

# LAND & LIBERTY

INSIDE investigates  
HONG KONG'S FATE P.30-31

## JOBCEN

**Jobless:  
'On your  
bike' says  
Tebbit**



● Norman Tebbit

**EMPLOYMENT** Secretary Norman Tebbit provoked uproar among political opponents – and embarrassed some senior Conservative colleagues – when he suggested that the out-of-work might follow the example set by his father in the 30s: he got on his bike to look for a job.

Mr. Tebbit, the so-called “hard man” in Mrs. Thatcher’s Cabinet, upset even pro-government industrialists for implying that work, today, was simply a bike ride away. Speaking to the Conservative conference in Blackpool, Mr. Tebbit deplored the threat of trade union demonstrations against government policies, saying, about his father: “He didn’t riot. He got on his bike and looked for work.”

## Unemployment taxation & the push-bike policy



MARCH-APRIL 1983

# Land & Liberty

JOURNAL OF THE UNITED COMMITTEE FOR THE  
TAXATION OF LAND VALUES LTD.

Established: JUNE, 1894

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VOL. LXXXX  
Nos. 1,066 & 1,067  
MARCH & APRIL 1983

ISS No. 0023-7574  
Annual Subscription:  
U.K. & Sterling Area: £4.00  
USA \$10, Canada \$11



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PAUL KNIGHT asks why Robert Mugabe has not done more for Zimbabwe's economic development – and commends land value tax and the relaxation of exchange controls as major steps to prosperity.

**M**ANY Western leaders harbour the view that protracted unemployment is in some sense a failing of individuals.

People *could* find work, if only they would make the effort. All they need to do is mount their bicycles and look for it, in the immortal words of Britain's Employment Secretary, Norman Tebbit.

This spurious view, argues FRED HARRISON, is designed to conceal the reality that politicians are the primarily responsible for the policies that cause unemployment.

**R**EAGANOMICS rests on the claim that the public sector is an insupportably heavy burden on wealth-creation.

There is an important sense in which this is true. Unfortunately, the policies that follow from this economic perspective are not designed to rescue the industrial economies from the worst depression in 50 years.

This is because Reaganomics fails to correctly identify the mechanisms at work which successfully undermine investment and production.

Ultimately, it is not the size of the public sector so much as the nature of the tax system that throttles enterprise.

Vague talk about the need to cut government spending does not constitute a rational policy of reform, to eliminate the constraints on economic activity.

We can identify key elements of the problem by examining how taxation affects international trade.

**T**HE TABLE illustrates that countries with large public sectors tend to save and invest less. Britain is at one end of the scale; Japan is at the other end. Countries that spend more on investment tend to be less vulnerable to the pressures of the depression.

But the problem with the critique of the public sector – as presented by the President Ronald Reagan and Prime Minister Margaret Thatcher – is this.

They maintain that the heavy tax burden is a disincentive to entrepreneurs, that high-income earners are dissuaded from taking risks if they are subject to high marginal tax rates.

# Tax lesson the West must learn from Japanese



● Pres. Reagan and Mrs. Thatcher —speaking the same language

Their analysis, then, begins on the supply side. But this argument is weak; it is easily ridiculed by pseudo-socialists like J. K. Galbraith who have no difficulty in pointing to groups of high tax payers who work as hard, if not harder, than anyone else.

Wholly neglected is the demand side implications of the present tax system. And this is because the tax effect on pricing policy is ignored, for policy-making purposes.

Countries with large public sectors also have high tax rates. What happens when these taxes are imposed? Wage earners pass them on to employers, who in turn pass them on to consumers.

This forward shifting effect pushes up prices and reduces the competitiveness of goods on the international markets.

POLITICIANS, then, rather than trade unions, are mainly responsible for the loss of competitiveness: they are the ones who impose taxes in the first place.

But this aspect of the wage bargaining process is ignored by economists. Why? Because, according to Vito Tanzi, the Director of the Fiscal Affairs Department of the IMF, it "gives results inconsistent with orthodox Keynesian analysis."\*

Japan has a low-tax policy: as a result, the prices of her manufactured products under-cut the products of high-tax economies like Britain's.

But although Japan has a smaller public sector, this does not mean that her citizens suffer as a result of fewer services provided by the government. Her citizens now live longer, and are healthier, than the peoples of European nations who enjoy the

benefits of public health services.

