years ago, the United States realised it could not win.

Under Vietnam's 1992 constitution, all land belongs to the people. But a new law creates all the features of private ownership, with no provision to make users pay the market rent for the benefits received from their monopoly of land.

In India, US economists are advising the government to hive off bankrupt state-owned enterprises, without explaining how to generate additional jobs to compensate for the massive lay-offs that would follow.

Trouble will begin when India opens up her market by cutting import duties and promoting inward investment. The rationalisation of uncompetitive industries will lead to massive unemployment, which will add to the geopolitical stresses

of a region that is prone to resolving problems by turning to open conflict with neighbours. Migration is also likely to add to social tensions in host countries, especially in Europe where right wing nationalist groups have surfaced to blame immigrants for the social discontent caused by unemployment.

The Indian government and its western advisers are not able to define a strategy for full employment. So while the wealth of the rich is likely to increase, as a result of increases in productivity, the pressure on wages will increase the state of poverty. The best prospects for investors is in the large cities: rents will increase on a massive scale as landowners find the bargaining power shifting further in their direction.

Look no further than MEXICO for what will happen in these countries. The prospects of free trade with the USA has not led so much to a boom in productivity-increasing capital goods - more a rush to carve up the land market.

Mexico City which accounts for 37% of the country's GDP, is the focus of a construction boom last seen in places like London's Docklands. Santa Fe, a 2,000-acre/\$10 billion project just outside the city's most exclusive residential neighbourhoods, is pulling in the investors who have already forgotten that land speculation in the '80s caused the oversupply of buildings in Europe and North America.

One of the surprising newcomers is George Soros, the currency speculator who is advised by Reichmann International (the Reichmann brothers lost their shirts in Docklands). Soros Realty has agreed in principle to a \$500m slice of the Santa Fe property trap.

Mexican banks are also heading for a heavy fall. Their loans to construction, which were formerly under 2% of total loans, have now soared above 8%. But the banks could not resist the numbers: average rents have doubled. The fact that vacancy rates have already started to climb is (as usual, near the top end of a land boom) conveniently ignored.

When Mexico City's economy crashes, many people in the rest of the country will lose their jobs. Many of them will then head north for the border, hoping for salvation in the USA, bringing with them added social pressures to tax the ingenuity of President Clinton's tax-raising strategies.

KEYNESIAN CONFUSION RULES ROOST AGAIN!

LEADERS of the seven leading trading nations met in Tokyo in July to bury the economics of Ronald Reagan and Margaret Thatcher. Shaken by the persistence of global unemployment, the politicians abandoned the policy of disengangling government from the market.

And they exhumed Keynesian policies, which emphasise the importance of money and state intervention to "prime the pump" through public investment. O.U.T. goes privatisation. IN comes incomes policies. The implications for entrepreneurial opportunities must be understood by people who need to know where (and when) to invest their money, in the cyclical upturn.

The depth of the revisionism was dramatised by Alastair Funn, a British minister of social security, who says that people's lives are wrecked by the demands imposed upon them by capitalism. He contradicted one of Mrs. Thatcher's aphorisms - that "there is no such thing as society" - when he declared: "There is such a thing as society and it stands or falls on the strength of the individuals who make it up."

The emphasis is now on "sound" money. Curbing inflationists said to be the primary goal of policy, to create the "stability" - a favourite word of the new Governor of the Bank of England, Mr. Eddie George - that would lead to the creation of new jobs.

We are now back to the 1970s: of governments trying to decide where to invest taxpayers' money, in the hope of boosting the economy. The need to reflect on the causes of unemployment were emphasised by the Confederation of British Industries, which reports that unemployment will not drop below 2.25 million people. That means an enormous burden will remain on the U.K. taxpayer.

SHOULD we have faith in the perspicacity of the policy-makers? Are governments today any better than they were in the 1970/5, when they were not able to pick between win-

ners and losers for public subsidies? Confusion will now reign. That is a foregone conclusion, the reason for which can be traced back to Keynes, the architect of interventionism.

Keynes, in his *General Theory of Employment Interest and Money*, believed that he overturned classical economics by reinterpreting people's attitudes to money. Deep-seated motives that were formerly embedded in the ownership of land, he said, were now transferred to money. He taught that the explanation for why the world was still poor, after 2,000 years of steady individual saving, was explained

"neither by the improvident pro-pensities of mankind, nor even the destruction of war, but by the high liquidity-premiums formerly attaching to the ownership of land and now attaching to money."

