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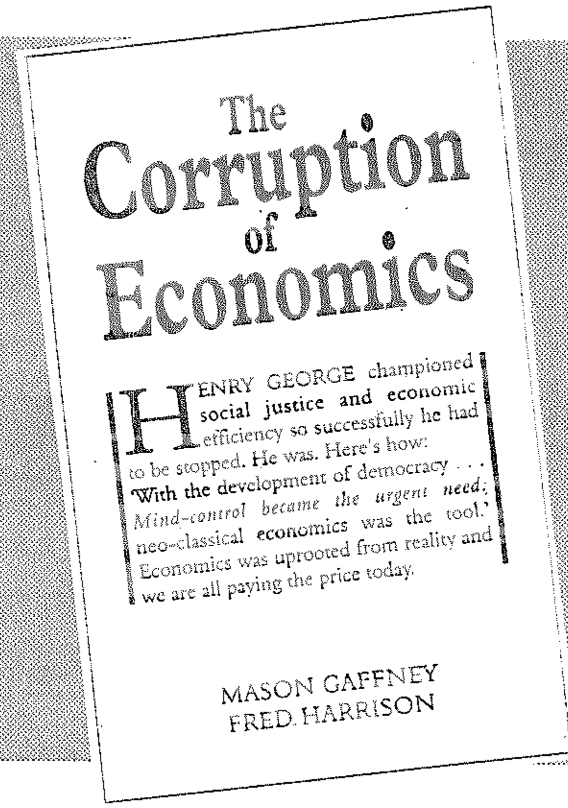

THE PLOT AGAINST HENRY GEORGE

ESSAY: DEADLY WELFARE SOCIETY

THE 'TRICKLE DOWN' TRICK

SOUTH AFRICA: DISASTER LOOMS

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EDITORIAL

THE STATE OF WELFARE: TIME FOR CHANGE

POLITICAL philosophers are in a bind. Right-wing ideology (as discredited by Reagan/ Thatcher) is as much in retreat as the left-wing variety (as discredited by marxism).

We live in a system of economic chaos, and yet the debate on the need for a fundamental restructuring of society has not begun. Why?

The main stumbling block is the Welfare State. Few people dare challenge the Welfare State, the contemporary ikon of humanitarianism. Besides, the perceived need for it is as great today as it was a century ago.

And there's the problem: despite a massive redistribution of income through taxation, the Welfare State has failed to equalise the gap in incomes and life-chances, as Dr. George Miller explains in the *Land & Liberty* Essay (page 7).

The Welfare State was capitalism's answer to communism. It has failed, and the time has come to think the unthinkable - the need for a new approach to economics and politics that does not consign members of the working class or their offspring to premature death.

The Welfare State has lasted this long because governments were able to accumulate public debt - their legacy to our children. Sweden, a trail-blazer in welfare capitalism, has a public debt that is now approaching 100% of gross national product, and is rising fast.

Thatcherism failed to dismantle the Welfare State because it had nothing to put in its place except a return to 19th century capitalism. Mrs Thatcher's legacy: a higher tax burden than the one she inherited from the last Labour Government!

If an alternative social system exists, it will have to be adopted with sensitivity. Vulnerable members of society must be protected while the new arrangements are instituted and tested.

That society can be visualised: it is based on the economics of Henry George. Unfortunately, scholars have failed to define in detail how we can transform the Welfare State into a society operating on Georgist principles. This means that advocates of reform will be met with mischievous objections by opponents who represent the rent-seekers. But the life-and-death story that unfolds in Dr. Miller's essay makes it clear that we cannot remain silent any longer.

EXPOSED! The Stratagem to Defeat Henry George

A PROFESSOR of economics has nailed the plot to thwart the popular democratic demand for a change to a rational system of public finance.

Mason Gaffney of the University of California turned sleuth to uncover the truth behind the remarkable campaign to silence public debate about the Single Tax.

During the 1880s, American social reformer Henry George was popularly acclaimed for his account of how the industrial economy was prevented by land speculation from delivering prosperity for all.

His book, *Progress and Poverty* (1879), revealed how speculation in the land market prevented sustainable growth and full employment and reduced wages to poverty levels.

He also forcefully explained how the privatisation of public value (land-rent) had deprived governments of the most efficient method of raising revenue for public expenditure.

His book was read by millions of people from the United States, Britain, Ireland and down to Australia and New Zealand. Mass movements emerged to campaign for a reform of the tax system, at the heart of which was the demand for social justice. George had explained that the socialisation of the rent of land was a precondition for an ethical society.

LANDOWNERS could not rely on democratic means to defeat the case for the Single Tax, because they were in a numerical minority. But they had one potent weapon at their disposal: money.

They hired professors to develop economic theories which obliterated the distinctive social character of rent. By this device, they were able to argue that there was no reason why land should be singled out for special treatment for tax purposes. Over the following two decades, the academics poured out a torrent of articles and books against the Single Tax, heaping scorn on those who dared to analyse economic problems in terms of the concepts defined by the classical economists like Adam Smith and David Ricardo.

Henry George - not Karl Marx - was Enemy No.1.

The result was a steady collapse in public interest in the Single Tax until, finally, the policy received no hearing in the corridors of power.

The new school of thought came to be known as neo-classical economics. It is the paradigm that prevailed throughout the 20th century, and it succeeded in its goal. Economic textbooks now barely mention land. Rent is treated as an income received by labour and capital, as well as land.

As for the rent-as-public-revenue policy, it rarely receives a mention. Those economists who refer to the Single Tax do so, by and large, as a means of affording their readers a little light relief. Fun is poked at Henry George and people who continue to favour the policy in place of taxes that undermine jobs and investment.

THE FLASHPOINT for the stratagem was the New York mayoral elections. One of Henry George's opponents was Seth Low, a major landowner who was president of Columbia University.

In 1895 he was preparing to challenge Henry George at the polls. That was when he recruited John Bates Clark; to do so, he had to outbid a wealthy railroad baron and anti-Georgist, Daniel Coit Gilman of the Johns Hopkins University. Clark began his hatchet job the following year, in The *Philosophy of Wealth* (1886).

Seth Low was determined to disparage his opponent. His strategy was to used a rewritten economics as a tool against Henry George. Others joined in the stratagem, including Frank Knight, the doyen of the Chicago School who "made no secret of his firm opposition to Henry George and ideas that might aid or comfort Georgists".

These neo-classical economists continue to exercise influence to this day (see the use to which they are being put in post-apartheid South Africa: page 13 below).

THE FULL story of this disgraceful episode in the history of economic thought is told by Prof. Gaffney in *The Corruption of Economics*, which has just been published in London by Shepheard-Walwyn (Publishers) Ltd. in collaboration with the Centre for Incentive Taxation.*

Prof. Gaffney indicts neo-classical economists for the damage they continue inflict on students: "Systematic, universal brainwashing is the crime, tendentious mental conditioning calculated to mislead students, to impoverish their mental ability, to bend their minds to the service of a system that funnels power and wealth to a parasitic minority".

Prof. Gaffney's wide-ranging analysis combines biography with economic analysis to demonstrate that contemporary failures in government policy can be traced to the stratagem against Henry George a century ago. He concludes:

"Neo-classical economics, forged as a stratagem to discomfort Henry George and Georgists, is intellectually, morally, and practically bankrupt".

* Available from bookshops in Britain or direct from CIT Ltd., 177 Vauxhall Bridge Road, London, SW1V 1EU, £9.95.

The Ground of Conflict

JOHN HUME has distinguished himself by his initiatives in bringing about the ceasefire in Northern Ireland. He is a Catholic Member of Parliament who wants to unite the warring factions and restore peace to the troubled province after 25 years of murderous conflict.

And yet, the extremist wings of both the Catholic and Protestant populations remain as deeply entrenched as ever behind their original demands. Republicans want the British out of Ulster; unionists are determined to continue flying the Union Jack.

So what makes John Hume think that there is any prospect of compromise? I fear that his hopes are built on an unrealistic view of what can be achieved by contemporary political philosophy. There is a high risk of failure unless someone can pull off a miracle at the negotiating table.

MR. HUME argues that we are in the era of post-nationalism. It is irrelevant whether the six counties are part of the UK or the Republic of Ireland, because both of them are members of the European Union.

Mr. Hume places his hopes on being able to adapt Europe's post-World War Two philosophy to solve the little local difficulty at the top end of Ireland. A difficulty that has raged, on and off, for 400 years. A difficulty which, he believes, could evaporate, if men of goodwill come to terms with the fact that rights inhere in people, not territory.

And that, unfortunately, is where Mr. Hume has got it wrong. He is correct to believe that rights ought to be associated with people, not land; alas, the problem in Ulster - as elsewhere - is that the dispute over the territory was and remains at the heart of the problem.

Talk of religious differences merely distracts from the problem. The brutal facts are that the mainland Protestants arrived in Ireland a few centuries ago, stole the land of the tribes, destroyed the cultural cohesion of the village communities and enserfed the population. Thus began the Celtic diaspora.

There is no mystery about why, following the abandonment of British sovereignty over Ireland (apart from Ulster), the displacement of people from their homeland continued apace to this day. Ireland remains a Third World economy. Its citizens are not able to earn a living, so they are forced to emigrate. Post-independence Ireland failed because it failed to match political rights with equivalent economic rights.

Ireland's politicians failed to understand that, without an appropriate philosophy of land tenure and public finance, there can be no prosperity (a fact most fully documented in the works of the late Raymond Crotty).

Therein lies the reason for being pessimistic about the prospects of longterm peace in Ulster. Protestant farmers and entrepreneurs will continue to enjoy a living standard well above the Catholic population, because their lifestyles are built on a privilege: a disproportionate control over the territory that is divided into six counties.

POLITICIANS can appear to remove the anomalies generated by the wrong tax-and-tenure arrangements. They can do so only by imposing a level of taxation that is self-defeating.

Economically, Ulster is surviving because of heavy subsidies from UK taxpayers. A UK pull-out would leave the province high-and-dry. Dublin could not come to the rescue, because it is constrained by a crippling level of debt. Will Euro-taxpayers bail out the Ulster economy and so defuse the ethnic conflict?

This could happen, given Europe's crazy fiscal philosophy. This is illustrated by the Common Agricultural Policy, which now costs the average household an extra ú28 a week on the food bill. But who benefits? Not the agricultural workers. No, it is the rental value of farmland that has risen to soak up the CAP subsidies. Who, in Ulster, would benefit from these subsidies? Protestant landowners!

It really does all come back to the land, in the end. Mr. Hume needs to appreciate this. For then he can make a truly remarkable contribution to peace in his province, by explaining to the people of Ulster that permanent peace is contingent on a fair share-out of the rental value of the land and natural resources of their territory.

HENRY WINSTANLEY

Round the world

EDINBURGH
Aristo-cats

BRITAIN'S landowning aristocracy is alive and kicking - and determined to hang onto the land.

• The 10th Duke of Atholl, owner of 135,000 acres and a castle in Highland Scotland, has decided to disinherit his nearest relative, a South African cousin. The Duke, commander of Britain's only private army, now faces legal action over the succession to the estate.

• Prince Charles, who presides over one of the largest estates - owned by the Duchy of Cornwall - is being criticised by MPs for obstructing development of the Oval cricket ground in South London. The prince is refusing to sell the freehold to the county club tenants.

• The government's new law which gives leaseholders the right to buy the leases from their landlords has infuriated Gerald, the 6th Duke of Westminster. He has ripped up his membership of the Conservative Party, accusing the Tories of having deserted their own kind: those who manage the land.

• Times are good for the rentiers. The Crown Estate, which manages property on behalf of the Queen and is one of Britain's biggest landowners, saw a £486m increase in its property, in real terms, between 1985-94.

ISLAMABAD
Political power

PAKISTAN'S government wants to introduce an income tax for farmers. The law was changed last year to make farmers liable for income and wealth taxation, for the first time in the country's history. But the provincial governments were resisting the implementation of the law because they feared the political backlash from farmers. Observers note that Pakistan's politics are dominated by "the country's wealthy landowners, who have directly or indirectly influenced the government's decisions".

LONDON
Set-aside

A TOTAL of 651 English landowners, including both wealthy aristocrats and corporations, were each paid over £100,000 of taxpayers' money not to grow crops last year. Of these, 45 owners received £250,000 and £500,000. Another seven each received over £500,000, under the government's set-aside scheme to reduce food output.

This year, English farmers are being paid £125 million to allow their land to remain idle. "Meanwhile," notes the Council for the Protection of Rural England, "the quality of the countryside, particularly in arable areas, continues to decline."

RIO DE JANEIRO
Landless lose

BRAZIL'S presidential elections failed to produce the shock that would have echoed around the world. The early lead in the opinion polls for Luiz Ignacio "Lula" da Silva was finally eclipsed, leaving a radical plan for helping the landless in tatters. Lula's manifesto included the allocation of land to 800,000 families over four years.

Lula planned to incorporate into the economy the 100 million Brazilians who are "outside the market" because of poverty. About 32 million people live in absolute destitution. The connection between land and poverty was clearly seen by Lula, who said: "With land reform we could produce much more food". By making land more accessible to people, he argued, incomes and food production would rise.

DUBLIN
Taxing problem

HOSTILITY from middle-class home-owners has persuaded Ireland's government to amend its plans to increase the tax burden on residential property. Houses have been leniently treated for tax purposes. The government, wanting to lower income taxes, thought it could raise the lost revenue by lowering the property tax threshold from IR£91,000 to IR£75,000. But Dubliners objected: they said this would bias the tax against them, because their properties have higher market values.

LONDON
Bank on it!

FLAMBOYANT property dealer Peter de Savary has little sympathy for the banks that have lost fortunes in the last property crash.

One of the bank's called in the receiver to take control of one of his company's which had debts of £145m. The unrepentant Mr de Savary disarmingly noted: "Nobody has lost his job and no investors have lost money. Nobody makes the banks lend money."

And in the late 1980s, when people like de Savary were making fortunes out of land speculation, the banks were handing out cash as fast as they could. One of the beneficiaries was a Hampshire developer who cheated building societies out of almost £2m.

The judge who sent him to gao for two years said: "You took advantage of the lackadaisical way money was available at that time".

MOSCOW
Whose land is it?