The difference, of course, is that in Japan, the wage earner either finances these services directly out of his pocket, or he persuades his employer to do so for him.

But because the route taken to provide these services does not push up product prices, Japan is able to extend her penetration of Western markets.

And European and North American producers will not be able to defend their share of the world markets until governments adopt a fiscal policy based on an appreciation of the damaging price effect of the pattern of taxation in these countries.

\*Vito Tanzi, *Inflation and the Personal Income Tax*, Cambridge University Press, 1980, p.132.

## Economic performance and public sector finances in seven OECD countries, 1981

	Gross Domestic Product <sup>1</sup>	Gross Fixed Capital Formation	As percent of gross domestic product				Unemployment 1982 <sup>3</sup> Q3
			Gross Saving	Government Final Consumption Expenditure	Current Disbursements of Government <sup>2</sup>	Current Receipts of Government <sup>2</sup>	
U.S.A.	2.3	17.9	18.9	18.1	31.7	32.7	9.7
Japan	3.2	30.9	31.5	10.2	25.4	28.2	2.4
Germany	0.2	22.0	20.8	20.7	41.2	42.8	6.7
France	0.2	21.2	19.4	15.8	43.1	45.4	8.3
U.K.	-2.0	15.9	17.3	22.3	41.7	40.4	12.9
Italy	-0.2	20.3	18.9	18.1	41.1	37.5	8.6
Canada	3.8	23.7	21.4	19.5	37.7	37.1	12.0

<sup>1</sup> Growth of real GDP at market prices, percentage change.

<sup>2</sup> 1980.

<sup>3</sup> Standardised rates, percent of total labour force.

SOURCE: *Economic Outlook*, Paris: OECD, December 1982.

# Inflation: unions not guilty

**W**ILL IT be necessary to link a programme of economic recovery with an incomes policy?

The general assumption, which is challenged here, is that intervention in the wage bargaining process is crucial for sustained growth.

This issue is pre-occupying Britain's political parties. For now that inflation appears to be well under control, the next step is to help the economy to recover without generating a new prices explosion.

Conventional wisdom has it that a neo-Keynesian refutation must be undertaken in tandem with an incomes policy. For without controls — we are told — unions will force up wages and fuel a general rise in prices.

The evidence discredits this assessment, but in the debates on incomes policy the historical facts are rarely allowed to intrude.

● The Tories, through the Chancellor, Sir Geoffrey Howe, reject a formal incomes policy. Their position is that the realities of the marketplace (coupled with low pay norms for the public sector) are sufficient to curb expectations.

● Not so clear is the position of the Labour Party, which is hiding its intentions behind some vague notion of a "national economic assessment" which is intended to enlighten shop stewards and guide them to realistic pay settlements.

By **PAULA JAMES**

● The Liberal-SDP Alliance, after an initial burst of enthusiasm for a statutory incomes policy, has now clouded its views. The Liberals seem to be weakening on their intention to penalise — through the tax system — firms that agree to high wage increases.

But the SDP leader, Roy Jenkins, has firmly staked the credibility of the Alliance's strategy for economic recovery on the need for legally-enforceable wage controls.

The one point on which all parties agree, however, is that employees can and do affect the rate at which prices rise.

*This conviction can only be the result of an examination of the entrails of a chicken!*

**I**F UNIONS were responsible for initiating price rises, the share of the annual output of goods and services appropriated as wages and salaries ought to be on an increasing trend.

In fact (see the table), employees' take-home pay has declined consis-

tently from the mid-'50s to 1972, when Tory Chancellor Anthony Barber dramatically increased the money supply and triggered off record levels of inflation in the mid-'70s.

The total cost of labour to employers did rise, as a percentage of their net revenue, but employees cannot be blamed for this: the rise is attributable to acts of government.

There was a marked increase in taxation — what Mr. Ron Burgess calls the "pay bargain tax wedge". This more than doubled between the mid-'50s and the early 1970s.

Mr. Burgess, the 59-year-old Director of the Economic Study Association, points out that the take-home pay of employees was on an increasing trend up to 1955. This movement then terminated: "Some force — I know not what — started working the other way."

But of one thing he is certain: the full post-war wages cycle cannot be explained in terms of aggressive unionisation or unemployment trends.