His biographer, Robert Skidelsky, characterised this as "a strange passage". Keynes himself admitted that he would alter it. Why? He confessed: "I am not quite clear what it is I am trying to say."*

If Keynes did not know what he was trying to say, it is not surprising that two generations of economists should have developed an economic strategy that was bound to fail (as it did: at one point, in the 1970s, 30 million people found themselves without jobs, despite the propensity of governments to "prime pumps").

LAND continues to be the determining factor in the instability that periodically sends the industrial economy into a slump. That this lesson has not yet been learnt was reflected in the report from finance ministers to the G7 leaders in Tokyo. They said that financial deregulation may "have contributed to excessive indebtedness and asset-price movements". Money, in other words, was the central focus

of attention.

In fact, deregulation did not cause the boom in asset prices. Japan experienced such a boom - without deregulation. So did South Korea (see p.4), which is only now considering deregulation. And anyone who needs another example, should examine Thailand's record. Or China's current woes (see E1/36).

Nor was it the movement in the price of shares, or works of art, that destabilised all the economies of the West (apart from Germany). The price of land was the source of the problem - despite Keynes' dismissal of land as unimportant, due to what he called "a silent change in the facts". In the 1980s, credit expanded on the back of speculation in land. This, in turn, lured banks the world over to lend recklessly to owners, in the belief that land was the soundest of all forms of collateral.

The banks, of course, paid the price. One way or another, many of them have had to be rescued by the taxpayer (through "lifeboat" operations launched by central banks). In general, banks are not allowed to go bust; not so lucky are the wealth-creators, who were allowed to fall foul of the events triggered by land speculation.

Advisers, then, are pointing in the direction of wrong-headed policies. That means taxes will remain high (or will be raised); interest rates will remain higher than necessary. And for investors, the trick will be to identify those economic opportunities that will now be blessed by government largesse.

* Robert Skidelsky, *John Maynard Keynes*, Vol. 2: *The Economist as Saviour*, London: Macmillan, 1992, p.567.

KOREA'S 'FULL DRESS TAX WAR'

PRESIDENT Kim Young-sam has declared war on land speculators. South Korea's economists know that it was the land boom of the late '80s that generated the "bubble" that burst last year, dragging the economy into recession.

The Bank of Korea reports that GNP grew at an inflation-adjusted 3.3% in the first quarter of 1993: high by European standards, but well below Korea's potential: in the period 1980-91, the economy grew at an annual rate of 10%. GNP grew at a 13-year low rate of 4.7% in 1993. The problem now is how to create the conditions for sustainable growth: and the

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President, who is leading a "clean-up the corruption" tribunal, is determined that land speculation will never again blight Korea's prospects. In April, he met the economics editors of 15 newspapers and broadcasting companies, at which he promised an across-the-board reform of the tax system aimed at ending speculation in real estate. After the briefing, one journalist reported that "The unyielding President Kim declared a full-dress tax war against the prevailing evil of land speculation."

Reporters have joined officials in digging out the scandals that have blighted public life - the root of which, it turns out,

has been the opportunity to make fortunes out of increases in the rental value of land. One economics editor, Park Chang-seok, concluded: "A clear solution to nip the corruption in the bud lies in lowering the price of land by putting the lid on the land speculation. The price of land has jumped as high as 1,900% on average in the past 20 years since 1974 and land prices in Seoul and its suburbs have risen a whopping 3,700%."

Sociologists have traced the negative impact of get-rich-quick land speculation on the life prospects of the population. The incidence of suicide among young people has increased, because they cannot secure jobs. Kim Myong-sik, the Deputy Editor of a Seoul newspaper, has noted that the land market has replaced the role of the eldest son in the family as security for parents' old age.

Since the land-led crisis surfaced, Korea's governments have tried to weaken the speculative motive by introducing two taxes: the landholding tax and the land

value increment tax. Neither is fully effective.

* The landholding tax can be avoided: owners have disguised their identities by placing the names of members of their families on title deeds.

* The land value increment tax, which is supposed to penalise people who hold land idle, is avoided by putting land to inappropriate, temporary use. This tax, according to Tae-II Lee of the Korea Research Institute for Human Settlements, distorts the economy: it diverts scarce labour and capital to the construction of projects

that are cosmetic - designed to mislead the tax authorities.

So what would be the appropriate remedial action by the President? According to Kim Myong-sik: "The real reform the nation is now tasked to do is to fundamentally change the place real estate occupies in our lives...it is necessary to revamp the whole tax system and take a long, arduous series of other institutional measures to serve 'land' from the hands of greedy individuals. It may be too great a job for President Kim to do during his five-year term but it is worth trying."