Alexander Solzhenitsyn has become a thorn in Boris Yeltsin's side. The writer, on return from exile in the USA, has been touring Russia. And he has concluded that there has been no genuine reform since the collapse of communism.

"Reform is a constructive, thought-out system of interconnected measures," he insists.

The President is particularly angry with the writer for condemning his plan to privatise the land.

NEW YORK
Maggot Method

THE UNITED Nations estimates that 25% of the world's farmland is at risk of turning into a desert. New projects in Africa are now identifying ways of turning arid tracts into fertile acres.

One method for rehabilitating barren soil, developed in Burkina Faso, Africa, is to fill small pits with manure. The dung attracts termites which digest it. In the process, they dig holes which increase soil fertility and the land's capacity to filter water.

QUOTE....

MINETTE Marrin, feature writer for the Daily Telegraph (London), in analysing why Jane Clark has remained with her philandering husband Alan - he was a minister in Mrs Thatcher's government - explained:

"Land, not power, is the ultimate aphrodisiac".

Mr. Clark is the owner of Saltwood Castle, Kent.

News in Brief

TAXATION
and rights to work

by Paul Knight

IT WAS the year of summits about jobs. The leaders of the richest nations met in Detroit in March and Naples in July to emphasise their commitment to the search for new jobs.

Unfortunately, the politicians have no fresh proposals to rescue the global economy from the crisis that followed the land-led boom in the late 1980s. One result was the redefinition of unemployment. The Paris-based Organisation of Economic Cooperation and Development redefined the concept of full employment.

In the early post-war years, unemployment of 2% was enough to bring down governments. This was the era of powerful trades unions, when the demands of workers echoed in the corridors of power.

Today, with unemployment in the richest industrial nations hovering around 10%, the OECD has decided that the tolerable level of unemployment is 6%: anything below that figure is now deemed to represent "full-employment".

The OECD now realises that economic recovery will not lead to a job for every able-bodied person who wants to work. It predicts that 35 million people will be marooned outside the labour markets of its member nations next year.

The costs reach beyond the economic, says the OECD, and will result in "serious threats" to the social fabric.

EUROPE, in particular, is identified as having a serious problem over jobs. The unemployment rate is over 11%. There is no consensus about what to do, but tax "reforms" are high on the agenda. But there is little prospect of agreement. Germany, for example, wants EC members to adopt a uniform tax on savings of at least 15%. Britain strongly opposes the proposal.

None of the ideas for fiscal reform can provide the "shock" that might bump the economies out of the trough. The OECD, for example, is advocating higher taxation on capital to offset reductions in non-wage labour costs. Lower non-wage labour costs hold out the prospect of more jobs, but the benefits would be offset by a reduction in capital formation as a result of lower post-tax profits!

Jean-Claude Paye, the OECD secretary-general, suggests a switch in the tax burden onto consumption taxes. That would reduce the aggregate level of effective demand - yet another obstacle to full employment!

WHY the conflicts over policy? In part, this is due to confusion about the nature of inflation.

Economists claim that inflation is bad. *The Financial Times* editorialised after the Detroit summit: "Rising inflation must also be avoided, because it leads to recession as surely as night follows day".

Unfortunately, "inflation" is used to characterise all price rises, whether for particular products or a general rise in prices across the economy.

A detailed reading of history, however, shows that recessions follow rapid rises in the price of one factor of production, in particular: the price of land. Rapid rises in prices for other factors or consumer products, at other times, are not automatically associated with recession.

But because economists fail to employ "inflation" in a rigorous way, they prevent themselves from sorting out those price rises that matter from the ones that are not trend-setters. For example: they talk about the need to prevent a "rapid rise in house prices", when what they ought to be saying is that a rapid rise in the price of land beneath houses is the destabilising agent.

Hence, governments work strenuously to keep interest rates high enough to "choke off inflation". In the process, they choke off consumption and investment, and destroy the prospects for creating new jobs.

THE CLEAR message from the OECD is that people's freedom to work has now become a matter of public policy rather than private right.

The transformation of a person's right to work began long ago, of course, and is traced back to the time when membership of a community was associated with the individual's right of access to land. Without that right, a person could not subsist.

With the privatisation of the rent of land - in which personal rights were transformed and transferred to land* - people lost the right to work. That loss of freedom heralded the era of dependency on the state, which is why the state now defines full-employment.

Historians who trace the loss of rights to work can help policymakers to understand that tax reform could restore full employment: meaning, where joblessness was 0%.

* E.P. Thompson, *Customs in Common*, London: Penguin, 1993, Ch.3.

by George Miller

FAILURE OF THE WELFARE STATE

The welfare state has failed, explains Dr. George Miller. A new social system must provide a fair way for people to earn their income. The author, a Fellow of the Royal College of Physicians, is a senior clinical scientist with the Medical Research Council's Epidemiology and Medical Care Unit in St Bartholomew's Hospital, London. He is an international expert in diseases of the heart. He was Professor in Residence in Epidemiology and Preventive Medicine at Albert Einstein College of Medicine, New York, in the 1980s.

WE TAKE great pride in the welfare state, but how far has it met its objectives? These are all to do with furthering the health, happiness and prosperity of our people. I say furthering, because the achievement of health, happiness and prosperity is precisely what every generation has laboured for throughout time, and what all people work towards themselves.

People labour in an attempt to improve their own lot, that of their families, and that of their community. They strive in the hope of leaving for their offspring a better world than they were born into. Although many give up the task or lose sight of it along the way, by and large society is successful, as evidenced obviously by the increase in wealth generated over the centuries. I use wealth in its very broadest and truest sense, not simply to mean financial wealth, but also advances in knowledge and in the arts and sciences.

How then are we to distinguish between the progress towards health, happiness and prosperity to be credited to our welfare state from that which would have been achieved anyway, had there been no Welfare State? Sometimes, indeed quite frequently, I think some people are confused on this point. The fundamental point to grasp is that, first and foremost, the welfare state is about a fairer and more equitable distribution of wealth, rather than about the creation of wealth in general.

Criteria and Starting Points

It is probably true that, with a more equitable distribution of wealth there will follow a more efficient creation of wealth. But even if this were the case we cannot claim the welfare state to have aided in the creation of wealth until we can show that, first, it has succeeded in laying the foundations for this by improving the distribution of wealth. So it is no good pointing to general improvements in the state of the nation's education, or its health, or its prosperity, and claim a role for the welfare state in all of this, unless we can first show that it has met the prerequisite: a fairer distribution of wealth. To test this we need measures of the distribution of wealth in society. Using one fundamental measure, and one which I believe to be the best to hand, I suggest that the welfare state has fallen far short of its objectives; and for one very simple reason - it is folly to build castles on sand.

When asked about the age of Britain's welfare state, some people say, 'Oh, it is a postwar phenomenon, dating from Beveridge, Aneurin Bevan, and the legislation of 1948'. That is incorrect. Taking it to mean State intervention to improve the conditions of the poor, its origins can be traced back to the late 19th century; in fact I would say the origins of the modern welfare state are about 120 years old.

It was in 1870 that William Forster, a Bradford woollen manufacturer, secured the passage of the Education Act, which established school boards with a duty to provide elementary education for all children not then receiving it through private means. In 1886 another northerner, Joseph Chamberlain of Birmingham, issued a circular stating that respectable men, temporarily unemployed, should not be thrown onto the Poor Law, but instead should be assisted by their Municipal Authority. Both Forster and Chamberlain were in the government of William Gladstone.

The School Boards soon came to realise the manifest absurdity of spending money to educate children who were too sickly and hungry to benefit from it. Though under no legal obligation to do so, the education authorities slowly began to provide meals and medical care for their pupils, initially through voluntary effort but gradually through the education rate. The Liberal Government of 1906 regularised this situation by passing the necessary Act. In that government was David Lloyd George, born in

Manchester and a native of North Wales, who secured the Old Age Pensions Act of 1908 and Health and Unemployment Insurance in 1911. Between them, these men of the north, along with others such as Churchill, had the concept of State Welfare well established by 1911, though by no means the whole nation liked what they were about. In examining the success of this venture we need to look back over something like 80 years, and here we are in one sense fortunate, in another, unfortunate, as I shall explain.

Remember! What the welfare state seeks is a redistribution of wealth, both in cash terms and in kind. It is about narrowing the gap between the wealthy and the impoverished. As soon as we begin to look into it, however, we become bogged down by definitions of what it is we are trying to redistribute. It is well nigh impossible to define material wealth in ways that satisfy everybody. If we can't measure it, how can we assess the effectiveness of legislation meant to redistribute it? Upon further reflection, however, we realise that this gap between the rich and the poor has many other dimensions of fundamental importance. There are inequalities in health, life span, education and environment, for example.

With life span there can be no argument. We all have a birth certificate and a death certificate. Thus the health dimension of deprivation is quantifiable in ways that material wealth is not. As such, life span provides a powerful tool with which to judge the effectiveness of policies that are meant to alleviate the plight of the lowest socio©economic groups in our society.

It was in 1874 that Charles Ansell first used the records of births and deaths to compare death rates between the classes of British Society. He found that of every 100 children born to peerage families, 12 were dead before their 10th birthday. For the general population, the figure was 30% of children dead before their 10th birthday. Little more was done until the turn of the century, when because of the rise in demand for a national programme for personal security, Dr Stevenson of the Registrar General's Office introduced a scheme of social classification based upon occupation.

Class I consisted of Professionals and the elite of society, Class III were the skilled workers, and Class V the unskilled. Intermediate occupations fell into Classes II and IV. This 5 class system remains in place to this day. So applying it to data coming from the National Censuses and the births and deaths records, let us see how death rates compare in the social classes. We are in for a bit of a shock.

The big killer in Britain is heart attack, both in men and women. The waste and tragedy of death in men and women from a heart attack was brought home to us all recently with the death of the Labour Party leader (John Smith) on May 12. From a medical point of view, however, his was simply a spectacular example of something that kills around 30 men in middle-age each day of the year in the UK, and many more in old age.

The links between heart attack and an unhealthy diet, high blood cholesterol, cigarette smoking, obesity and high blood pressure, are well known. But how many people are aware of its association with social class? When asked to think about it, some will suspect that it will be social class I that suffers most from heart attack. All the stress that goes with responsibility and leadership! Wrong. It is the unskilled worker who succumbs most to heart attack. In the Civil service, for example, the death rate from heart attack in the lowest grades, the messengers and unskilled workers, is three times higher than that in the top administrative grade. Isn't that extraordinary?

LET US look more deeply to see if this social class difference in disease rate applies to any other common causes of death.

When one eminent professor recently looked at 78 different diseases, he found no fewer than 65 of them to cause more deaths in the unskilled workers and their families than in the members of social class I. Cancers of many kinds, stroke, accidents, mental illness with suicide, all were taking a heavier toll among the lower social classes. So we see that the problem takes on a more appalling dimension; it is not simply death from heart attack that strikes down the lower social classes excessively and prematurely, but it is death per se.

In 1985, the latest year for which we have statistics, the death rate from all causes in social class V was 2 times that in social class I.

In coming up with this figure, we are looking at the mortality pattern in the members of 4 generations alive around 1985. We are looking at infants born in the 1980s, men in their middle©age born around the second world war, and our senior citizens born around or before the first world war. In other words, we are looking at a full age-range of males and females who have lived their entire lives within the welfare state.

Some people may say, "Well, this is not a fair test of the modern Welfare State, because most deaths will have occurred in the elderly whose early years were spent in a society with undeveloped Welfare. So we may be assessing yesterday's welfare state rather than today's". Very well then. Let us confine ourselves to infants, the most fragile in our society, who have only known the welfare state as it is today. We find that the baby of a father in unskilled employment has about twice the risk of dying before its first birthday than the baby of the professional father. When births outside marriage are counted, the contrast is even greater.

How do these figures compare with those when the welfare state was in its relative infancy? In the years between 1930 and 1932 the death rate in infants with unskilled fathers was 25% above the national average. In the period between 1988 and 1990 it was 51% above the average. Nowhere can I find any assurance that the lowliest in our society are really being helped to catch up. What it all adds up to today is an excess of 3000 deaths in babies and infants of families below the professional band, deaths which would be prevented if the health experience of these families was as good as that of professional families.

Add to this the 40,000 excess deaths that occur each year in the breadwinners of these lower social class families, and we see how serious is the problem. We must not forget that what goes for death also holds for chronic sickness; there is much more of it in social class V than in social class I. It all reminds me of a remark made by Dr A.K. Chalmers at the turn of the century: "The dead baby is next of kin to the diseased baby, who in time becomes the anaemic, ill-fed and educationally backward child, from whom is derived, later in life, the unskilled 'casual' who is at the bottom of so many of our problems".

Doesn't this sound a little like what we call the 'Inner City' problem of today?

ABOVE everything else, it was this gap between the health and life expectancy of the rich and the poor that the welfare state was meant to minimise.

Clearly, 80 years of ever increasing state welfare has by no means eliminated the gap, as we have seen, but has it gone some way towards narrowing it? To examine this question, let us see what the situation was more than 70 years ago, in 1921, when the welfare state was in its infancy.

When we allow for differences in the size and the age structures of the populations then and now, and calling the average death rate in the population 100, then in 1921 the death rate was 82 in social class I, and 125 in social class 5. So in 1921, the wealthiest in society had a death rate 18 points below the average, while the poorest social class had a death rate 25 points above the average.

Seventy years later, in 1981, we find that the death rate in social class I was 66, while that in social class V was 165. So social class I now had a death rate, not 18 points below the average as in 1921, but 34 points below the average. And social class V now had a death rate not 25 points above the average as in 1921, but 65 points above the average.

The gap between the health of the rich and poor, relatively speaking, is worse now than it was 70 years ago.

What obscures this shocking statistic from the eye of the layman is that things in general are much better now for everybody than in 1921, due to the labour of our great grandparents, our grandparents, our parents and ourselves. But if the welfare state had been working as we have been working, the distribution of health would have improved at the same time. Instead of social class I having death rates 18 points below the average in 1921 and 25 points below the average in 1981, we might have expected something like 18 points in 1921 falling nowadays to 5 or 10 points. And for social class V, instead of their death rate being 25 points above the average in 1921, increasing to 65 points above the average in 1981, we would have hoped the figures to move the other way - say, 25 points above the average in 1921, falling to say 5 or 10 points above the average in 1981, so narrowing the gap. This did not happen. In its primary aim, the welfare state has failed; the health gap between rich and poor has in no way narrowed.