But the pay bargain tax wedge was significantly and positively related to the rate of unemployment. The increase in the government-imposed costs of employing labour generated unemployment as employers sought labour-saving alternatives.

"There has been an underlying trend in unemployment since the mid-'50s, and the persistent increase

## MP exposes tax 'looting'

**S**INCE 1979, the competitiveness of British goods has deteriorated by 22 per cent, according to the government's chief economic advisor, Prof. Terry Burns.

About 17 per cent of this was due to labour costs rising faster than those of competitors' costs, and 5 per cent to movements in the pound.

This assessment appears to support the government's view that trade union power has to be mitigated if there is to be a recovery in industry.

The facts, however, are open to an alternative view that conforms to reality, if not to Conservative ideology.

Since the Tories came to power in 1979, workers on average and below average wages have enjoyed a real increase in net earnings of only 0.5 per cent — because of the rise in the tax

burden. Government fiscal policy, not militant unions, is responsible for the rise in labour costs.

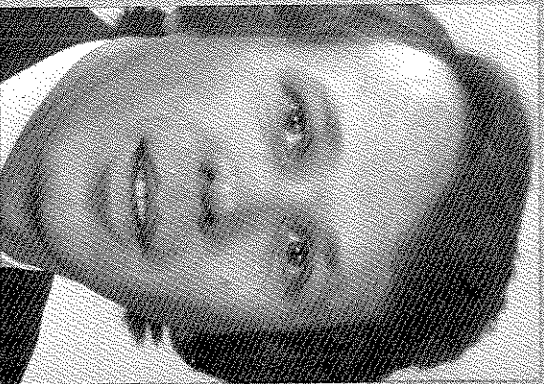
**A**BOUT MP Jeff Rooker elicited from the Treasury the facts contained in the table. These reveal that:

● A married couple with four children, receiving two-thirds of the nation's average wage, suffered a tax increase of 45 per cent since the Tories came to power early in 1979.

● A man with two children earning the average wage of about £160 suffered a tax increase of 12 per cent.

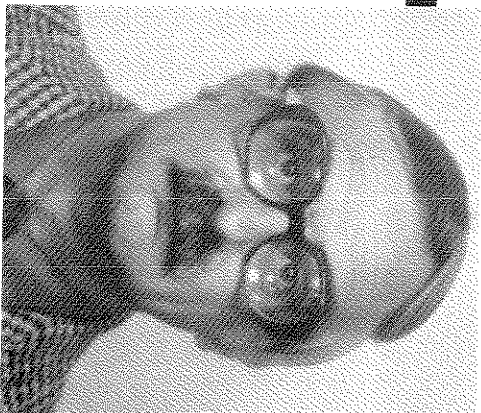
● The rich, however, enjoyed tax cuts amounting to a fifth of their earnings, if these were ten times the average.

Mr. Rooker condemns the tax shifts as the "looting" of the earnings of the poor.



● Jeff Rooker





● Ron Burgess

in the tax wedge is a major cause of this," Mr. Burgess told *Land & Liberty*.

He is equally certain that employees do not cause inflation. They may be conductors of inflation but they are not responsible for generating the inflation in the first place.

At best, politicians can object to the fact that employees have resisted the effect of inflationary pressures; but that success was a partial one.

Incomes policies, then, are bound to fail: "There is no evidence that they would affect the trend, because it would seem that the trends are stronger than the government incomes policies that have been tried so far.

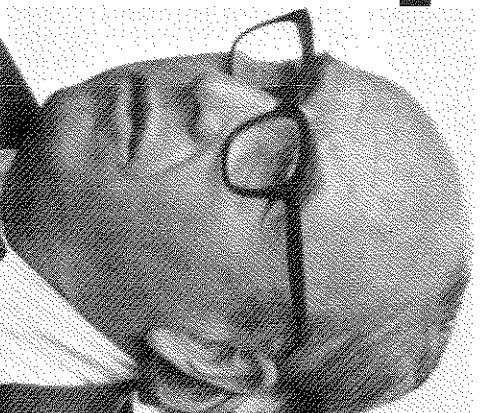
"What you usually find is that the incomes policy breaks down after a year or two, and the take-home pay cycle tends to re-establish itself. The policies just muck it about for a year or two - causing a kink in the trend."

"And this is at the same time that the government admit to cutting over £1.4bn from the social security budget in 1982/83, half of which has been taken from pensioners," says the MP for Birmingham Perry Bar.