But how should this be achieved? The President knows that he will be opposed by the giant conglomerates (known as *chaebol*). One (former Finance minister, Sakong Il, acknowledged that *chaebol* accumulated their assets - or when

their power rests - in part by real estate speculation: and they are determined to protect their supremacy over the Korean economy. But there is a sophisticated policy that could comprehensively shift the dynamics of the economy in favour of competition and social justice. It is being publicised by Economic Fellow Park, who is telling his readers that the solution lies in the writings of an American social reformer: "Henry George says in his book *Progress and Poverty* that the concentration of wealth results from the private ownership or monopoly of land which he sees in turn causes unearned income detrimental to steady national progress. The journalist-turned-economist suggests the free utilization of land by individuals and then a 100% retrieval of unearned income arising therefrom for its use in the public interest. This time, his suggestion is worth listening to."

HENRY GEORGE a Prophet Whose Time has Come

ROBERT V. ANDELSON, *Professor of Philosophy Emeritus, Auburn University, Alabama, reviews the contemporary relevance of the American social reformer whose philosophy is now assuming new significance*

THE collapse of Marxism is to be seen as a triumphant vindication of capitalism, one would expect the economies of substantially capitalist nations to be vibrantly successful and overwhelmingly popular. Yet this is not the case. Their performance in virtually the entire Western world has become lackluster at best, and even the economic dynamism of Japan has given way to stagnation and rearmament. With the end of the Cold War has come a general mood of disillusionment and disaffection.

Under these circumstances it is not surprising that the ideas of Henry George (1839-1897), the self-taught American political economist and social philosopher whose masterwork, *Progress and Poverty* (1879), was for perhaps half a century the world's bestselling book in economics, are now being examined with new appreciation. For it was George who, while affirming the equity and efficiency of genuine free markets, uniquely isolated the chief debilitating flaw in "Capitalism" as it typically exists in practice, at the same time pointing the way to its remediation. Although set in the context of late 19th century America, his analysis is universal in its scope, and its relevance today even greater than when it was initially propounded.

His Life and Influence

George learned to set type as a youth in Philadelphia. Moving west to seek his fortune, he earned a precarious living as a journeyman printer in San Francisco, then became a newspaper

reporter, editor, and eventually the publisher of his own daily. After the publication of *Progress and Poverty*, he settled in New York City and spent the remainder of his life lecturing (frequently abroad) and writing, producing six more books: *The Irish Land Question* (1881), *Social Problems* (1883), *Protection or Free Trade?* (1885), *The Condition of Labour* (1891), *A Perplexed Philosopher* (1892), and *The Science of Political Economy* (unfinished but published posthumously in 1897). His literary style has seldom been matched in force or clarity.

In 1885, George ran for mayor of New York City on a reform ticket. While he had no real ambition to hold public office, he saw this as a means of focusing attention on his beliefs. According to most authorities, he actually received the most votes, yet, since the official count was rigged by the Democratic Party machine, he came in second, ahead of the Republican candidate and future president, Theodore Roosevelt. He was prevailed upon to run again in 1897, but was felled by a fatal stroke five days before the balloting. George was literally a martyr to his cause, for his doctors had warned that his frail health could not withstand the rigors of another campaign. His funeral was marked by an outpouring of public grief unprecedented in the city's history. Even those who opposed his ideas applauded his motives and acknowledged the nobility of his character.

After his lifetime, George's influence was eclipsed by that of Marx and Keynes, but his avowed disciples have

included many eminent figures. Leo Tolstoy tried to persuade the tsar to adopt his reform. Shortly before Sun Yatsen's death, the father of the Chinese republic declared his intention of implementing it there. Even Winston Churchill was for several years an ardent advocate of the position, and never ceased to believe in it although political considerations militated against his continued championship.

With certain notable exceptions, academic economists have until rather recently tended to ignore or to dismiss George - this despite the fact that Joseph Schumpeter, the magisterial historian of economic theory, unambiguously affirms his technical competence. But today American economists throughout the political spectrum, from Milton Friedman and Arthur Laffer to Kenneth Boulding and William Vickrey, have publicly espoused key elements of George's thought. Vickrey was last year's president of the American Economic Association. He was among the distinguished scholars (including three Nobel laureates in economics) who signed a letter (Nov 7, 1990) urging then Soviet President Gorbachev to institute a land plan along basically Georgist lines.