"Ah," I hear some say, I can still see a flaw in your argument. Maybe the welfare state has not removed the contrasts between the rich and the poor, but maybe it has shifted some of the poor into more well-off classes. The poor are still as relatively deprived as they ever were, but there are fewer of them these days because of welfare.

Such a shift has certainly happened during this century. The population structure looked like a pyramid in 1910, with a large base of unskilled manual workers, and a small apex of elite. In 1990 it looks more like a light-bulb, with its swollen middle classes. But this change is exactly what we would expect to happen as society progressed from the horse and cart to the motor car, from the ready reckoner to the computerised cash till, from candlelight to nuclear power. It does not need a welfare state for this to happen

But has the welfare state improved the social flow in society between classes, in such a way as to help reduce the numbers of the poor? When sociologists John Goldthorpe and Clive Payne of Oxford examined movements between the social classes during this century their conclusion was unequivocal. For those born between 1908 and 1917 in the lowest social classes, their chances of being found in these lowest classes in 1972 was three times that of those who had been born into classes I and II. For those born 30 years later in 1938 to 1947, the chance of those born into the lowest classes being found in the lowest classes in 1972 was not 3 times higher than those born into social classes I and II, but 4 times. These numbers go the wrong way from what should have been found if the welfare state were helping the poor to move up the social scale.

What has happened is that the new service jobs were filled just as preferentially by the sons and daughters of the higher social classes as by the sons and daughters of the lower social classes. This pattern has continued into the 1980's, with one important development. High levels of unemployment have re-appeared, and the threat of loss of work and long-term unemployment is much greater for those in manual wage-labour than for those higher up the socio-economic scale.

So, sorry! I cannot find evidence to show that the welfare state has oiled the wheels of mobility for the lower social classes.

IF THE state welfare did oil the wheels, the only way it might be able to do this is through education.

But there is no automatic connection between supply coming from our schools and colleges, and the demand for it in the labour market. This is all too obvious today. How many parents are distressed by their university graduate children who end up on the dole or in menial jobs? An education is no certain passport to happiness and prosperity, though it obviously improves one's chances. But here are two facts to chew on.

- Between the 1920s and 1940s, the number of children sent to grammar school by every 100 working class families increased by 8; but at the same time the number they sent to technical school fell by 8. And for the same level of intelligence, it is still much more difficult for a working class boy to enter university than it is for the professional family's boy. No - I'm afraid we are stuck with it - the system does not work nearly as well as we would like it to.

In questioning the record of the welfare state, I am not out of sympathy with its basic tenets. I am diametrically opposed to Thatcherism, which espouses the virtues of the Victorian capitalist ethos and sees the welfare state as not merely ineffectual but as dissipative if not actually ruinous. To me, the welfare state is an acknowledgement of the need to reform the capitalist system as it had evolved up to the beginning of this century. My argument is that though reforms were most certainly needed, the welfare approach adopted has been largely ineffectual. The Victorian problems that the welfare state was meant to remedy are still there; the Thatcherites pretend they next existed.

If the welfare state has failed, why has it failed? We cannot blame those who work within the system - the health workers, the social security workers, etc. They are dedicated and applying the rules as best they can, although I am sure many become jaded by the deterrent aspect of it all, and behave as if direct descendents of the Poor Law relieving officer.

We must therefore ask ourselves whether, under the rules and regulations, there has been any meaningful redistribution of wealth. Our health statistics would suggest that there has not, but do statistics bear this out? Here we are extremely unfortunate! Because now we are faced with a poverty of information.

But from the official government statistics there is no doubt that massive inequalities in the distribution of wealth still exist in Britain. Furthermore, all the figures indicate that the inequalities are getting greater rather than narrowing.

Statistics suggest that our system of taxation has produced some redistribution, but how far can they be believed? For example in 1981/1982, the top 1% were supposed to receive 6% of all income before tax and 4.6% after tax. This statistic is false because it ignored VAT. Even more, most wealth in the UK exists in other forms than income - there are stocks and shares, bank and building society accounts, property and land. Inland Revenue statistics suggested that in the 1980s the top 50% owned 96% of all marketable wealth, leaving only 4% for the bottom 50%. When pensions are taken into account, the bottom 50% now appear to hold 20% of all wealth rather than 4%. But can all this be believed? There are serious concerns about the reliability and validity of these statistics which are collected for limited purposes.

"Among our problems is the political attitude which refuses to support any objective examination of the distribution of wealth for fear of generating a climate of envy. This is like saying 'Do not remove the dressing from the wound to see what treatment may be needed for the patient, because the sight may make him sick.'"

For example, pensions are supposed to raise the share of wealth held by the bottom 50% in society from 4% to 20%. Now I am not certain how these figures are calculated, but I want to point out one fact. Based on past experience, the 20 year old man who is an unskilled worker can expect to live 5 years less than the 20 year old professional. These 5 years lost are retirement years when pensions are claimed. So do pensions really raise the share of wealth for the unskilled worker from 4% to 20%, if he is not around to claim his 5 year's worth? Are all forms of wealth measured accurately, and do the figures give a true picture of distribution?

The experts are of the general opinion that they do not. They make the picture look rosier than it is, largely because the wealthy, with official connivance, conceal what they hold and are permitted by the law to hold on to it.

For the rich, modern Britain is a fiscal paradise, as one expert put it. And it is no accident that this is so; the executive and legislature have ensured that it is so. By contrast, the wealth of the bottom 25% is relatively easy to assess; they own no land, no significant sources of capital, and 70% of their income comes from social security payments.

Can you really believe it? My feeling is that the rich may have shifted a little of their wealth to their not-so-wealthy relatives, but that in relative terms what the poor have gained through welfare is a drop in the ocean. This all looks very odd when we are told that of a total public expenditure of £126 billion in 1984-1985, social security and health accounted for more than £52 billion. The reason for the apparent contradiction is that most of it goes back to where it came from. Since 1960 virtually the whole working population has been subject to tax, either at source or at the point of expenditure. The Family Expenditure Survey has shown that in 1986, income-in-kind from the use of the National Health Service amounted to about £900 a year for each family in the bottom 20% of income, and £700 for those in the top 20%. Not much difference. For state education it went the other way: £850 per year for each family in the wealthy 20%, but only £370 for families in the bottom 20%.

When you add it all up the wealthy get at least as much out of the welfare services in kind as do the poor. Neither I nor anybody else on the planet can give you accurate or reliable figures. Among our problems is the political attitude which refuses to support any objective examination of the distribution of wealth for fear of generating a climate of envy. This is like saying do not remove the dressing from the wound to see what treatment may be needed for the patient, because the sight may make him sick. I believe our conclusion has to be that there has been little meaningful and effective re-distribution of wealth through the welfare state over the past 70 years.

Is this situation is inevitable? Is it that governments, with the best will in the world, lack the power and the means to ensure a more fair and equitable distribution of wealth? My answer is, not a bit of it! The problem is that we are failing to tackle the underlying causes of poverty in an effective way. Also, we are collecting revenue for redistribution using a system that has been subverted to minimise what was intended. Let us go back to the beginning and re-trace our steps to see where we went wrong.

THE FORCES that gave rise to the birth of state welfare evolved slowly over the 19th century and were complex in nature.

Much of the motivation I feel certain was humanitarian, arising from personal knowledge of the conditions of the urban and rural poor, an expression of the ethos developing at that time.

Some will have been ideological, linked to ideas about the proper balance between individual and collective responsibility, and of the distribution of wealth.

Some was undoubtedly pragmatic, something simply had to be done about the alarmingly high levels of malnutrition, ill health, poor physique and poor education of the masses upon whom the country was dependent for labour, both civil and military.

Some was conspiratorial - if we the Liberals and Tories don't do something about the grievances of the poor, they will turn to the Fabians and Marxists. Revolution was always a worry.

Some will have been bureaucratic - seeking to use local and central government resources to more effective ends.

Whatever the mix, a social force arose leading to the conviction that the evils of poverty in the midst of plenty needed remedy as quickly as possible. The great reformers of the late 19th century knew that money had to be found to pay for their programme for personal security. Some also grimly aware that something needed to be done not simply to alleviate poverty, but to prevent it.

The three great classes of wealth were recognised as being wages, the return for labour; interest, the return on the use of capital, and the economic rent, the return going to the landowner for the use of land. One therefore had a choice of taxing the wages, or the interest or the rent of the wealthy for social purposes. But knowing there was more to the problem than simply collecting revenue, and that prevention is better than - I won't say cure but palliation - they considered carefully which approach would afford the best hope for real social justice.

The Liberals came to the view that land was the proper category of wealth to focus on, for several good reasons. The site value of land is created by the community, not solely the landowners, and therefore morally belongs to the community. Secondly the monopoly in land could be shown to distort the economy in ways that worsened poverty. Thirdly, the collection of site values for central purposes could provide a social fund more than enough to meet the social reforms. Fourthly, unlike taxes on wages and interest or profits, which can be made to fall on all social classes in any way you like, a tax on site values can not be passed on by the landowners to the landless classes.

By 1900 the Liberals knew how they were going to pay for their reforms, by collecting site values. The Conservatives fought this tooth and nail. Lloyd-George had a serious problem. He was bringing in his reforms in line with the Liberal manifesto, particularly the national pension scheme, but he could not get the fiscal land reforms past the Lords. In his 1911 People's Budget he was forced back onto income tax until such times as the preliminary valuation of the nation's land was accomplished, a Ministry of Land was established, and further legislation was passed. His 5000 valuers eventually set to work, and despite World War I, more or less completed the job.

But political power went through severe upheavals between 1914 and 1918. Those against site value collection re-gained the upper hand, and from then on the increasing expenses of the Welfare state were covered by taxation of income through wages and interest, exactly what the Liberal reformers did not want.

The result of all this was that the welfare state was built on sand. No sooner did it introduce universal coverage for the man and his family, than the tax system was gradually expanded to ensure that the costs were spread more and more across society, so diminishing any element of redistribution of wealth. It simply became a form of family insurance.

Notice I make no mention of the concept of absolute poverty, because it is a red herring that takes us off the track. Poverty in Britain cannot be measured by any scale which would better describe the situation of a shipwrecked mariner on a barren desert island: namely, how much can be scraped together to survive until rescue is to hand. Britain is not a barren desert island. Poverty on this island needs to be measured on a scale which expresses in relative terms how close an individual has come to being a social castaway in the midst of a densely populated land of plenty.

By failing to treat the rent of land as the correct source of public revenue, the poor have been left in the relatively disadvantageous position that they were in 50 or more years ago. I find it hard to produce any evidence to show that the welfare state has reduced the shortfall in health of the poor.

True, everybody is much better off now than 50 years ago, but we can thank the society itself for this rather than the welfare state. Contrary to public opinion, the very rate of accumulation of wealth in Britain over this time testifies to the productivity of those in all social classes who have laboured. But little thanks the lower social classes get for their contribution - in fact they are sold short in ways they hardly begin to perceive. The unskilled man does not labour to give his children poorer life chances for health, education and a pleasing environment than the child of the wealthy. But without knowing it, that is the sacrifice he makes even today. And since we are talking of life and death, sacrifice is not an inappropriate word in this context.

Reform is as relevant today as it was in 1894.

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ECONOMIC INTELLIGENCE

EI/43 October 1994

CENTRE FOR INCENTIVE TAXATION

LABOUR: SAFE AS HOUSES?

TONY Blair as leader of the Labour Party has thrown Britain into an exciting phase of economic policy-making. New uncertainties offer opportunities to investors if they correctly plan for the outcome of the general election in two years' time.

At their recent seaside conference, Tory ministers satirised Mr. Blair and shadow chancellor Gordon Brown. The public was not amused. Opinion polls make it clear that people want new leadership to replace tired ideas, and there is no evidence that Premier John Major has the capacity to recover the policy initiative.

The Labour leaders exude a confidence that is infectious. Even so, they will have to convince people that they have new answers to recurring problems. Their proposal to write out the redundant nationalisation clause from the party constitution won't be enough. For a cynical public knows that policy is still being fashioned by the old economic paradigms - the ones that crashed the economy in 1992.

THE TRAGEDY of wrong-headed policies is played out before the public's eyes day in, day out. The latest drama to illustrate the shallowness of policy is the Bank of England's concern about inflation, which influences interest rates and therefore the fate of business prospects and the real value of household budgets.

Eddie George, the governor of the Bank of England, is making the running over interest rates. We are told that there has to be a trade-off: slower economic growth is the price we must pay for a low rate of inflation. The reasoning behind this thinking is primitive, but is typical of how economists think the economy works. For an illustration of the ambivalent consequences, look at the confusion in the housing market.

• The government wants (but at the same time, it doesn't want) a rise in the price of houses, to rebuild confidence in consumers so that they will spend more and encourage industry to expand investment. And yet, the government thwarts its aspirations (and yet, it doesn't) by increasing taxes and interest rates, which obstruct recovery in the housing market.

• What is really driving trends in the housing market? Prices are now supposed to be affordable. So why are builders not expanding output? Trevor Spencer, chairman of Leeds-based Tay Homes, offers an explanation: "We have been forced to become more selective in our land purchases". Why? Because, he says, land prices have returned to the levels achieved in the late 1980s - and, as readers of EI know, this was the primary cause of disruption in the economy.

The increase in land prices has pushed up the price of new homes and eaten into Tay Homes's cash, resulting in an increase in gearing. "Things have definitely slowed down," reports Mr. Spencer.

TRENDS in the land market drive the business cycle, though you would not know it if you relied on the standard economic textbooks. Yet land speculation is the direct cause of the wipe-out of billions of pounds of investors' assets at the end of each business cycle.

This - the best kept economic secret of the 20th century - ought not to be a surprise to the bosses of finance houses. Take the Nationwide, a building society with a long history. Its accumulation of data ought to have enabled its statisticians to warn that a new land boom was looming in the late 1980s. No such warning was given to the directors when they considered buying estate agencies in 1987, at what was near the top end of the property market. One year later the slide began which led to the wipe-out, in which the asset value of people's houses has been slashed by 30-50%. Nationwide has just sold its 304-branch chain of estate agencies for £1! Total loss: £250m.