Equity considerations apart, the government needs to drastically rethink its analysis of what causes the prices of British goods to be at a competitive disadvantage in the international markets.

**Income Tax and National Insurance as a percentage of earnings at different levels in 1982-83 compared with 1978-79 for different families.**

	1/2 Av	Av	5x Av	10x Av
Single	-10%	+5%	-12%	-22%
Married couple, no children	+16%	+8%	-12%	-21%
Married couple, 2 children	+25%	12%	-11%	-21%
Married couple, 4 children	+45%	19%	-9%	-21%



● Roy Jenkins

**M**R. BURGESS, a former advisor to Sir Keith Joseph (the first Minister of Industry in Mrs. Margaret Thatcher's Cabinet), has few doubts about the cause of inflation.

"The underlying pressure for inflation is the slice of the cake appropriated by government as tax revenue, plus the excessive borrowing requirement.

"If the government is trying to take too big a slice of the cake, the main way to do it is out of the share that goes to employees. But if employees won't play, then the government's only answer is to print money. This reduces take-home pay by unexpected inflation."

Official policy, then, has two choices only: either

● Adopt a centrally planned economy, in which economic considerations do not dictate decisions; or

● Leave the free market alone (or limit interference to *improving* the lot of employees, who are wealth-creators, after all).

Unfortunately for the Prime Minister, however, the tensions in her strategy arise from an ambivalent analysis of the causes of inflation.

On the one hand, the government blames employees; hence the attack on trade unions and newly-legislated controls over their power and rights.

On the other hand, her monetary policy is predicated on the theory that inflation is caused by profligate government spending financed by the simple expedient of increasing the money supply faster than the output of goods and services.

Analytical confusion was bound to lead to a mish-mash strategy with no coherent end in view; hence the government's inability to present Britain with a convincing programme for rescuing the economy from the slump.

Will policy be any more coherent after the next election? *It is doubtful.*



● Sir Geoffrey Howe

# U.K. LABOUR COSTS AND TAXES, 1938 to 1981

% of employers' net revenue <sup>1</sup>				
	Employers' labour cost <sup>2</sup>	Employees' take-home pay	Pay bargain tax wedge <sup>3</sup>	
1938	55.6	52.6	3.0	
1946	59.1	52.3	6.8	
1947	59.2	52.9	6.3	
1948	58.1	51.5	6.6	
1949	59.0	51.7	7.3	
1950	59.2	52.2	7.0	
1951	60.2	53.0	7.2	
1952	60.5	53.6	6.9	
1953	60.1	53.6	6.5	
1954	60.4	53.9	6.5	
1955	61.8	54.9	6.9	
1956	62.7	55.5	7.2	
1957	62.8	55.4	7.4	
1958	62.7	54.3	8.4	
1959	62.3	54.1	8.2	
1960	62.5	54.2	8.3	
1961	63.4	54.4	9.0	
1962	63.7	54.1	9.6	
1963	63.0	53.8	9.2	
1964	62.9	53.4	9.5	
1965	62.9	52.4	10.5	
1966	64.1	52.3	11.8	
1967	63.9	51.2	12.7	
1968	63.2	49.8	13.4	
1969	63.1	48.9	14.2	
1970	64.7	49.6	15.1	
1971	63.7	49.1	14.6	
1972	64.1	50.3	13.8	
1973	63.3	49.6	13.7	
1974	66.2	50.4	15.8	
1975	69.4	50.8	18.6	
1976	67.2	48.5	18.7	
1977	65.7	47.5	18.2	
1978	65.8	48.2	17.6	
1979	66.4	48.8	17.6	
1980	67.8	49.4	18.4	
1981	66.7	47.8	18.9	