His System

George is best known for the theory that most of the market value of land exclusive of improvements ("economic rent") should be appropriated by society and applied to general public purposes, with corresponding

❖ THE LAND & LIBERTY ESSAY ❖

abolition of taxation on the fruits of human effort.

His system rests upon the Lockean premise that private property is ultimately justified by the right of an individual to his labor as an extension of himself. Since land is not created by human labor but by God as a fund of opportunity for the use of all, the argument for private ownership cannot apply to it. Economic rent constitutes an exact measure of the disadvantage sustained by those who are denied the chance to use a site or natural resource on equal terms because of its pre-emption by the owner; therefore, it should be taken by the community as an indemnity to them, subsidizing protective and other social services that would otherwise have to be paid for by a levy on the produce of their labor.

George characterized this as "the taking by the community for the use of the community of that value which is the creation of the community" (*Progress and Poverty*, Book VIII, Chap. 3), for he contended that rent (when not artificially inflated by land withholding, speculative or otherwise) is essentially a social product—the result of population, public demand, government services, and the aggregate improvements and activities of all individuals in a given area, not the result of anything the owner, as such, may do to a particular site.

Since he advocated the use of the tax mechanism to collect economic rent for society, his proposal is popularly known as the "Single Tax," but it is really not so much a tax as a public fee, not withstanding the fact that it eminently satisfied all of Adam Smith's "Canons of Taxation." Although he thought, probably correctly in his day, that this source would be more than adequate to support all legitimate government functions, his position would not necessarily preclude other benefit fees if economic rent should prove inadequate. A small percentage of the rent would be left to the owner as an agency commission and an inducement to retain title. Inasmuch as he would be liable

for the remainder of the rent regardless of how his land were used, the owner would have an irresistible incentive either to put it to its optimum use or make it available to someone who would. He would have no motive for speculation.

George's program, although radical in the sense of attacking the root cause of economic maladjustment as he saw it, is conservative in accepting self-interest as the normative economic motive, and in avoiding drastic methods that might rend the social fabric. (It would be implemented in gradual stages.) As Schumpeter remarks, "he was careful to frame his 'remedy' in such a manner as to cause minimum injury to the efficacy of the private enterprise economy" (*History of Economic Analysis* [1954], p. 865). In fact, its object was to enhance that efficiency.

Partial but substantial applications of his approach in Australia, Denmark, Taiwan, and elsewhere have tended to stimulate production, improve land use, and encourage better and more affordable housing.

The social utility of Australia's limited but significant land-value tax is revealed in a survey comparing the three states that have much heavier land-value taxes and much lower improvement taxes with the other three. During the half-century covered by the survey, the first group (Queensland, New South Wales, and Western Australia) saw far more land put under crops, while the second group (South Australia, Victoria, and Tasmania) experienced decreases. The value of improvements as compared to land was 151% in the first group as against only 79% in the second; it was highest of all, 198%, in Queensland, which collected the highest proportion of economic rent.

The first group enjoyed higher factory wages, more purchasing power, a greater volume of retail sales, higher capital investment in plant and machinery, more housing construction, and greater increases in assets of financial institutions and cooperative societies. The flow of population from the second group to

HENRY GEORGE

the first showed that people found superior opportunities where taxes were derived to a greater extent from land values than from production. Again, Queensland showed the heaviest inflow of people. (A.R. Hutchinson, et al., *Public Charges Upon Land Values* [Melbourne: Land Values Research Group, 1961].)

More recent research confirms the continued thrust and pertinence of the survey's remarkable findings. (A.R. Hutchinson, et al., *Natural Resources Rental Taxation in Australia* [Melbourne: Land Values Research Group, 1977], especially pp. 18-19.)

Denmark derives almost its entire local real estate tax from the value of land alone. There is no longer any local tax on residential buildings, and the land-value tax applies to all but church, park, defense, and transport sites. While the taxation of real estate has sharply declined as a percentage of the general level of taxation in Denmark over the past 40 years, as an absolute amount land-value taxes are still high enough to make speculative withholding of developable urban sites "almost non-existent" (Personal communication to David Richards from Anders Muller, economist at the Danish Inland Revenue Directorate, and author of studies on the property tax in Denmark.) In the agricultural sector, the effect of the system has been to replace farm tenancy with independent small-holding.