Abbey National, another building society, pulled out of the house-selling business last year after losing a similar sum. Ditto the Prudential. The losses fall on the pensioners and investors who have been deceived by the notion that building societies are "as safe as houses"!

Which brings us back to Tony Blair, the debonair barrister who claims to be a socialist but speaks like a conservative. Do investors - and job-seekers - begin to plan for an era of innovative policy-making under a Labour government? Few people doubt that bold action is needed: the creeping crisis in the UK economy is illustrated by the job market. Unemployment is falling, but so is the number of people in work. This contraction is the labour market represents a national emergency that can only be stemmed by imaginative initiatives (for one of these, see page 4).

Much will now depend on whether Mr. Blair is a hostage to the political philosophy that led to a series of policy blunders by successive Labour government's in the postwar years, which attempted to formulate land ploicy outside the framework of market principles.

THE CHINA SYNDROME: A TRAP FOR UNWARY INVESTORS

INVESTORS are being encouraged to direct funds to the "emerging" markets on the assumption that the world in the 21st century will be roughly as it is today. In fact, geo-political pressures are building up which offer scope for drastic adjustments, with attendant heavy losses.

The level of control over events in these countries is far weaker than we are led to believe. The crude inter-governmental consensus which now prevails, in the absence of the bilateral East-West/Capitalist-Communist nexus, is disguising pressures that are threatening a major breakdown of social order on a regional basis in the Far East, Africa and Latin America.

EI anticipates that the crises in these regions will be triggered by the demands exacted on them by governments in North America and Europe, as a result of domestic pressures. The world, in other words, is in a period of calm before the storm.

The power of blue-collar workers has been neutralised by the crushing of their trades unions, but the next decade will see the flexing of power by white-collar workers who now realise that the threat of redundancy and forced early retirement is not receding. These groups will mobilise themselves into new institutions that will be able to compel governments to take "strong action" in their interests. And that is when the richer nations will begin to impose themselves on the weaker economies, creating a domino-style stream of conflicts that would exact a heavy price on investors who have backed the losers.

THIS IS not to say that investors should steer clear of the "developing" countries. The problem is to decide which are likely to be the most stable regions.

At present, what looks like safe-bet economies are at risk of errupting because of external pressures. Investors need to identify those countries that are likely to be the most resilient in times of disturbing change in the first decade of the next century.

For statesmen who want to secure the living standards of their countries in the upswing of the new cycle, the only safe outlook is to presume that we are all back to square one: relearning the knack of creating and selling wealth. For practical purposes, no nation should presume that it is protected by the advantages it enjoyed in the past.

The global depression has reduced every country to a state of either heavy unemployment, or a state of heavy dependency (for markets) on countries with heavy unemployment. Taiwan is only secure for so long as its customers in Europe can buy their exports. This means that every country in the world is now equally vulnerable to trends that have converged on a single business cycle.

Supplementing the risks of the global depression are the opportunities created by the retreat from communism, which has opened up new markets: the late 20th century's equivalent of the 19th century Scramble for Africa. To protect market shares, today's corporations will have to invest in a new approach to marketing if they do not wish to be mauled by the new predators that are even now plotting their future growth.

In short, every country in the world is now in the category of a developing economy. Which is why the Chinese experiment is pregnant with lessons for every policy-maker who is interested in restructuring his economy.

MORE ATTENTION is being paid to news about Russia than to what is going on in the Orient. This is a bad mistake. Evem so, Russia bears close scrutiny, if only because western investors are now beginning to flirt with the idea of sinking a lot of capital through Moscow and St. Petersburg.

Russia has become a victim of conventional economic wisdom. She turned to the West for advice, and has paid a terrible price. Market economists prepared "shock therapy" plans for Moscow without taking into account the lessons that they could have derived from what has happened in China. As a result, Russia's reformers have lost the initiative, and the dynosaurs from the industrial/military complex exercise considerable power in the Kremlin.

Whether Russia will suffer a Weimar-style collapse - as popular political and Press wisdom in the West now suggests - remains to be seen. But there is no doubt that Russia's reformers had been sold a carbon copy of the Western market model, failures and all.

The political situation in Russia is an exceedingly fragile one. The World Bank's influence in Moscow will last for as long as Boris Yeltsin can hang onto the Kremlin. His political position is now being called into question in Russia, and he does not have the power base that could withstand the kind of challenge which confronted him in October last year, when he sent the tanks to knock-out Parliament.

As it happens, the demise of western influence over the reform programme in Russia, in EI's view, would turn out to be a blessing for the Russian people. Whether they then construct a more comprehensive strategy for socio-economic renewal would depend on whether they learnt the appropriate lessons. Their first port of call ought to be China.

IN 1978, the Chinese communist party instituted what appears to be a relatively orderly shift to market economics. Surely that experience provides lessons that could be used to engineer an even smoother transformation in Russia?

Industrial output in China has outclassed the performance of the market economies by a huge margin. The annual rate of growth of income is in the 12-13% sphere. The Chinese seem to have discovered a secret for which the Russians, alone, would be willing to pay a handsome price!

In fact, there is no secret. The Chinese have simply unleashed the creative energies of their citizens, freeing their labour and allowing them to produce for private profit. A large part of China's performance is due to the take-off from a low base. The rate of growth, unsustainable in the long run, could continue for several decades. The growth rates are not exceptional for the performance record of Asian economies; and China has yet to tap the rich opportunities of its hinterland (the capitalist economy is largely restricted to the coast).

But there is a catch with the Chinese model which has nothing to do with Peking's propaganda about combining socialism with capitalism.

The land market is not working properly, either for the private or public sectors. It is in this area that analysts ought to be directing their attention, if they wish to develop strategies that would ensure sustainable growth.

Deng's theoreticians failed to develop a strategy for the use of land when they decided to "free" the market in 1978. Result? Speculation in the rent of land was back on the agenda in China. From that date on, it was possible to anticipate a land boom in 1993 which would terminate in 1994, before sliding into a generalised crash in 1996. That sequence is now unfolding itself.

The Peking government panicked in July last year, and tried to curb "property speculation" by ordering banks to cut credit to speculators. Too late: the rot had set in. The current boom conditions can be traced to the illusions created by speculative fever of the kind that gripped the market economies in the late 1980s

The foreign investors who are now pouring funds into China will get burnt within the next few years.

IT NEED NOT have happened. Had the Chinese economists retraced their steps, and studied the works of Sun Yatsen - who had learnt his economics from John Stuart Mill and Henry George - they would have stared the truth in the face. Instead, they tried to relearn the principles of market economics from the texts of Karl Marx.

That was not necessarily a bad move. Marx, in Vol.3 of *Capital*, did lay bare the elements of economic theory that would have made it possible to rebase the Chinese economy on sound principles. But Marx was not interested in developing his ideas in the direction of a reformed system of capitalism. So he did not undertake the work that would have provided a clear picture of the appropriate distribution of income between the private and public sectors - a distribution which (as his contemporary, Henry George, was to note) would have eliminated speculation in the land market, thereby removing the single most destabilising factor in the markets.

For Marx, both the profits of capital and the rent of land were "surplus" income. Deng's associates have found it difficult to shake-off the blurred images conjured up by that confusion, so they are not differentiating between the public and the private value being generated by their new capitalist sectors. What they are doing is fostering the beast in the breast that has already reared its ugly head. Smiting it - by using conventional western market techniques - will leave many people jobless in China, and the ensuing chaos will have geo-political implications.

THE CONFUSION is reflected in the analysis by Zhang Chunyin and Kong Min, who wrote "The Price of Land and the Payment of Fees for Land Use in Socialist Economy" in 1984.*

They provide a valuable historical insight into prices before the communist take-over, when the market determined the price of land. In Tianjin city, for example, appraised prices (for tax purposes) ranged from 500 yuan per mu (15 mu = 1 hectare) to 20,000 yuan per mu, a difference of 40 times. (Market prices could be three times greater than appraised prices!)

After 1952, free market land deals were banned. Land was still priced for tax purposes, but the price was calculated according to bureaucratic formula (which is the basis on which some Russian civil servants think they can now create a land "market").

Today, the Peking mandarins have failed to develop land rights to make them consonant with the needs of both a free market and a stable social system.

Marx himself had no doubts about the unique nature of land. In Vol.3, he explained:

"Looking from the angle of a higher social economic pattern, private ownership of land by an individual, like the ownership of one person by another person, is preposterous. Even the whole society, a nation, and all the existing societies put together are not owners of the land. They are merely the occupants and users of the land and, like a good patriarch, must improve the land before handing it down to posterity."

Margaret Thatcher reiterated this philosophy, when she declared before the end of her tenure as premier of Britain: "No generation has a freehold on this earth. All we have is a life tenancy with a full repairing lease".

The Chinese communists, however, had problems in applying the philosophy in practice. They have leased - not sold - the land; but they have failed to put in place the laws and institutions to socialise the rent of land. Had they done so, they would have eliminated the need to tax wages and profits, which would have placed the new Chinese economy on a sustainable foundation.

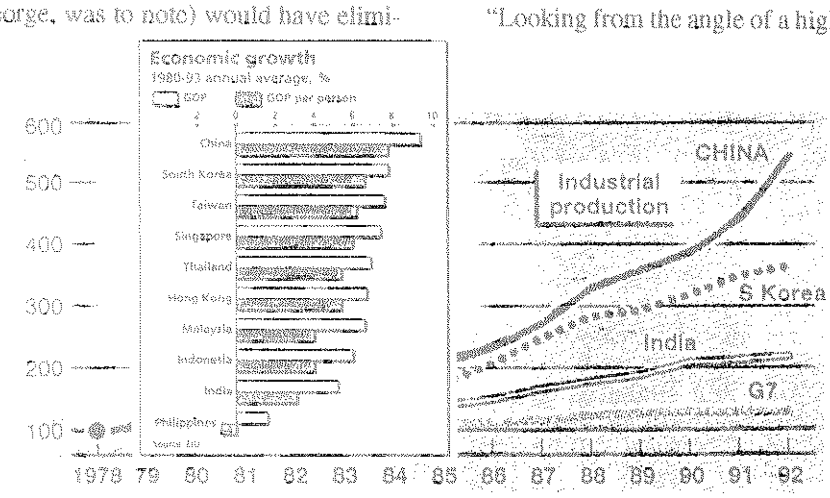
We fear, in fact, that the temptations of the land market will be too great for Peking to resist. The Chinese leaders are already locked into the desire to exploit land for short-term gain, and the richest pickings of all will come when they regain control over Hong Kong.

* Mainland Chinese interests already own about US$10bn of residential and commercial property in the British colony.

* When the Chinese take control in 1997, they may try to fund the mainland budget by exploiting property in the former colonly. For example, British Army land alone has a commercial development value of over £50bn.

WHETHER the Chinese treat the island as a rich milch cow will depend on whether Peking quickly learns the lessons of the land market.

As things stand right now, we fear the worst. Hong Kong could become even richer, if the disruptive power of land speculation is eliminated on the basis of market principles (see page 4). Bhe most likely scenario is that the Chinese will put old ideology before new economics. That will unleash instability that will send shock waves right through the Pacific Rim, the impact of which will be felt in the world's consumer as well as financial markets.



* Reprinted in Lester Ross and Mitchell A. Silk, *Environmental Law and Policy in the People's Republic of China*, New York: Quorum Books, 1987.

HONG KONG: SCRUTABLE LESSON

BRITISH left-of-centre policy-makers who are searching for alternative economic models ought to pay close attention to Hong Kong. The British colony offers perhaps the most incisive example of all that is good - and bad - in the modern industrial economy.

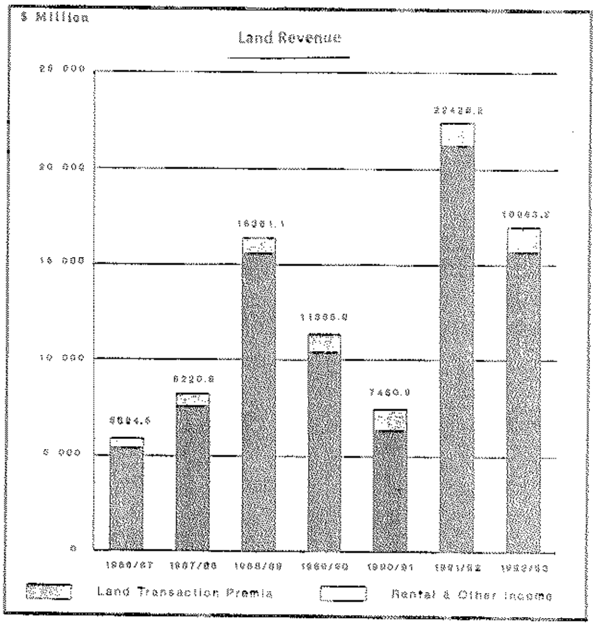
That Hong Kong is something special is illustrated by the boast of its governor, Chris Patten, who said in his address to the colony last year: "how many other finance ministers in the world could have used their budgets this year simultaneously to cut taxes, raise spending and increase the reserves?"[1] How was such a neat trick performed?

First, all the land in the colony is held on lease. No-one is a freeholder.

Lesson: you can have a thriving capitalist economy without the property right that is conventionally held to be imperative for the efficient operation of markets. The myth that investors must have the right to "own" land, if they are to take risks and make profits, is spurious: witness Hong Kong. Unfortunately, the myth is being actively retailed in the former Soviet economies by Western advisers who are on the payroll of the World Bank and the US AID.

Second, Hong Kong derives such a large part of its public revenue from land that it is able to settle for low rates of taxation on labour and capital. The revenue is biased in favour of capital sums (from sale of leases) rather than from annual rental income (see the graph).

Lesson: a distinctive fiscal strategy for raising incentives for investors and rescuing ailing market economies (by expanding their supply-side capacity) exists. It is based on the restructuring of the tax system, rather than tinkering at the edges of the present "anti-progress" taxes.



AN EQUALLY important lesson from Hong Kong, however, is the flaw that periodically destabilises the economy. This flaw exists in all market economies - the propensity to speculate in land.