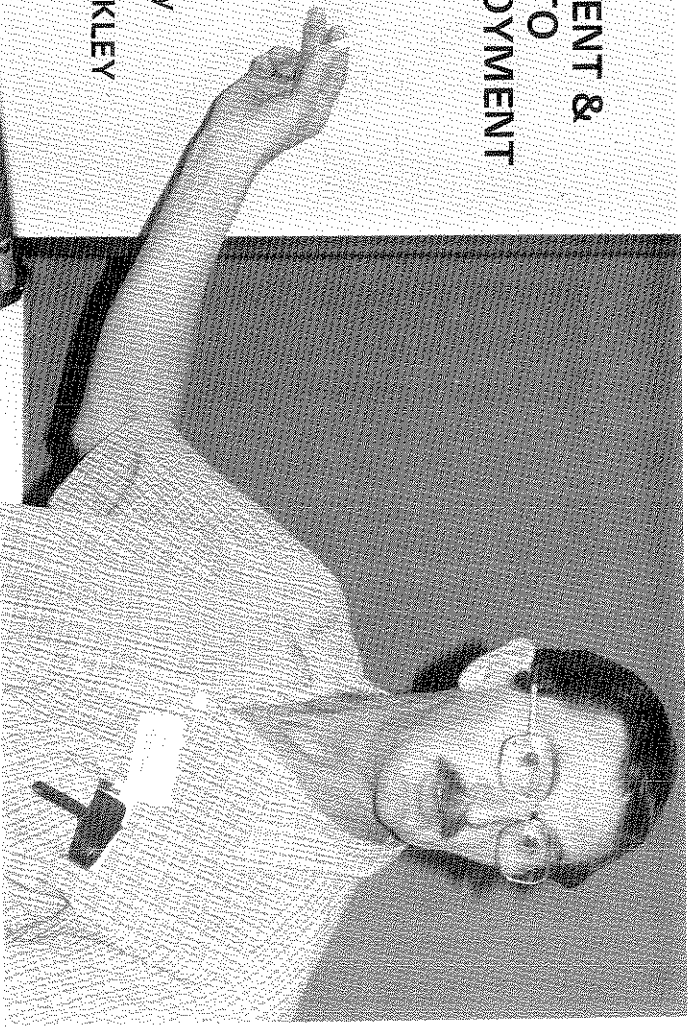
SOURCE: Calculations by Ron Burgess of the Economic Study Association from the CSO's annual 'Blue Books' and *National Income and Expenditure of the UK 1946 to 1950*, London: HMSO, Cmd. 8203, p.40, Table 27.

1. Excludes capital consumption and stock appreciation.
2. Employers' labour cost is income from employment plus Selective Employment Tax or National Insurance Surcharge.
3. Pay bargain tax wedge is the sum of income tax on wages and salaries and pay of HM Forces, employees, and employers' social security contributions. Selective Employment Tax or National Insurance Surcharge.

## NATURAL RENT & THE ROAD TO FULL EMPLOYMENT

Analysis by

GODFREY DUNKLEY



● Perplexed statesmen wonder why 35m people will be unemployed in the industrialised countries alone by the mid-1980s. Yet they are in large measure to blame for the global recession!

● In Part I of his analysis, Godfrey Dunkley argues that all taxation is at the expense of economic rent. But because it is largely levied indirectly

– falling in the first instance on labour and its products – economic processes are distorted. And under existing fiscal arrangements, owners are not compelled to release land for use if taxation removes the whole of their rental income.

● Indeed, the present system – while depressing output and robbing the exchequer of revenue – encourages

land speculation. This further reduces the use of land, and increases unemployment.

● In Part II, to appear in the next issue of *Land & Liberty*, the author offers his solution to the macabre situation in which willing hands are denied access to vacant land, thereby consigning people to ever-increasing dole queues.

**M**ANY THEORIES have been put forward recently to explain the origins of the economic disaster in which the West finds itself. Few, if any, of these theories have taken into account the role of taxation.

This may be because of the difficulty many people seem to have appreciating the full significance of taxation as a cause of unemployment, through its impact on marginal land.

In all forms of production, the value added by any enterprise is distributed to labour, capital and land as wages, interest and rent. Wages and interest will be considered as constant in order to better understand the effect of taxation on “economic rent” and production.

Most taxes have the effect of reducing wages to the least that men are prepared to accept, and the tax then comes out of the “natural rent”, which is defined below.