Taiwan's approach has been characterized as "the most successful of postwar land reforms." (Fred Harrison, *The Power in the Land* [London: Shephard-Walwyn, and New York: Universe Books, 1983].) In addition to large-scale redistribution, the system is marked by a tax on the unimproved value of land (based on self-assessment), with a separate tax at higher rates on vacant and underimproved sites. Also, a steeply graduated land-value increment tax is imposed on increases in value over a 10-year period and at time of sale. As early as 1967, 10 years before the plan went into full operation in its present form, C.F. Koo, president of

the Chinese National Association of Industry and Commerce, concluded that the first stages had already performed a critical role in encouraging the island's transformation. Before the reform, he explained, landlords had no incentive to invest in industry, for they could prosper by gouging tenants and by reaping unearned land values. The land reform, Koo said, vastly minimized both these forms of exploitation, "thus removing the obstacle that stood in the way of industrial development and creating a remarkable change in the social

economy." (F.F. Koo, "Land Reform and Its Impact on Industrial Development in Taiwan," in J.R. Brown and Sein Lin, eds., *Land Reform in Developing Countries* [Hartford, CT: University of Hartford Press, 1968], p. 375.)

Free Trade

George rigorously advocated free trade. He was a decentralist, an unrelenting foe of Marxism, a staunch believer in Natural Law, and a devout though undogmatic Christian. His system represents a balance between

individuals and communitarianism, holding that for the individual to secure what rightfully belongs to him, the community must secure what rightfully belongs to it. It has contemporary implications that go beyond its original purview - e.g., ecological conservation through use of taxation to internalize pollution costs.

• This essay originally appeared in German in the December 19, 1992, edition of *Neue Zürcher Zeitung*, Zurich.

SUN YAT SEN - REVOLUTIONARY LAND REFORMER

SUN YAT SEN (1866-1923), the republican liberator of China, led the coalition of forces which overthrew the Manchus, the last Imperial Dynasty. During the last few months of his life he wrote a manifesto which he called *San Min Chu I*, the Three Principles of the People. Central to the last principle is the necessity for land reform. He declared: "...to equalize the financial resources of Society. Our first aim is to be the solution of the land problem."

He then went on to show how this could be done: "...the government makes two regulations: first, that it will collect taxes according to the value, assessed by the landowners, of their land; secondly, that it can buy the land at the same price."

Sun Yat Sen put landowners in a dilemma: if they said that the land had a low value so as to pay a low tax, the government would purchase it. But if the land was valued at a high price, taxes would accordingly be higher, perhaps more than the land was really worth.

Either way the government was a winner and the landowners were drawn into being part of a controlled land market.

Sun Yat Sen then went further than this: "After land values have been fixed, we should have a regulation by law that, from that year on, all increases in land values, which in other countries means heavier taxes, shall

ALAN SPENCE, *a socialist who advocates the philosophy of Henry George, suggests that socialist China - and capitalist Britain - should learn the lessons taught by Sun Yat Sen*

revert to the community."

He took this fiscal method of raising public funds from the teachings of Henry George (1839-1897), the American land reformer. George's book, *Progress and Poverty*, had been studied by Dr Sun during his many visits to the West.

He also took to heart, and put into his manifesto, Henry George's view that "...increase in land values is due to improvement made by society and to the progress of industry and commerce." Thus, as land values increased, so would the revenue from taxes and Dr Sun saw this as a source of funds for building the "many Shanghai's" China required for its entry into the modern world.

SHORTLY after 1911 Sun Yat Sen lost power and did not regain it until 1922 when he was mainly occupied with subduing the many war lords who controlled parts of China's vast territory - a task he did not complete before his death in 1923.

During this period of power, he employed a German, Dr. Ludwig Schrammer, to prepare land reform proposals based on outlines set out in *San Min Chu I*. Dr Schrammer had

been governor of the German Colony of Kiai Chan which included the seaport of Tsingtao. The German Government had compelled the Chinese Emperor to lease this area to it in 1898 and controlled it until forced out by the Japanese in 1916.

During his period of governorship, Dr Schrammer had raised revenue from his tiny colony (220 sq miles) by leasing land and drawing ground rent, imposing escalating penalties for land left unused. During the 18 years it was under his control, the colony made rapid progress in developing its infrastructure. This stopped when the Japanese occupied the territory and returned it to traditional landownership control.

Dr. Schrammer was killed in a car crash a few weeks after Dr Sun's death and although the land reform statutes he was working on were within days of being completed they died with him. Instead, Chiang Kai Shek, who had assumed the mantle of leader, instigated a policy of repression.

Under Dr Sun the Communist Party had become more influential within his Kuomintang Party. This and the escalation of peasant and working class militancy alarmed the landowning and business classes and the mafia-like secret societies. Chiang, whose links with these interest groups had helped him to power, now turned

against the threat to their power and started a campaign of mass executions of militant workers, peasants and Communists.