Land speculation differs from all other forms of speculation in that it disrupts the supply and price of one of the essential factors of production. So long as we have land speculation, there can be no sustainable inflation-free/full-employment growth. But how can land speculation operate in an economy where there is no private ownership of land? Hong Kong is important because it directs our attention to the thing that matters: rental income, and the ability to capitalise that income into a selling price.

When people speculate in land, it is not the right to "own" land that matters. Speculators are after the rent which, when capitalised, provides a capital gain. And that capital gain can be made out of the sale of leases, if the government fails to capture the full annual rental income.

Thus, in Hong Kong, despite the law on property, the fiscal system fails to socialise all the rent of land. If it did, the colony could be tax-free: no income tax, no corporation tax, no taxes at all! Unfortunately, despite its distinguished performance, the Crown colony's government has allowed its subjects to be victimised by speculation.

The current phase began in 1991 in the residential market. Apartment prices rose above the means of many families. The government was accused by property developers, who claimed that the problem was the insufficient supply of land in the auction rooms. This is the argument in Britain, where planners are blamed for failing to zone sufficient land for development. Neither explanation is correct. People do not consider the possibility that speculation, *per se*, is the problem).

To combat the problem, the Hong Kong government introduced "anti-speculation" measures in 1992, and supplied additional land to the market. But the damage was done. This was reflected in the investment intentions of entrepreneurs, as disclosed by the interest shown in the acquisition of new sites. The government noted that "response to the auctions of residential sites during 1992 remained generally favourable. However developers were cautious about acquiring industrial sites".[2]

WHAT WILL HAPPEN after 1997? At present, land grants and leases are made for terms that expire not later than 2047. They are made at premium and nominal rental until 1997, after which an annual rent equivalent to 3% of the property's rateable value will be payable.

This formula will still not capture the whole of the rent of land. To achieve that, a new philosophy - with matching institutional arrangements - are needed. To achieve optimum results, the need is to synthesise the market with efficient assessment procedures; and the market (i.e., people) - not the bureaucrat, or taxman - must be the arbiter of what land is worth to people as users.

The lesson for Britain's new Labour Party leaders - if they are interested - is clear. Sustainable growth begins, and ends, with the tax system.

1 *Hong Kong: Today's Success, Tomorrow's Challenges*, Address by the Governor at the opening of the 1993/4 Session of the Legislative Council, 6 Oct., 1993, p.2.

2 *Hong Kong 1993*, Government Information Services, Hong Kong, p.48.

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COUNTDOWN TO DISASTER

SOUTH AFRICA NEEDS AN ECONOMICS OF FREEDOM

BY KRIS FEDER AND FRED HARRISON

APARTHEID South Africa was in turmoil in 1990. Nelson Mandela dreamed of a free country, and his African National Congress was in the throes of the struggle for the right to vote.

In that year two white South Africans published a manifesto for a fair society. The Trial of Chaka Dlamini was constructed in the form of a platonic dialogue by Stephen Meintjes, the managing director of a Johannesburg investment management company, and Michael Jacques, a chartered accountant. They had come to realise that political rights that were not matched by economic rights were of little value. And they had concluded that Henry George's Single Tax strategy was what a multi-racial South Africa needed.

The pre-condition for economic freedom, they explained, was the abolition of the tax burden on production and consumption while treating the rent of land and natural resources as the appropriate source of public revenue.

Four years later, in April 1994, the racist order was swept away and the people received the opportunity of a fresh start. Nelson Mandela became the popular president of a multi-racial government of national unity.

Conflict over the possession of land was the most vexatious problem. The Mandela government determined to tread a difficult path to meet the aspirations of both its black and white citizens. Here, surely, was the laboratory for the Single Tax? This simple-to-understand policy would encourage investment, create jobs, and enable those who possessed land to choose: either use the land properly - and pay the community for the benefits received - or release it to others.

Nelson Mandela needs an economic strategy to match the aspirations of the multi-racial government over which he presides in South Africa. He will not get it if the neo-classical economists are allowed to exercise their malevolent influence, warn Kris Feder and Fred Harrison

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THE MANDELA government lost no time in establishing a Tax Commission that would investigate all options.

This time round, one would have thought, the Single Tax strategy would not be patronised and sneered out of the realms of political debate. For one of the first lines of attack on the policy - the claim that there are practical problems of implementation - could not possibly be raised. Nearly all the municipalities of South Africa directly levy a tax on the value of land (i.e., excluding the value of buildings): the principle of treating land different from capital was an established fiscal fact! The bureaucratic infrastructure that is required to assess the taxable value of land and collect the revenue was in place. All that South Africa needed was an imaginative redesign of the architecture of public finance, building a system that would liberate the talents and savings of people while raising revenue from the rental value that was created by the community.

Although the site-value property tax has an established history, in South Africa, the tax rates were so low that the country had not enjoyed the macro-economic benefits that flow from the Single Tax. Nonetheless, a crystal-clear hint of the dynamic benefits of this approach to public finance was visible in the economic record. Godfrey Dunkley, a Cape Town-based advocate of the Single Tax policy, had analysed the evidence.

He found that, between 1951 and 1984, there had been a shift among municipal authorities in favour of raising local revenue from the value of sites alone (the "site value" approach), rather than from the total value of land-plus-buildings (the "flat rate") or the "composite value" (a higher rate of tax on land than on the value of buildings).

Analysis of data in the South

48 South African towns - Value of improvements on land

Tax base	No of towns	Improvement value (Rand: millions) 1974	1984	Growth: %
Flat	2	1412	4080	189
Composite	13	1856	7085	282
Site value	33	5084	26084	413
Total	48	8353	37250	345

Source: Godfrey Dunkley (1990: 124).

African Municipal Year Book revealed that the towns that raised revenue from site value increased from 11% to 38% of the total cities; the flat-rate towns declined from 58% to 24%. The composite rate towns increased from 31% to 38%. The trend was unmistakable. Property owners, through their democratic representatives, favoured the exemption of the value of their improvements on the land; while raising an increasing proportion of municipal revenue from the rental value of the land they occupied. One of the economic consequences of this transformation is traced in the table. This reveals the growth in the value of improvements on land over a 10-year period. The top 48 towns are included, each with a total value of over R200 million.

Among the largest towns of South Africa, only the two ports of Cape Town and Port Elizabeth had failed to adopt the more sophisticated property tax - the one that acknowledges the need to differentiate between land and buildings. They levy a tax at a uniform rate on both components of property. Logically, these two towns - one of them the legislative capital, the other a commercial nerve-centre - ought to have kept pace with the average rate of growth of investment enjoyed by the other major towns. In fact, their percentage growth has been less than half that of the towns that exempt buildings from the tax base.

THE BENEFITS of the Single Tax cannot be fully enjoyed until the policy is adopted as the central feature of national government strategy.

The Mandela government, before it could contemplate a radical shifting to an entirely new approach to fiscal policy, had to be sure that there would be no loss of desperately-needed revenue. Would a Single Tax strategy meet the fiscal needs of the new South Africa? Meintjes and Jacques had little doubt that it would, and they submitted their proposals to the Tax Commission in July 1994. In proferring figures, they confidently explained the philosophy that underpins the Single Tax - a policy of fairness, and one that just might succeed where others had failed:

"The inability of all developing and developed economies to eliminate poverty is due to the failure to recognise that locational advantage is the natural source of revenue for the community."

Their analysis was starkly simple:

"In South Africa, of all places, where only 15% of the surface area is arable [and] the overwhelming bulk of secondary industry is restricted to a handful of metropolitan areas it is, or should be, an axiom of taxation, that the greater part of the surface area of the country has little or no taxable capacity, i.e. locational advantage. Failure to recognise this leads to under-recovery of natural rent and underutilisation of land and natural resources, on prime sites, and futile attempts to raise revenue from sites at the margin. Such attempts include not only the heavy incident of indirect taxation in outlying areas but also PAYE. Since the latter can only be derived from value added by the enterprise it is in effect a payroll tax which eliminates employment opportunities in these areas by preventing businesses from achieving the necessary minimum returns on capital. Such attempts are therefore directly responsible for the uprooting of rural communities and the flood of squatters to metropolitan areas." (Meintjes & Jacques 1994: 2)

Here, in a nutshell, was the exposition that the neo-classical economists had sought to shroud in metaphysics. It exposed the destructive dynamics of taxation on wages and profits, which destroyed jobs and reduced living standards; taxation that inhibited investment and fostered social conflict.

For generations the people of South Africa had been denied the full benefits of the rational system of public revenue. Added to the tax burden were the other economic weapons against freedom - monopolies, subsidies, tariffs - which, as Meintjes and Jacques put it, had been "giving rise to substantial artificial rents". A switch to the Single Tax strategy would channel the "artificial rents" into the public purse. Meintjes and Jacques listed some of the dynamic benefits for the benefit of the Tax Commission:

- Economic activity on sites of marginal value, including less valuable sites in metropolitan areas, would become viable.
- The development and efficient use of natural resources would be encouraged, and the hoarding of land by those who were enriched by systemic inefficiency would be deterred.
- Land reform would be facilitated on an equitable basis.
- Capital cost of access to land - one of the major obstacles to starting new businesses and creating jobs - would be eliminated.
- Site values would no longer serve as collateral, because the bulk of natural rent would be treated as public revenue. Banks would therefore be deterred from fuelling speculation: they would become more concerned about the viability of projects and management rather than mechanically counting on collateral to rescue them from poor lending decisions.

In the course of phasing in the Single Tax policy over (say) 10 years, explained Meintjes and Jacques, people in the metropolitan areas would become richer and the profitability of enterprises would increase. This would result from

- creation of additional markets for output;
- reduction of problems that result from the inward flood of impoverished squatters; and
- stimulation of the whole economy on a win-win basis for all.

This, surely, was a prospectus that would appeal to the Mandela government as it deliberated on the need for revisions to the South Africa constitution in 1994? The alternative - retaining the core institutions of the western market economy - was surely not a serious option? For those core institutions had escorted the world economy into the greatest depression since the 1930s.

ENTER the Free Market Foundation of Southern Africa. This organisation, headquartered in Johannesburg, is patronised by some of the leading entrepreneurs in the diamond cartel. It advocates "economic freedom". That philosophy of freedom, however, does not have universal application. The freedom championed by the well-financed Foundation is the freedom of those who already control the property of South Africa. And they were determined to nail the ghost of Henry George before anyone started talking about the need to depart from the tax policies of the neo-classical economists!

Henry George had suspected that the emerging neo-classical school of economics was designed to silence the single tax movement by crippling the language of the land question. [George, 1898: 200-209] As Mason Gaffney has documented in *The Corruption of Economics*, George was at least partly correct. Moreover, the "neo-classical stratagem" of suppression continued to be pursued many years after George's death. (Feder 1994)

Lest it be supposed that Prof. Gaffney has rewritten history to boost Henry George - or, that economists today have finally put aside politically-motivated resentments, and are prepared to confront Georgists with unassailable logic - the attack by The Free Market Foundation bears witness to the current state of debate in economics.

Its study was prepared by Richard Grant, the Foundation's former Director of Research who received his doctorate from George Mason University in the United States before moving to South Africa where he was to lecture on economics at the University of the Witwatersrand. [Grant, 1994] Referring to the current dialogue in South Africa regarding the use of taxation as a tool of land reform (Franzsen and Heyns 1992), Grant disparages the Georgist proposal as merely another dangerous scheme to nationalize land.

The "single tax on land rent," he pronounces in *Nationalisation: How Governments Control You* (1994: 51) is unjust and confiscatory; it flagrantly disregards legitimate property rights; it compels arbitrariness in assessments, inviting collusion and corruption in government. Worst of all, it is inconsistent with the operation of a market system, and leads inevitably to socialism. Grant reinforces his position with frequent appeals to the authority of Frank Knight, the Chicago School economist who, according to Gaffney, "probably produced more neo-classical economists and NCEism than anyone in history." As Gaffney observes, Knight's treatment of the land question "reads like a caricature of Chicago." Grant's assault, in turn, reads like a caricature of Frank Knight - like a silly spoof of the neo-classical paradigm. Grant has assembled two dozen of the most transparent single-tax fallacies, throwing in a couple more of his own devising. What is frightening is that uninformed readers, concluding that the single tax is a hoax, may give it no further consideration.

SOME, though not all, of the efficiency advantages of taxes on rent or land value are widely recognized by mainstream economists. According to Grant, however, the single tax is as inefficient as it is as inequitable.

A tax on rent, he believes, is just like any other tax: all have unfortunate consequences for economic incentives; they should be applied at low rates, and only as necessary to raise revenue. There is nothing "magical" about a special tax collecting all of land rent. On the contrary, if applied at rates approaching 100%, as single-tax advocates insist, it would cripple land markets, paralyzing their inherent tendency to allocate land to its most productive uses. Grant opens with the assertion that "the distinction between man made and natural factors of production - that is, between capital and land...is irrelevant when discussing intervention and taxation: the consequences will be the same for any asset."

Nothing could be further from the truth. Taxes are, or ought to be, predictable long-term arrangements; so the long-run supply conditions of productive factors are critical to the effects of taxes upon them. A tax on the ownership of capital will, in the long run, discourage the production of new capital. A tax on the ownership of nonproduced land has no such disincentive effect. Grant does not consider this, however; he takes a different angle. "Rent," he writes, "is a general phenomonon that applies to all assets, not only land." The implicit suggestion is that one can refute George by redefining terms - the standard neo-classical stratagem.

Henry George followed Ricardo in defining rent as the amount by which the product of a land parcel exceeds that of the best available no-rent land. Rent, in other words, is the minimum amount which a prospective user would have to pay, in a competitive market, to outbid all others for the use of land. As we now say, rent is the opportunity cost of land use.

Grant, however, defines "economic rent" as "the difference between the return to one asset and the return to the poorest asset being used for the same purpose." Thus, presumably, the rent of a car used in transportation is equal to the difference between its return and that of the least efficient bicycle, or pair of feet, used for the "same purpose" - however narrowly or broadly that phrase may be interpreted.