*Almost any increase in taxation puts land at the margin out of operation and consequently results in an increase in unemployment.*

### *Rent – untapped source of wealth*

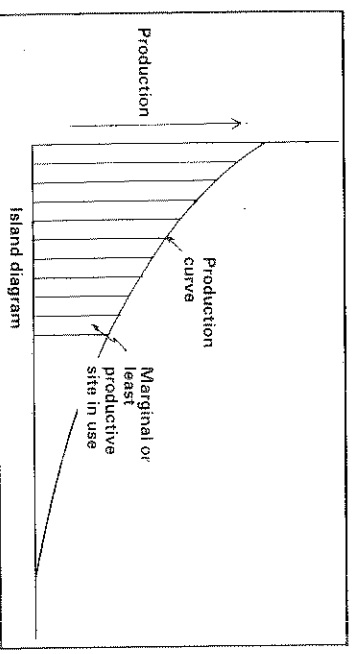
Rent arises from the productive potential of land or by man’s desire to hold tenure to that land, irrespective of its potential. The latter condition applies particularly in connection with residential land.

The “Island Diagram” (Fig. 1) will help to introduce the subject. A block diagram or bar chart compares the productive potential of a cross section of typical sites. This ranges from the best or prime sites to the marginal or least productive sites in use under existing conditions. The production blocks are based on the assumption of the

application of equal capital to equal-size land sites.

When a large number of sites are considered in the “Island Diagram” the lines joining the tops of the production bars will be the “Production Curve”.

The “General Level of Wages” is governed to a large extent by the production on the marginal sites but reduced by taxation; there is nothing left for rent at the margin. (See Fig. 2.)



● Fig. 1

On other sites, if you subtract wages, interest and taxation from production, the difference is rent.

Ricardo’s law of rent states: “The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use.”

By implication and practice, the owner of productive land, after paying tax, can appropriate in rent all the return above that required to compensate labour and

capital at the prevailing rate on the least productive land in use. The "Rent Curve" for a number of sites will thus lie somewhere below the production curve.

At this point, we have to introduce a new concept relating to the "Rent Curve". By definition, the rate of wages and interest will be the same on all sites used to establish the production curve. Thus a base line for rent can be established by the line in Fig. 2, which represents the general level of wages and interest. What lies above it is divided between rent and taxation.

Leaving out other factors which have little influence on this reasoning, with the new base line for natural rent, the production curve now becomes the "Natural Rent Curve".

When taxes that fall on individual sites are subtracted from the "Natural Rent" of those sites, the remainder is the "Economic Rent". For this purpose, it is necessary to lump all taxation together; this includes company tax/VAT/PAYE and others. The "Economic Rent Curve" can then be established.

**N**ATURAL and Economic Rent may now be defined in more practical terms.

- Natural Rent is the "highest consistent annual payment obtainable for the use of land, excluding improvements, provided there were no taxes of any kind."
- Economic Rent is the "highest consistent payment obtainable for the use of land, excluding improvements, under the prevailing conditions."

Economic rent is Natural Rent reduced by indirect or direct taxes on production or wages and increased by most forms of grant or subsidy. In practice, Economic Rent is the market estimate of what remains when all costs of labour, interest and taxes have been taken from the productive potential of land only.\*

### What factors affect annual rent?

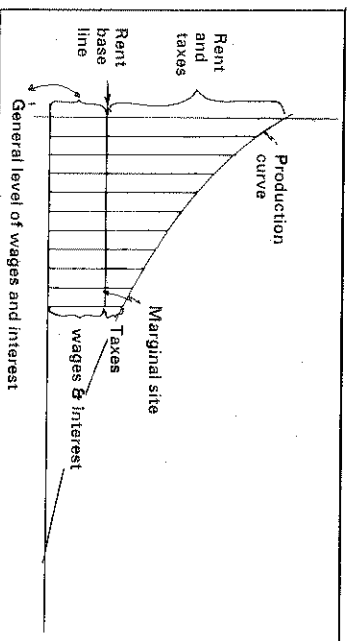
All forms of rent on land are affected by certain common factors. Rent will decrease with –

- Increasing distance from markets, towns and ports;
- Increasing restrictions on its use;
- Decreasing quality of the soil and climate;
- The presence of undesirable factors, such as obnoxious or polluting industries.

Production is not viable below the margin of production. But this concept of margin is flexible. What is marginal in a sophisticated environment may well be prime in a less sophisticated environment. Each will have its own "margins" of production. Below any "margins", however, land usually lies idle.

Fig. 2 gives a general impression of factors affecting rent and the margin of production.

An understanding of cause and effect is basic to an understanding of economics. Two of the three groups of variables are not fundamental to the present study, so only the economic variables relating to taxation will be considered.