The Communists retreated to the mountains to wage guerilla warfare for some twenty years until they were strong enough to capture mainland China from Chiang. He and the remnants of his army and supporters, some one million people, were driven onto the island of Taiwan.

In Taiwan, paradoxically, the principles of Sun Min Chu I were applied, somewhat unevenly in relation to welfare provisions and control of Capitalists but resolutely in respect of rural land reform. Chiang was compelled by his own officer caste and the American advisers sent by General MacArthur from Japan to introduce these reforms to counter Communist propaganda. The intention was to prevent the Communists from getting a firm hold on the minds of Taiwan's heavily exploited peasantry and a repetition of their experience on the mainland: a civil war which would see the Kuomintang's inevitable defeat, and the establishment of Communist government on the island.

THE ESSENCE of Taiwan's rural land reform programme was that the land should be owned by its tiller. A three stage programme was adopted: first, that rent should be set at a maximum of 37 1/2 % of the value of the crop; secondly, that public land should be sold to tillers; and, thirdly, that landowners who had land in excess of their tilling capacity sold it to tillers at 2 1/2 times its annual produce price.

There was vigorous opposition from Taiwan's landowning classes. Yet, as there were few members of Chiang's military caste on whom they could count for support as their brethren had successfully done on mainland China, the landowners received short shrift from the new government and particularly from Cheng Chen (later to become Vice-President and Prime Minister). It was he who, whilst military governor of a mainland province, had independently introduced such measures and seen, as Sun Yat Sen had predicted, how successfully they had lifted the living standards of the peasantry.

By converting the public utilities - left from 50 years of Japanese rule to public ownership - and using the share issues to pay the landlords for their former holdings, the opposition was fractured, virtuous resistance withered away. The first generation of dispossessed landowners, having now lost its function of organising local and national power to ensure receipt of rent from the peasantry, simply pined away. However its capitalistically minded offspring used the cash flow from these shares and state bonds to become industrial entrepreneurs, aided by American advisers and opportunities for fledgling commercial work for the UN forces engaged in the Korean War. From this basis Taiwan began to move onto the high-ground of industrial Capitalism which it so successfully occupies today.

Thus came into being one of the so-called tigers: Taiwan, Singapore and Hong Kong. These three either reformed rural landownership or already held the land in public ownership (as in Hong Kong, where land is a Crown possession: it is auctioned off on fixed term leases to Capitalist entrepreneurs). Likewise in Singapore where the government of this city-state owns 70% of the land and uses it either for its extensive state industry network or leases it out for commercial purposes.

These three countries provide the empirical evidence for the soundness of Sun Yat Sen's policy of using land reform as the generator of revenue for industrialisation. Hong Kong, in particular, has no land-owning class - only workers, capitalists and a very few lease-holding horticulturalists. Therefore it presents itself in a pure form of Capitalism as a model to form a body of economic law applicable elsewhere - East or West, Socialist or Capitalist.

Within traditional Capitalist societies which have the three classes of landowner, capitalist and worker, the landowner gets the first sum of money in the trade cycle. Before the capitalist can get his means of production and labour force to operate, ground rent must be paid to the owner of the land.

If this ground rent is instead received by government and spent on improving infrastructure with part

put into government reserves, these savings could be used to intervene against slumps which may arise because of overproduction or whatever. By spending on house building, mass transport systems, ports, hospitals etc. demand is restarted within the economy and the trade cycle is given a beneficial push.

This process is able to fulfil the ambition of John Maynard Keynes (1883-1946), whose policy for kick-starting economies was flawed because governments had either to borrow or print money in order to get the economy out of its slump. This only stored up problems of a larger size for later solution. Keynes had little appreciation of the role of ground rent within Capitalism and failed to understand its economic cycles. However once we recognise the role of ground rent, his work does provide a basis upon which an interventionist unemployment programme can be devised, to benefit both capitalist and worker.

From a Socialist point of view, ignorance of the part which ground rent has to play within a Socialist society is one of the reasons for the profound problems now besetting the countries of Eastern Europe in particular.

Marx used a good part of Volume III of Capital to analyse the role of rent within a Capitalist society. Unfortunately this study was not carried over into the era of Socialism either by Lenin or Mao Zedong. But in introducing his New Economic Policy in 1921, Lenin did begin to reappraise the role of the market in the transition from Capitalism into Socialism - including various forms of taxes. Within this examination, the rudiments of a proper land taxing system did emerge, but were crushed by Stalin along with the rest of the N.E.P. programme. Stalin took the path of brutal coercion to achieve a Socialist society. It failed, and the attempts to put Socialism's failure back onto the high-road of progress is setting Russia and other countries horrendous problems of restructuring.