The definition given any term is neither right nor wrong; it is simply more or less useful in facilitating thought. Now, George's classical definition of rent is intelligible and eminently useful, particularly for analysis of the issue at hand. Grant's definition, by contrast, is plagued by ambiguity, and serves little function in economic inquiry. It matters not that Grant's definition of "economic rent" differs subtly from the usual, equally problematic, neo-classical definition, because he takes it nowhere. It is as though economists have redefined "rent" in a manner calculated to dispose of the term altogether.

GRANT argues that a 100% tax on rent would, through tax capitalization, "make the price of land the same everywhere, regardless of location or quality." True enough - the selling price of all unimproved land will be zero. But Grant draws the surprising conclusion that "this artificial levelling of relative prices" would "leave no differential rent for purposes of economic calculation," "blinding" the land market "with respect to quality."

Grant seems to mean that, since all land bears the same (zero) price, users are indifferent among land parcels of different qualities. Plainly, however, if all items of a kind are priced equally, buyers will hardly be blinded to quality; quite the contrary, they will choose among them on the basis of qualitative and locational differences alone. Just as obviously, a uniform (zero) price for title to land does not mean that the cost of land to buyers is the same for all land. The high or low purchase prices paid for good or poor land are simply commuted into high or low annual rent payments. Rents continue to perform their function of allocating scarce land to its highest-yielding uses. If bidders for land have different preferences for land consumption and/or different comparative advantages in production, land subject to rent taxation will also be allocated efficiently among users.

In fact, as Georgists have shown, a high tax on rent causes land markets to operate more fluidly, competitively, and efficiently. By slashing start-up costs, the tax makes it easier for productive users to acquire land. It improves efficiency by bypassing the distortions introduced by inherently imperfect capital markets. The annual tax also functions far better than once-for-all prices to signal landowners information on the current opportunity cost of holding possession. (Gaffney 1992)

The source of Grant's confusion emerges with his claim that the Georgist position is that "any benefit that a landowner derives from land that is better than the worst land in use is to be taxed away." He asks: "What good are title deeds if the government takes all the net income...? How long would you want to hold an asset from which the income is expropriated?" Grant evidently supposes that the tax assessment on a particular parcel of land would depend upon how productively the current owner is putting it to use - so that the harder and smarter he works, the higher go his taxes, leaving him no reward for superior effort.

This does not describe the Georgist tax on land rent, which is a market-determined measure of the annual opportunity cost of land possession, i.e., of its potential productivity as estimated by market participants. The true Georgist tax is a fixed charge from the point of view of the individual title-holder; it leaves to the owner the full wages and interest of the labour and capital which he contributes to production, plus any entrepreneurial profit or loss. Economic incentives are channeled in the right direction. Ironically, Grant's criticism correctly applies, not to the Georgist proposal, but instead to traditional taxes based on income or production. A second error is operative here. "How long would you want to hold an asset from which the income is expropriated?" The answer is: for as long as the value of the asset to you continues to meet or exceed the value of the asset to others. The point holds no mystery for anyone who has ever leased a car, rented an apartment, or borrowed money at interest.

TURNING to land speculation, Grant objects to the single tax on ethical and efficiency grounds. He fumes: By what standard do the Georgists and other interventionists label someone an "idle hoarder" or "speculator"? And by what right would they penalise these people? Doing so would require some standard superior to the market, but they cannot demonstrate what that is.

Quoting Frank Knight, Grant observes that in competitive markets, buyers pay, in the purchase price of land, the entire present value of expected potential future net land income. Land speculation is risky and expensive; speculators do not, on average earn undue profits. Moreover, if society proposes to confiscate the gains of the winners, it ought to compensate the losses of the losers - not only to meet the demands of justice, but also to preserve entrepreneurial incentives. Yes, it ought! And it does, automatically, under the single tax. When land values rise, so do payments to the community - and symmetrically, when land values fall, payments fall proportionately. The risk of appreciation or depreciation caused by events outside the landowners's control are borne by society as a whole, not by individual landowners. Pooled, the risks decline. Gains and losses resulting from private entrepreneurial activity, on the other hand, are untaxed.

On economic efficiency, Grant works both sides of the street. He argues inconsistently that it is undesirable to use rent taxation to discourage speculation since speculators "provide a valuable service" - but that, anyway, the tax will not succeed in forcing marginal land into use.

The Georgist position on land speculation may be summarized as follows. When neighbourhood land uses are changing, it is occasionally efficient to postpone land development or redevelopment until a new use becomes remunerative. This occurs when no potential interim use can be expected to yield revenues sufficient to amortize sunk capital before the optimal time of redevelopment. A tax on land rent or land value does not disturb such efficient land speculation, since the owner can reduce only his net income - not his fixed tax burden - by developing the land prematurely. Thus, insofar as speculators do "provide a valuable service," rent taxation will not disturb their choices. Marginal land bears no tax, so it will not be forced into use, just as Grant says. With respect to efficient land use, rent taxation is neutral.

On the other hand, there are a host of reasons why inefficient land speculation frequently occurs. Rent taxation corrects inefficiencies arising from capital market imperfections, and the annual charge reminds inattentive owners of the income forgone when land is underused. Georgists have shown that rent taxation systematically penalizes at least some forms of inefficient speculation, thus intensifying market pressures to use land productively. (Brown 1927; Gaffney 1992; Feder 1994) One writer calls this characteristic of rent taxation "superneutrality." (Dwyer 1981: 128ff)

THE standard to which Georgists hold the speculator is social efficiency. The single tax does not necessitate "some standard superior to the market": it makes the market operate better, closer to the competitive ideal. Nor is the single tax motivated by envy, a scheme to strip successful businessmen of their hard-earned wealth. The aim of the single tax is to distribute the value of natural and social resources fairly among all, while leaving producers the full earnings of their labour and capital, untaxed.

Henry George wrote: "We must make land common property" (1879: 328) and erected a lightning rod which has attracted unending criticism. Few terms have engendered more confusion in economics than the phrase "common property." It is no surprise that Grant manages to muddle the issues as thoroughly here as elsewhere.

"The Georgists have apparently forgotten that we are no longer a hunter-gatherer society...Even though all land may once have been common "property," this does not give to every newborn today a share in everyone else's property. The whole meaning, and practical virtue, of private property is that it is privately owned and controlled...The collective farms of the old Soviet Union prove this...A drive through the tribal land of (the now former) Lebowa is very instructive on the issue of common property...The grass has been overgrazed and the trees are steadily disappearing...It is in those regions where property rights are suppressed or undeveloped that no one laughs at Malthus."

Grant nowhere explains what Soviet collectives and Lebowan tribal commons have to do with the single tax; he trusts the reader to thoughtlessly accept the implicit analogy. It is false. The subterfuge relies on the merging of three distinct concepts. Soviet collectives were state-owned and state-controlled government property, not common property. With no exclusive rights of tenure, workers had little incentive to concern themselves with productivity. Lands (also air, water, or biological species) that are freely accessible to all comers, with no regulatory mechanism to ration their use, are not common property (res communis) but "nobody's property" (res nullius). When human populations are relatively large, such a resource is characterized by over-exploitation and depletion. Users have no direct stake, individually, in maintaining the asset value of the resource, since they possess only rights of extraction and use, not exclusive rights of ownership.

All of this was recognized by Henry George. The function of the single tax is to strengthen, not weaken, the legitimate property claims of labour and capital - while guaranteeing the equal right of every person to the use of the primary, non-produced resources necessary for all production. Without access to natural opportunities, after all, the celebrated right to enjoy the product of one's labour, thrift and ingenuity becomes a cruel joke.

We have never heard anyone openly reject the ethical proposition that all human beings ought to be accorded equal opportunity to avail themselves of what nature provides. Even Grant falls short of this; he twists away by pretending that the Georgist ethical premise implies a free-for-all. This, indeed, is the puzzle: how can equal rights to land be assured in an industrial and service economy, where an equal physical division of land among individuals would be hopelessly inefficient?

Those unfamiliar with Georgist thought typically accept the existing system of fee simple land tenure despite its evident inequities, presuming that land cannot be made common property without creating economic and political chaos. The core contribution of Henry George lies here: in a monetary market economy with democratic political institutions, natural resources can be fairly shared by the device of collecting rent - all of it - through the tax system, using the revenue (along with that from other user charges and taxes) for the support of government.

The genius of the single tax is that it allows rents to be shared without disturbing the system of private, exclusive land use which is indispensable for harnessing productive incentives and exploiting the advantages of specialization and scale economies. Society need not alienate the common property to individual ownership in fee simple to enjoy the benefits of a market system. Equity need not be compromised in the name of efficiency, nor efficiency compromised for the sake of equity. We can have both.

Under the Georgist system, everyone willing to pay its opportunity cost to society can get title to as much land as he likes; and he may, within reasonable bounds, do with it what he will. If government expenditures are optimal, an individual who happens to take title to his equal value-share of land will receive, in the value of public goods and transfers enjoyed, an amount exactly equal to the rent he pays to the community for his land title. An individual who takes more than his equal share of land will, on balance, just compensate the community for encroaching upon others' shares.

An individual who chooses not to own any land still receives his equal share of rent, in consideration of the fact that his abstention leaves all the more land for others to use. Under the single tax, everyone is a rent-taker. Ultimately, of course, everyone also pays for the productive contribution of natural resources in proportion to his consumption, since the prices of consumer goods and services reflect land, as well as labour and capital, costs.

The value of a plot of land reflects not only the value of the natural resources it contains, but also its location with respect to markets, people, jobs, schools, recreational areas, and all manner of public goods and services, such as police and fire protection, schools, and infrastructure.

GEORGISTS have said the single tax is best conceived as a "user charge." Grant disparages the phrase, but its rationale is easy to see.

Taxes proper are involuntary payments, owed by virtue of residence in a given geographically-defined political jurisdiction. The taxpayer enjoys the benefits of public expenditure, of course, but he has no choice (except as one voter among many) about the level of taxes; anyway, there is little correlation between the amount of his tax and the value to him of the benefits he receives. User charges, by contrast, are prices, paid voluntarily in exchange for benefits received. There can be little doubt, then, that taxes on the rents arising from government expenditure are equivalent to user charges. If the Georgist ethical principle is accepted, and natural resources and privately-generated (but unattributed) externalities are treated as common property, then all rent taxes (in a society with just and democratic political institutions) may be conceived as user charges.

GRANT offers his readers several additional remarkable complaints. He claims that a tax on land rent "lower[s] returns to all capital and labour used on that property." Surely taxes on capital and labour, which Georgists yearn to abolish, are considerably more likely than land taxes to lower the returns to labour and capital? The fact is, tax capitalization implies that a tax on pure rent does not lower the returns to labour and capital.

Incredibly, Grant uses the notion of spatial externality to argue that a rent tax is really a tax on labour and capital - since "whenever they tax one person's property, they are in fact taxing everyone else's labour and capital that have contributed to its value." It does not take an economist to see that the persons responsible for emitting externalities which affect a given property do not pay the land tax on that property, directly or indirectly. The person who benefits from their activities, by virtue of his possession of well-situated land, pays the tax, ensuring that private individuals do not receive windfall gains or suffer windfall losses merely by virtue of their location with respect to external influences out of their control.

Grant goes on to accuse Georgists - targetting Meintjes and Jacques - of "methodological collectivism...They fail to see that their `community' is an abstraction, not an acting entity that can create value." In fact, the community is not a vacant abstraction but a collection of real individuals, institutions, and capital. Though he is shooting blanks, Grant has no shortage of ammunition. His next angle is to argue that rent takers receive no unearned income because they pay for the land which yields them rent! Again he quotes Frank Knight: "[T]he value alleged to be socially created is always paid for before it is received - as far as the parties most interested are able to predict its arising." (Knight 1953: 809) There is no denial, only neglect, of the fact that market expectations of the future are frequently and understandably wrong, so windfall gains and losses accrue to landowners. The benefits of government projects are particularly difficult to foresee many years in advance. The question is: should the land gains resulting from proximity to government services and other community activities accrue to private landowners individually, or should they be pooled, and used for the support of the government and the citizenry?

Grant's confusion, inherited from Knight, runs deeper than the convenient fiction of perfect foresight. Because land has an opportunity cost to the firm or household, they deny that rent constitutes a social dividend.

Wages are the earnings of human effort in production. Interest is the reward for thrift and foresight in accumulating and employing capital. Rent is the payment for the use of land, with consideration for the value of natural resources, government services, and net private externalities (insofar as these cannot be internalized in markets or quasi-markets). For economic efficiency, rent must be paid by users to allocate scarce land among competing demands. But there is no efficiency requirement for rent to be paid to landowners; they do not produce land. Efficiency is achieved as well - better - when rent is collected by the community.

GRANT claims that the separate values of land and improvements cannot be measured, since "economic rent is an abstract concept that does not appear separately in the market." It is true enough that rent seldom "appears separately." Neither do wages: most products result from the commingled input of several factors of production. Yet markets do value factors separately, according to the familiar principle of marginal productivity. Tax assessments follow the market (assisted by computer-generated cadastral maps, which plot sales and interpolate surrounding values). Land values are easier to assess than incomes, which can be concealed, and also easier to assess than building values, which require on-site inspection.

But Grant has a further, and novel, reason for insisting that land rents cannot be measured. The very imposition of the single tax itself, he says, destabilizes the land market: "Any buyer knows that the more he pays for any property, the more rent he will be forced to pay." Since the present value of his future taxes rises in lockstep with the price he pays for the land, a potential land buyer is indifferent about the price agreed upon.

However, the Georgist tax on rent is assessed on the basis of current market valuation, not the historical price of the parcel under consideration. An individual's bid for land influences future assessed land values only indirectly and marginally, as one bit of market data among many. Unless regional land markets are characterized by significant monopoly power (which Grant would surely deny), an individual would ignore, as negligible, the influence of his own revealed demand upon his future land taxes. There is neither evidence nor theoretical justification for Grant's startling claim that "[t]he formal land market would largely break down."

CAN IT BE that, of Dr. Grant's many objections to the use of rent as the primary source of public revenue, not one withstands inspection? After all, plenty of genuinely unsettled questions and difficulties do remain in the economic theory of land and rent. If he truly wished to educate himself and others on the issue, Grant could have found them. One of his comments does carry weight: the puzzling thing is that he makes little of it. He notes:

"At the time of its imposition, there is no escape from the tax. The owner at that time will suffer a once-off capital loss on the property value and there is unlikely to be much shifting of ownership."