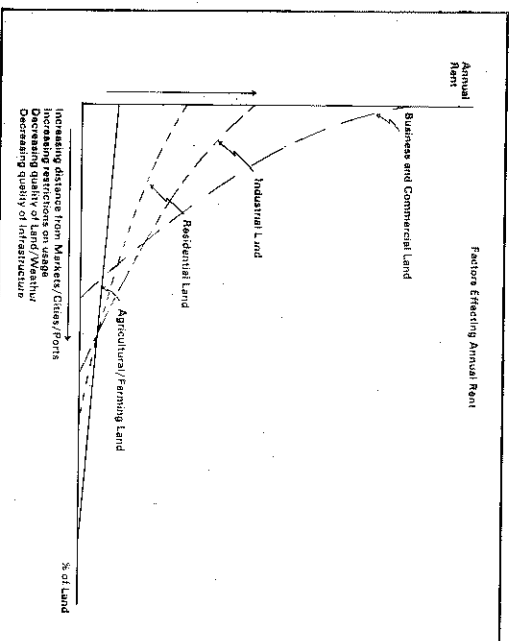
● Fig. 2

**NOTE:** Wages and interest on capital have been left out for simplification in the figures which follow: these will illustrate what happens above the Rent Base Line.

It is necessary to establish a reference point from which the economic rent may easily be assessed for any change in taxation. This reference will be the Natural Rent Curve shown in Fig. 4.

By applying changes in taxation to the Natural Rent Curve, it is possible to estimate with a degree of accuracy the effect on Economic Rent. Any increase in taxation will lower the Economic Rent Curve.

Fig. 4 shows the points where the rent curves intersect the base line and set the position of the relative margin of production.



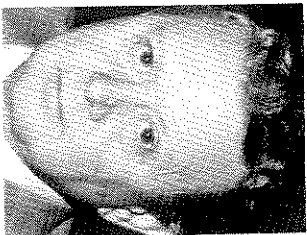
● Fig. 3

In the absence of taxation, the margin of production would coincide with the Natural Margin. As taxes are levied on labour and capital, these are shifted forward on to natural rent, and the curve of economic rent drops lower and lower.

This, in turn, increases the gap between the Natural Margin and the Economic Margin, putting larger amounts of land out of production and increasing unemployment. Clearly a small increase in the sales tax or PAYE will shift the Economic Margin to the left and increase unemployment. This, in turn, will slow down the economy.

The gap between the Economic Margin and the Natural Margin represents the percentage of land put out of

\*David Ricardo defined economic rent in Chapter II of *The Principles of Political Economy and Taxation*. It was also set out by Henry George on page 166 of *Progress and Poverty*. Ricardo's definition must be extended to include all uses of land.



# Editor punches home need for land tax reform

**NEW HAMPSHIRE** editor Dick Noyes is teaching a computer all about land value taxation.

Mr. Noyes, pictured above, has been named by the state legislature's Speaker to serve on a committee which is investigating tax reform.

The Committee to Study Revenue Reform at All Levels of Government will report in May.

And the committee is making use of a privately-funded computer programme set up by a citizen group called the Center for New Hampshire's Future.

The leading options facing New Hampshire are a shift of the property tax on to land values, or the introduction of a five per cent income tax.

Up till now, New Hampshire has prided itself in being the only state to resist a general sales or income tax.

It relies more heavily than any other state on the property tax. And that, according to Mr. Noyes, is the reason why New Hampshire's economy is the strongest outside the sunbelt.

*But there has been a growing demand for property tax relief.*

Now Mr. Noyes, who is Deputy President of the International Union for Land Value Taxation and Free Trade, has pushed for a reform of the property tax.

He wants a state-administered one per cent tax on land values, the revenue from which would go back to cities and towns to equalise the burden of paying for schools.

And in a bid to re-shape the property tax, Mr. Noyes has been learning how to feed information into the computer.

**A** DATA bank, carrying facts and figures about towns and counties and the state itself, has been programmed into one of the main computers at the University of New Hampshire.

What is called a systems dynamics programme – designed to test the probable effects of new taxes through "if-then" calculations – has been structured to help the investigating committee.

Report by  
**JOHN GREEN**

Mr. Noyes has punched in the basic arguments for land value taxation. And he told *Land & Liberty*:

"Initial projections show three things that I had predicted. If population continues to grow, real property tax rates will fall steadily through the century; land values will overtake building values as a factor in the tax base within about ten years; and unemployment will increase if population growth stalls."