MAO Zedong was never able to get to grips with the significance of ground rent which, given the enormous respect with which Sun Yat Sen

is still held by the Communist Party of China, is surprising.

Mao's attempt to cover the distance between China's Asiatic/feudal mode of production and Socialism with The Great Leap Forward was a disaster. Putting this right, as Deng Xiaoping is doing, still has to overcome the omission of ground rent within China's economy. Fortunately, this appears to have been recognised and the last congress of the Communist Party introduced various mechanisms for obtaining ground rent by various forms of leasing.

Taiwan, though benefiting from its land reforms and the revenue it receives from leasing out urban land, suffers from the distortions of having a Capitalist government and a structure in conflict with the Socialist tendencies of Sun Yat Sen's policies. This offers a lesson. For it shows that only where there is a regime based on determined leadership and a hegemony of working class/Socialist forces, as in Singapore, is it possible to ensure the transition to a fully structured form of Socialism.

There is, interestingly for academic researchers, one area of history commented on by Dr Sun which has had little attention given to it by left-wing theoreticians, and this is where he said: "China destroyed her feudal system as long ago as the Ch'in dynasty." The Ch'in dynasty ruled China from 246-207 BC.

To the western historian this seems exceedingly odd. For according to our notions, Feudalism came into existence with the downfall of the slave economy of Rome, and, therefore, arose after 8 AD. This tradition of history sees the periodisation as being from primitive Communism to slavery, from this to Feudalism, on to Capitalism and then a Socialist society.

A schematic presentation of the above leads easily to presenting history as a unilinear process of progressive betterment, in which each mode of production mechanically creates the next stage. In this pattern, Feudalism inevitably produces Capitalism. However, if Feudalism was overcome in China 1,000 years before it became established in Europe and did not lead to Capitalism, then what?

In fact China, post Ch'in, settled down to a social form which had

balance between its mode of production, relations of production and superstructure and, therefore, was sustainable as an entity. Nor was there any sign in the following 1800 years that it could not carry on indefinitely.

It took invasion from Western Capitalism to dislocate this balance and push China on to a path which has led to the present where a Communist government is laying the basis for a Socialist society.

WHAT I would like to draw attention to though, is this: if social life is not linear, is it cyclical? Evidence for this could be the way Capitalist society is evolving in Britain. Here, landowners are the most powerful class in both urban and rural settings. Systematic expropriation of ground rent has sapped capital from industry to such an extent that Industrial Capitalism lacks the financial resources to renovate itself - apart from a few transnational companies. Furthermore, the landowning class is deepening its political grip through concentration of political power in the superstructure.

The country is being depopulated of its Capitalist entrepreneurs and there is dispersal of its organised workforce. It is also reducing the number of its tenant farmers and introducing a new form of "second serfdom" on farm workers. Within this structure the only Capitalist fraction which is growing stronger is merchant Capitalism: both in consumer commodities and the financial markets of the City and the banks.

In this scenario, the former industrial working class will become declassed and disenfranchised plebians. Fed on "dole & television",

with malnutrition and psychological despair reducing the birthrate and population to proportions similar to those of the Middle Ages. Of course this scenario is but a tendency. A tendency, however, which flows from seeing modes of production manifesting themselves in a cyclical fashion.

A SOCIALIST programme structured to neutralise the landowners, could annul this tendency. My conviction is that the British people will do this. They will see the danger, visualize the alternative, and organise to make sure that it is the beneficial society which is constructed in these islands.

To achieve this we can be helped by a study of the Land Problem as seen by Dr Sun Yat Sen and then by applying those solutions appropriate to our economy, social life, and the political conditions within Britain.

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Commons Without Tragedy

R. V. Andelson (editor)

An international group of scholars examines the impact of population on the economy and environment, arguing for a reappraisal of property rights. Published in Britain by Shephard-Walwyn Ltd., London (114.95) and in the USA by Barnes & Noble, of Savage, MD (\$34.50).