We suspect that the reason he has not emphasized the point is that Grant believes, erroneously, that only part of the burden of the rent tax falls on current owners, and that future workers, capitalists, and landowners also bear a large part. In truth, the theory of tax capitalization suggests that all of a rent tax (or tax increase) on land rent falls directly on those who own land at the moment the tax (increase) is announced: other things equal, the selling price of a plot of land falls by the full present value of all future taxes on that land. Afterward, a new buyer of the plot gets a reduced stream of after-tax rent, but pays a proportionately reduced land price, so that the rate of return is unchanged, and equal to the unchanged rate of return on other assets.

This is the property responsible for the celebrated neutrality of land taxation. It is precisely because landowners can do nothing to escape it that the rent tax does not "distort" markets. Ironically, the very efficiency of the land tax raises the problems of distributive equity and political accept-ability - though only during the period of transition to the new tax structure. Inefficient taxes are popular in part because, through tax shifting, their burden is spread around in invisible and untraceable ways. Why should current landowners, whether they inherited their holdings or bought them yesterday at premium prices, be forced to bear the whole burden of the single tax? There are good answers, answers which do not depend upon painting innocent investors as sociopathic criminals.

First, not even the most impatient of Georgists suggests that the single tax system should be imposed all at once. Tax rates should be altered gradually, according to an agreed schedule. This allows individuals time to adjust their land holdings and their investment plans in order to take best advantage of the reform. In addition, the more gradually a rent tax increase is introduced after it is announced (the further in the future is the anticipated tax increase), the lower is the present value of future land taxes at the date of announcement, so the smaller is the decline in after-tax rents, and the smaller is the burden on current landowners. In effect, the burden of tax reform is shared among all taxpayers, who are compelled to endure the pre-existing system of distortionary taxation so much longer.

Second, the accompanying reduction or elimination of taxes on labour, capital, and exchange offsets the increase in the rent tax, in the aggregate - more than offsets it, in fact, since the excess burden of taxation is reduced as the overall efficiency of the tax system is improved. The average household is better off, on balance. The significance of this is not merely that most landowners are also capitalists and wage earners too, and thus enjoy direct tax cuts. It is a fundamental point of tax theory that taxes on production and wealth are generally shifted forward to consumers insofar as demand is relatively inelastic, and/or shifted backward to owners of resources insofar as factor supplies are relatively inelastic. In an economy like that of South Africa, where real wages approach subsistence and can be forced no lower, both labour and capital are highly elastically supplied - so, most kinds of taxes on production are ultimately shifted largely to immobile land, which can neither starve nor flee. The converse of this is that when these taxes are reduced, the primary result of tax un-shifting is an increase in the gross rent of land. A moderate dose of single tax therapy will, in all likelihood, actually increase net (after-tax) rents received by landowners. As the rent tax rate approaches 100%, the effect of the increase in the rent tax must eventually overtake the contrary effect of the decrease in other taxes; land prices will approach zero. Still, if the single tax program is installed gradually, there is no undue burden on current landowners.

Third, some degree of shifting of the rent tax onto capital may occur after all, although only as the result of healthy, growth-producing wealth and liquidity effects, not from any distortionary tax "wedge." As Henry George emphasized and as Mason Gaffney has rigorously shown (for a review, see Gaffney 1992), by reducing land prices and bypassing credit markets, the single tax makes it easier for cash-poor new producers to acquire land.

At the same time, by raising holding costs, the tax makes it harder for unproductive hoarders to hold their savings in idle land, anticipating so-called "capital" gains and confident that any reversal in the upward trend of land prices can only be temporary. The consequence is an increase in the intensity with which land is used, which necessarily raises the demand for labour and capital. Even if credit markets were perfect, the single tax would stimulate capital formation. A rent tax reduces or eliminates private savers' option of holding land as an asset: the asset value of land (or some proportion of it) is now public property. Savings are thus redirected from land into produced capital, stimulating investment and (depending on the supply elasticity of capital) possibly lowering the marginal rate of return to capital. Furthermore, wages again tend to rise, not fall, as workers are employed to produce and use the new capital. All this, of course, is to the good. (Feldstein 1977; Gaffney 1992)

GRANT'S foremost charge against the single tax is his most desperate and far-fetched, but also the one that promises the greatest shock to conservative readers. This is the charge that Georgism is really a dangerous formula for repressive socialism, masquerading as benign free-market economics. "In adopting the term 'user charge', [Georgists] seem to have been...taken in by the Marxist approach, which holds that the state is the true owner of the land."

As we have noted, Grant confuses the concepts of government property, res communis, and res nullius. In the Georgist approach, natural resources are owned, not by the State, but by all the people in common. True, some public authority - a government - must collect and distribute the rent. But land is held in private title; markets operate freely; individuals manage their own affairs. "Society would thus approach the ideal of Jeffersonian democracy,...the abolition of government...as a directing and repressive power...We should reach the [egalitarian] ideal of the socialist, but not through government repression. Government would change its character, and would become the administration of a great co-operative society. It would become merely the agency by which the common property was administered for the common benefit." (George 1879: 455-457)

But Grant's accusation of single-tax socialism is more than a matter of philosophical language. "Professor Knight," he writes, "puts it bluntly:"

"To collect such rent, the government would in practice have to compel the owner actually to use the land in the best way, hence to prescribe its use in some detail." (Knight, 1953: 809)

In a single-tax world, rational individuals who bid successfully for title to land are generally able to pay the 100% rent tax and still earn a market rate of return on their labour and capital. If no one volunteers to take a certain land parcel and pay the assessed tax, this constitutes direct and publicly-available evidence that the assessment on that parcel is too high; it overestimates the value of the land. Why, then, would a tax on rent entail central planning? Knight's only explanation is that "some official, some 'bureaucrat' with power, would have to appraise it", an observation that does not set rent taxation apart from many other, apparently unobjectionable taxes. Grant's marvelous rationale cannot fairly be credited to Knight: "Georgists are aware of the 'supply side' effects on all the other tax bases, but why would the famous Laffer Curve not also apply to their single tax? As a tax rate approaches 100% of any tax base, revenues will approach zero in the long run. This tax on rent is not compatible with a market economy because it would eliminate any incentive for landlords to charge rent that would be captured by the government...To obtain revenue, government assessors would have to set the level of tax arbitrarily, thereby placing virtual control of the land in the hands of the state."

The Laffer Curve, which reflects the excess burden of taxation caused by substitution effects, does indeed apply to all taxes conditioned on productive activity. It applies, for example, to a tax on land income, just as it does to a tax on labour income (wages), or interest, or exports, or beer purchases. However, neither the market-estimated potential income of land, i.e., rent, nor its capitalized value (based on discounted future rents) is subject to the discretion of the title-holder. From his viewpoint, these taxes are lump-sum charges; the landowner cannot reduce his tax burden by decreasing output and income, by selling land, or by any other means. Without the Laffer Curve, however, Grant's dire prediction of market collapse, land nationalization and Socialist tyranny has no foundation whatsoever.

IT IS HARD to imagine how anyone sufficiently familiar with both mainstream and Georgist economics to put his opinions into print can have analyzed the case for the single tax so perfectly incorrectly - unless his intent is to pre-empt debate by portraying the Georgist proposal as dangerous nonsense, discouraging readers from ever investigating the question for themselves.

We have to conclude that Dr. Grant aims to deprive the people of South Africa of an informed choice. Though he laughs at the Georgists' suspicion "of some conspiracy of silence" he, by his example, confirms that the shadow of Knight still obscures the fundamental issue of resource rights.

"Economists," Grant tells us, "have utterly refuted much of what George had to say about the 'single tax'." The proposal enjoys a wave of popularity every generation or so, but economists time and again "expose its faults." Today, boasts Grant, Georgists are "in retreat," as evidenced by the fact that they will now accept a tax rate somewhat less than 100% - say, 80% - in quiet and partial recognition of the distortions which a high rent tax would cause. If a rate of 80% is acceptable, he reasons, why not 50%, or 12%, or 2%? "[O]nce the mystical character of the tax is broken, a tax on land rent becomes a tax like any other."

In truth, Georgists are on the advance, as evidenced not only by an explosion of theoretical developments within academia (Feder 1993) but also by political developments in Russia, the United States and elsewhere. And despite the impressive success of the neo-classical stratagem, a not inconsiderable number of well-known and distinguished economists, Nobel Prize winners among them, eagerly support the principle of public collection of resource rents. (Tideman 1991; 1994) As alternative solutions fade like enticing mirages in the desert, the world is discovering anew that the Georgist paradigm offers a sober, peaceful, and civilized path to genuine reform.

AND YET, for South Africa, the current debate is sadly restricted to the parameters of welfare capitalism.

The instability and the trends in the market economies of the West are hardly worth retaining in a society that has the chance of a fresh start. Why retain a system that built impoverishment into its approach? In Britain, for example - echoing the trends elsewhere in Europe and North America - the wealthiest 10% of the population increased their real income by 62% over the period 1979 to 1992 (after taking account of housing costs). The income of the poorest 10%, on the other hand, declined by 17%.

Was this the freedom about which Nelson Mandela had dreamed in his prison cell? So shameful has the record of poverty in Britain become that Oxfam, one of the leading charities that supplies aid to the poor citizens of the Third World, was moved to review the possibility of supplying aid to Britain. (Meikle 1994) But such a strategy - of private charity to supplement the failures of welfare capitalism - would not succeed. This was the explanation offered by the head of public policy of a rival aid agency, the Catholic Fund for Overseas development:

"Everyone, even the World Bank, agrees that land reform is an urgent necessity in Brazil. The Catholic Church's Pastoral Land Commission grapples daily with the consequences of the skewed patterns of land ownership. But British charity laws make it impossible for a British agency to support a campaign for land reform." (Gelber 1994)

If South Africa does not want to perpetuate an unjust economic system, it must depart from the well-tried failures of the European model.

The political rights of black citizens were recognised in the elections of April 1994, but they were not granted the constitutional right to an equal claim on the value of the land and natural resources of their country. On the basis of the present approach to taxation and tenure, Nelson Mandela will one day realise that his victory was an empty one: his country is in a countdown to social and economic disaster. For with the best will in the world, it will prove impossible to satisfy the aspirations of the poor people (black and white) of his resource-rich country. And the fundamental obstacle to prosperity-for-all is the system of public finance that flows like ectoplasm from the mouths of the neo-classical economists.

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Letters

PROFESSOR Roy Martin, who has served as Science and Technology Policy Advisor to UNESCO, has written to the publishers of Reader's Digest Universal Dictionary to challenge the definition given to "single tax".

The dictionary entry says that "single tax", originating in US economics, means "A system by which all revenue is derived from a tax on one object, especially on land". Prof. Martin recommends that this should be replaced with "An ad valorem tax of 100% on the economic rent (site value) of land".

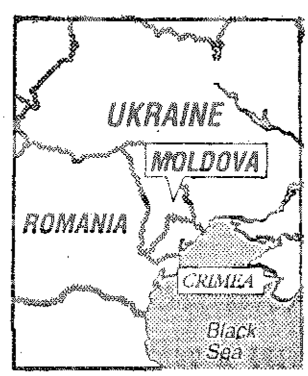
In his letter to the publishers, Prof. Martin explained:

"The notion stems from the French Physiocrats (Quesnay, Turgot et al.) who recognised that the origin of the value they called the 'produit net', lay with the community and not the owner of the land. The English term is the 'economic rent' (Ricardo); but the French term is better because it avoids the confusion, common in English, between the origins of the rent of land and the rent of goods and services. To preserve the right of private ownership and use of land, they proposed that the produit net be taken in the form of a tax they called the 'impot unique'. This has come across, poorly, into English as the 'single tax'; and it has often been claimed that it was precisely this name which helped kill the idea, politically. Unlike 'impot unique', it does nothing to indicate its singularity by reference to the basis of other taxation.

"In fact, today's preference is for 'Land Value Taxation' or the more explicit 'Site Value Taxation'. However, that is another matter. It is what Dove and Spencer (both c.1850) recognised, Mill meant by the 'unearned increment of land values', Boden by 'the freeing of the land' and the Liberals (vide Churchill on the Land Question, 1909) by, but most unfortunately called, 'Land Reform'.

"The citing of the US as the origin of the term 'single tax' probably arises from the clarification and evangelising of the ideas of the Physiocrats by the renowned 19th century American political eocnomist, George (c. 1898 The Science of Political Economy, see the acknowledgement by him, Bk II, Ch.4). In justice, therefore, the original reference should be to the French political economists. Further you will see that the tax is not a tax on land (certainly not just as an example of being directed at a single object only, as indicated in your definition) but a tax on the economic rent of land - quite a different matter. Further, its proponents do not insist that it is the only tax but that it must be the first source of taxation."

MOLDOVA: A NEW TAX ON LAND



NICOLAUS Tideman, a US Professor of Economics who regularly visits eastern Europe to explain the economics of Henry George to reformers, has received a letter from Mr. V.S. Kitsan, the First Deputy Minister of the Ministry of Finance of the republic of Moldova.

Prof. Tideman had sent Moldova a copy of his article, "Don't Repeat Our Mistakes" and his book, *Tribute, Duty, Tax.* Mr Kitsan wrote:

"The parliament of Moldova has adopted a law on land taxation. According to this law, all legal entities and persons must pay the land tax. The rate of the land tax [per hectare] depends on the rent of the land, which is determined by a land cadaster. There is also a profits tax. Large collective farms and state farms are released from the profits tax.

"The rate of the land tax [per hectare] will not depend on the results of the activities of land owners. It is levied as a fixed payment per unit of area of land of a specified quality. This estimation is made for three to five years. If someone uses land more effectively, the greatest part of the profit received will be at the disposal of that person or enterprise."

THE TRICK OF THE TRICKLE DOWN THEORY

by Peter Poole

INTERNATIONAL civil servants are beginning to panic about the state of the world. Their global overview persuades them that something new is needed if social chaos is to be avoided. The Organisation for Economic Cooperation and Development is beginning to speak bluntly about the failures of existing approaches to tackling problems (see page 6 above).

The OECD has published a report on "The Challenge of Urban Regeneration" which wonders "Why do our urban areas continue to be faced with problems of persistent concentrations of disadvantage alongside relative affluence?" The OECD experts reflect on the "trickle down" notion that has been favoured by official policy. This maintains that, if we shape incentives that encourage those at the top, benefits will percolate down to those at the bottom as the economy grows.

Charlie McConnell revealed in his introduction to the OECD's report, "The OECD believes that too many of the top-down policies and programmes 'introduced in the postwar era have attained a disturbingly low rate of effectiveness', including the cost of not involving the local community." The OECD, in a 1992 report (*The Economic, Social and Environmental Problems of Cities*), had stated: "The best way to deflect people from a sense of alienation towards their cities and from a sense of anxiety about their future is for them to feel able to influence what happens". Dissatisfied with orthodox approaches, the OECD sponsored a conference in Birmingham, England, to define new approaches. The result was a restatement of platitudes about the need to involve local communities. What do we make of this:

"Ways must be found of developing the necessary infrastructure and resources if success is to be replicated and built on. The public, private and voluntary sectors have a key responsibility and role here."

And: "Governments must adopt a funding strategy for community involvement infrastructure, otherwise there is a real danger that the advances made will not be sustained".

Talk of "adopting integrated socioeconomic policies and strategies in urban areas for the public authorities at the different levels of administration" boils down to more of the same: an appeal for a formal, state-based paternal approach to alleviating urban suffering. Nowhere do the OECD experts propose a systemic reform that would liberate people to rebuild their lives in their communities.

THE BLIND spot in urban policy relates to the use of land.

The experts agonise about everything under the sun: funding, education, community-based projects, social behaviour, political involvement - everything except the one issue that matters, which is the supply and price of land.

Look at the most basic of needs: housing. What better way to stimulate urban renewal and economic prosperity than to enable people to build their homes? Self-build: there is a way to raise self-esteem and upgrade the quality of the living environment. There is a true "bubble up" strategy! In times of recession, people should be encouraged to build homes rather than stand in dole queues. And in Britain, at least, that is what some people want to do. But, reported the *Daily Telegraph* (March 9): "The rising price of land is threatening to halt self-building - the fastest-growing sector of the housing market". Research by Savills, a leading firm of estate agents, has revealed that the price of residential land jumped by 23% during the first half of 1994. That is more than 10 times the rise of the average house price last year (as calculated by Nationwide Building Society).

Is it surprising that prospective home-builders are having difficulty finding plots at affordable prices?

IF governments really want to stimulate urban renewal, they ought to develop new policies for the land market. There is one policy only that would provide a comprehensive solution to issues ranging from incentives for the individual to financing infrastructure: shifting the way public revenue is raised off wages and profits, and onto the rent of land.

This was the subject of analysis in *The Economist* by Dr. Mary Cleveland of the University of California (Berkeley). She wrote to the newspaper to point out that its article ("Hell is a dying city", Nov.6, 1993) failed to explore the opportunities presented by tax reform. *The Economist* had sought to advise its "ideal candidate, Mayor Bright of Metroville".

Dr. Cleveland responded: "Mayor Bright finds that although state law requires that all property should be assessed for taxes at 'fair market value', in reality it is assessed at wildly varying fractions of fair market value if it is taxed at all. In poor neighbourhoods, the city practises a fiscal scorched-earth policy: assessments are so high relative to actual value that taxes drain owners of the cash needed for repairs and ultimately force them to abandon their buildings. In good single-family neighbourhoods assessments tend to be low. Owners of large chunks of commercial property also enjoy particularly low assessments. In addition, Mayor Bright discovers, one-third of Metroville's property is not on the tax rolls at all since it belongs to religious or non-profit organisations. Ultimately, Metroville's property tax base is not so much eroded as maladministered".

WITHOUT property tax reform, urban implosion will continue. Where it is slowed up - as in London's Docklands - the renewal is at heavy fiscal cost without commensurate benefit to the local community.

Tax-grabbing governments drain other areas to shift money into poverty-stricken locations. Under such schemes, central governments will not yield control over how the money is spent. The "trickle down" philosophy, in other words, continues to be the dominant justification for shaping policy and deceiving people into thinking that something will be done, one day, to save the inner cities.

BOOK REVIEW

POVERTY, PROPERTY & THEOLOGY

The New Role of Property

John H. Miller, Editor
Catholic Central Union of America

THE ISSUE of 'private property' provokes considerable philosophising among theologians. *The New Role of Property* gives some examples. Edited by the Jesuit John H. Miller of the Center for Economic and Social Justice, the book is an attempt to explain 'Binary Economics' and the economic proposals of Louis Kelso in a context of Catholic moral teaching. For me, it succeeds better in the latter than in the former.

One of the most intriguing of the 14 papers, 'How to save the corporation,' was first published in 1905. The introductory essay, outlining Papal teaching on ownership, is equally fascinating, based as it is on relevant encyclicals, beginning with Leo XIII's Rerum Novarum ('On the condition of workers,' 1891).

As for Louis Kelso, who was active in the 1950s and 1960s, neither the paper directly authored by him, nor any other - including those by his chief associate, Norman Kurland - clearly summarises Kelso's views. (A possible exception is by Kathy Friedman - 'Capital Credit: The Ultimate Right of Citizenship.')

Abstracting from the several papers one can ascertain the following Kelso beliefs:

a) Concentrated ownership - capitalist or socialist - is an evil.
b) Capital is the main producer of wealth in an industrialised economy.
c) One cannot become wealthy by saving.
d) Puritan reverence for saving keeps us from devising financial techniques that could industrialise the developing economies.
e) Saving is simply a form of insurance.
f) We do not need to rely on past savings for insurance.

These beliefs, which seem reasonable enough, lead Kelso to the proposition that Employee Share Ownership Plans (ESOPs) could be built on the (insured) expectation of future saving. Kelso believed that 'people are poor because they have not acquired the capital needed to supplement their labour productiveness.' Thus, through ESOPs, 'progressively larger numbers of the broad masses would be provided the opportunity' for capital ownership, and world poverty would be eliminated.

Progressively? There is a painful gradualism in all this, surely too painful for today's poor?

CO-EXISTING with Kelso's ESOP proposal is a view fundamentally at odds with that of classical economics, namely, his 'Two-Factor' theory. Adam Smith's two primary factors of production are land and labour, a third factor, capital, being some combination of the primary two. Kelso's two factors are labour and capital, subsuming land in the definition of capital. His blindness to the distinctiveness of the factor land, while an obvious restriction, and no doubt a source of confusion in his own analysis, is not only confusing but positively annoying to an economically literate reader who tries with all good will to grasp Kelso's ideas on financing development.

In Kurland's contribution, the Homestead Acts of the 1860s are recognized as the precursor of burgeoning productivity. Curiously, Kurland attributes the productivity to 'ownership', not to access. But it should be remembered that the Homestead Acts gave access to land, and on condition the land be used. Only after a period did users get 'ownership'. Many of these first owners, or their descendants, subsequently lost the land, even though they were still using it. They lost it to banks most notably, because of the prevailing credit and tax systems.

Only the paper by Kathy Friedman makes explicit the link between the Homestead Acts and Kelso's reasoning:

> 'Today, the source of wealth is no longer land, but capital credit. The frontier is now technological not terrestrial. The new wealth (self-liquidating credit) is as abstract as the old wealth (the good earth) was concrete. And - like access to land -access to capital credit would rejuvenate America's economy were it democratised.'

Friedman, by distinctly recognizing access to land as the source of wealth, at least in the past, has liberated Kelso's ESOP proposal from his Two Factor theory. In other words, I believe his proposal may be useful even to economists of the classical (three factor) persuasion.

Despite their pervasive emphasis on the necessity (even godliness) of the institutions of 'private property' and free enterprise, this book's authors offer pointed criticisms of where these institutions have led us: 'Henry Ford, the Father of Wage Feudalism.' And they do call for a cure.

A BOOK complementary to Miller's, though a refreshing contrast in style and content, is Hernando de Soto's *The Other Path* (1989). De Soto's documentation of practical problems in production for the daily needs of life in Latin America - specifically in Peru - though not frankly theological in intention, does not avoid moral judgments.

'The importance of good laws' could be the subtitle to de Soto's book. Good legal institutions, he says, protect private rights and property; permit orderly access to productive activity; facilitate harmonious interaction.

De Soto is extremely critical of the 'mercantilism' in Peru where both right wing and left are more concerned with transferring wealth than laying the basis for creating it. Public Relations firms, for example, are among the redistributive combines whose main job is to file petitions to government.

To round off one's education on 'private property' is the definitely theological slant of *From Wasteland to Promised Land* (1992) by two ordained ministers, Robert Andelson and James Dawsey, and *For the Common Good* (1989) by economist Herman Daly and theologian John Cobb Jr. I cannot do them justice here but note them as well worth reading, especially as in their analysis 'land' is not confused with 'capital'.

MARY RAWSON

BOOK REVIEWS

ANCIENT ARCHITECTURE

Earth to Spirit
David Pearson
Gaia Books, £11.99

THIS beautifully illustrated book argues that, in order to recover more of our humanity, we need to reintegrate our built structures with the natural environment.

David Pearson travelled extensively to capture traditional forms of habitations, to focus his camera on themes ranging from "ancestral archetypes" to "vernacular wisdom". Our search for cultural identity will respond to "healing architecture" and other designs that are sympathetic to both the natural habitat and the human condition, argues the author.

That we should return to our ancestral roots to derive a deeper understanding of the principles that shaped primitive structures is sensible. Our ancestors had a sense of time and place; so, naturally, their homes were landscaped into the environment, in "forms that linked earth to spirit".

MODERN styles of architecture are dismissed in scathing terms. The analysis, unfortunately, does not take us far. If we are to turn individual aspirations into reforms on a social scale, we need to know why much of our urban environment is "built out of the exploitation of the world's scarce resources, and/or polluting air, water, and land with their toxic wastes". This is description, not explanation.

Here we bump against a problem in much of the thinking of environmentalists. People who are worried that we have an ecological crisis on our hands tend not to penetrate to the source of the problem; they associate the problems with industrial society, and presume that industrialism itself has caused the problems.

In fact, people have generated environmental crises for 3,000 years. What do these crises have in common? If ecologists penetrated the heart of the problem, they could define more precise solutions than those currently being canvassed. And the answers would also make it easier for architects to deliver designs that are sympathetic to human scale and spirit.

For example, Pearson urges the need for energy efficiency. He won't succeed in helping us to formulate general strategies for building energy efficiency into our designs, if he limits his analysis to the level of slogans. Of course we need energy efficiency: but why are we encouraged to waste energy? Industrialists are meticulous about their costings: they abhor waste - so why is energy wasted?

The answers are straightforward. The problem starts when one group in society comes to monopolise natural resources, a control that leads to its enrichment even as the general population, and the environment, is abused. Then, the problem is aggravated because society cannot effectively police the use of natural resources. The most effective method for policing the use of the environment is to make people pay for the benefits they receive. But the landowners have traditionally avoided that obligation: hence, the rot set in!

This kind of analysis tends to escape environmentalists. The result, in the case of architecture, is that we are left with designs that are eccentric: self-indulgent examples of structures that the owners could afford to please themselves. But there is no generalised shift in this direction, because the obstacles are systemic, and therefore too great for most of us to overcome

In our society, those obstacles are measured by the price of land. In Britain, today, the self-build sector of the residential market is suffering because people cannot afford to buy land at current prices. Eliminate that problem, and we could all devote more time and energy to thinking about aesthetically pleasing homes in which to live.

SOME architects do understand the connection between the land market/prices and the impact on architecture. One was Frank Lloyd Wright, whose work is included in Pearson's book. Wright accepted and advocated the economics in Henry George's *Progress and Poverty*, a book, alas, that is not on the reading lists of the academies that teach architecture.

A contemporary chronicler of architecture/town planning is Colin Ward, who in his recent *New Town, Home Town* (Calouste Gulbenkian Foundation, 1993) acknowledges that the land market seriously distorts our freedom to develop decent living environments. His book traces the history of the garden city in England - a concept developed by Ebenezer Howard, who was also influenced by Henry George. Ward briefly reviews the economic principles that would yield a qualitatively new society; one that met the aspirations of environmentalists.

David Pearson is to be congratulated on his book. But he now needs to acquire a telescopic lens so that he can focus on the processes that would liberate us all from exploitation.

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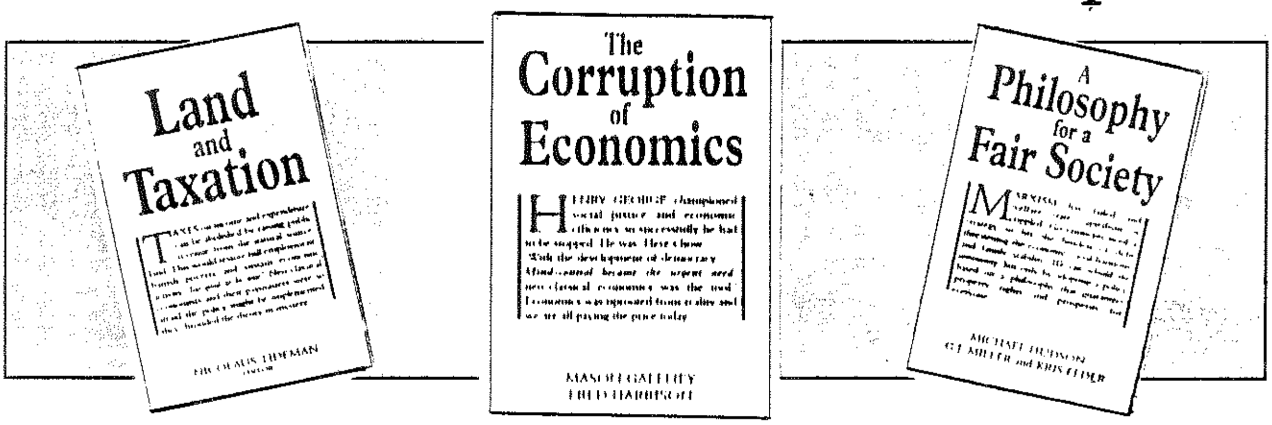

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