"One is left with a feeling that some of the contributors might actually come to blows if left to manage anything in common - but this really makes the book more attractive, since opposing views are put with such scholarly passion." - *Population Studies*

POLICIES FOR A SUSTAINABLE FUTURE

Planning for a Sustainable Environment

Andrew Blowers (editor), Earthscan, London, £15.95

RECOMMENDATIONS by the 16 contributors reveal that there is a long way to go before a satisfactory blueprint is produced for solving environmental problems, for their analyses are not yet armed with a satisfactory theory of land use. Result: proposals that do not match up to the scale or nature of the problem.

There are scattered references to the connection between land use, tax policy and environmental problems, but no comprehensive theory of land use that makes sense of why both capitalist and communist countries have failed to use land and natural resources to the advantage of either the individual or society.

Prof. Blowers, in addressing the problem of derelict land in the city, is correct to recommend: "A tax on land values, set at appropriate levels, would act as an incentive, stimulating owners to improve it and release it rather than hold on to it."

But his proposal is partial. He applies it to derelict land alone; and one of his colleagues proposes that the tax should be removed once the land is brought into use. Further, the analysis on which the recommendation is based is confused because it is not underpinned by a theory of land use. Hence, we are once again told that "The complex causes of vacant land have been much debated but essentially it is land without present value because it has no market."

No-one has yet demonstrated that the owners of such sites are therefore willing to abandon their claims to land which supposedly has no value!

Another example of inexcusable confusion is the proposal to create a Sustainable Land Development Fund. The idea is sound: a fund dedicated to dealing with environmental problems, financed out of the rent of land. But what is the method for sluicing rent into that fund? The authors resurrect an idea that has been thoroughly discredited by experience in Britain: a "betterment" levy, exacted when planning permission is granted to landowners.

The authors explain: "Vast

amounts of money change hands when land is developed. A retailer may pay as much as £10 million for two hectares of farmland that has planning permission for a superstore. This enhanced value reflects the profit anticipated by the retailer, but it is considered by many people to belong to the community whose collective actions brought services and population near enough to the site to justify its development. The potential value of the land is only realised with the grant of planning permission."

Right: the community creates the value. Wrong: the potential value is realised not when permission is granted, but when people demand, through the market, the change in the use of the land. Planners can grant permission until the cows come home, but if the "market" does not exist, there will be no increase in value.

My main quarrel with the authors is over this claim: "In the past 45 years three attempts to collect this betterment have been made, each to be abandoned by following governments mainly for political reasons. However, the different schemes were repudiated before there had been sufficient research to assess their full effects and to identify the causes of apparent land shortages."

This is just not true. Certainly, the Tories crystallised political opposition to Labour's three attempts at recovering part of the rent of land for the public purse. But there was ample empirical evidence to justify that opposition, as has been re-emphasised in a new study.* Labour's laws distorted the use to which land was put, and, in one case, contributed to a land boom by working to the advantage of land speculators!

The historical record demonstrates the futility of resurrecting a fiscal policy that has been discredited.

HOW DO WE explain this failure on the part of distinguished scholars and environmental specialists? In part, because they are wedded to the idea that "planning" is capable of more than it can actually deliver. For exam-

ple, they hold the planning system partly to blame for postwar errors in the fields of transportation and industrial pollution. In fact, these problems stem from a simple failure of politics.

Ecological damage would have been automatically limited to sustainable levels if users had been required to pay for the benefits they received from using "land" (defined to include all of nature's resources). The price they ought to have paid is the "rent" of land; the additional rental revenue then substituted for the other taxes that indirectly add to the problems highlighted in this report.

There is an urgent need to review existing policies. One of them is the "voluntary" payments paid by developers for planning permission (known as "planning gain"). Despite the affirmations by some planning authorities, these are bribes paid in return for planning permission.

For the correct solution, the Town and Country Planning Association need go no further than its roots. The association was created by Ebenezer Howard, an advocate of the land policies of American social reformer Henry George. Howard realised that it was impossible to create decent environments so long as the rent of land was in private hands. His solution: garden cities built on land that was privately used but publicly owned.

Blowers et al. propose an experiment in which land is acquired for the construction of new communities in areas of housing shortage, to demonstrate the practical application of policies that encourage sustainable development. Old hat. That experiment has been running for 80 years in Leichworth (the one "garden city" which, for legal reasons, Mrs Thatcher was not able to privatise).

We now need a solution that embraces existing cities and the environment. That means, as was realised by town planners like Howard and Patrick Geddes, an ad valorem tax on the rent of all land, supplemented by rental charges for the use of resources such as rivers and the air.

* V.H. Blundell, *Labour's Planned Land Acts 1947-1976*, ESSRA, 177 Vauxhall Bridge Road, London, SW1V 1EL.