And on the basis of what he's learned from the computer, Mr. Noyes says: "They are accurate, fast and stupid. They do exactly what they're told and keep doing it until told to stop! But they are here to stay and we have no choice but to live with them."

He thinks that they can help to reform the property tax if at least half the effort is spent teaching them as has already been spent in teaching people about land value taxation over the years.

**MEXICO**

## Speculators caught in \$25bn trap

**MEXICANS** bought U.S. real estate worth \$30bn after the 1979 oil price boom.

But exchange controls imposed last August by the Mexican government, to cope with the financial crisis, has trapped many of the property owners.

For they still owe \$25bn on their purchases – but can't get the dollars to finance the deals.

Now the Mexican government has offered to buy the properties off them for pesos in the hope of selling them back to the U.S. for dollars, to increase the country's depleted foreign reserves.

The chairman of a congressional commission in Mexico City says that a law should be passed to stop the flow of Mexican capital into the U.S.

"We can't let this happen again," he said.

## LAND TAX WITH A LONG HISTORY

● **AN EIGHTH** century Act relating to land taxation which is a quarter of a mile long is housed in the Palace of Westminster. It was recently unrolled – as far as possible – in the Royal Gallery of the House of Lords for the benefit of BBC TV cameras.

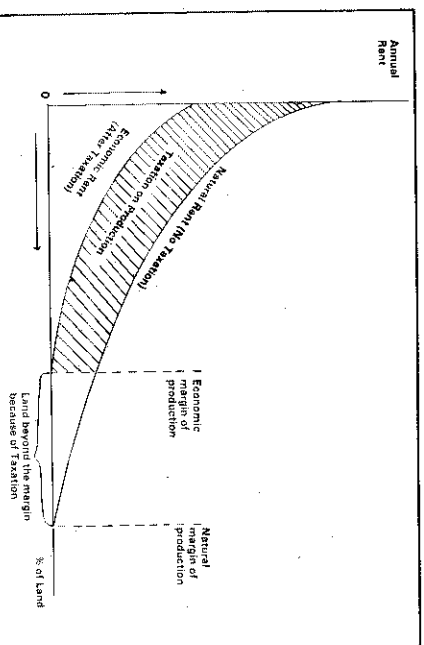
### Doubled up!

● **SUNNYVALE**, a town in the centre of California's "Silicon Valley", was short of homes. So the council rezoned 131 acres of undeveloped industrial land for residential use. The price of land almost doubled to \$400,000 an acre.

From P.27

production by taxation. Apart from any other effect, it represents a loss of revenue to the State.

When land at the margin is no longer able to meet both increasing taxes and a return for wages and capital, speculators are able to obtain and hold this land for personal pleasure or against a future demand.



● Fig. 4

Speculation in land, as well as taxation, plays a major part in causing unemployment and the two interact. As the infrastructure improves and population grows, total production – and consequently the Natural Rent – increases. But, at the same time, the authorities incur an increasing debt, to finance the improvements demanded by the growing community.

If all land was fully utilised, however, the expansion of the infrastructure would increase the demand for labour. If all labour was fully employed, the Gross Domestic Product would also increase, followed by rises in the Natural Rent.

But the growth in Natural Rent immediately becomes an incentive to speculate in land. By withholding prime land from labour, an artificial scarcity is created, thereby prematurely inflating market prices of land. In this way speculation leads directly to unemployment. But it does not end there.

The Tax Collector normally receives very little, if any, of the increase in land values which speculation brings about, but he loses when production is suppressed.

*Thus a minority of speculators thrive without contributing anything to the economy; it is a case of men being enriched without doing a stroke of work.*

[TO BE CONTINUED]



## NEWS in BRIEF

### 'High time' for the landowners

THE IMPACT of the recession in the U.S. has varied widely.

People in the densely-populated north-eastern states are migrating to the Sun Belts, only to find that work is not available. Many are now living in shacks reminiscent of urban centres in the Third World.

But for landowners north of San Francisco, the recession has paid handsome dividends. Because many people have turned to growing marijuana as their alternative cash crop.

John Barnes reported in *The Sunday Times* on Nov. 7: "In Garberville, it's easy to tell when it's harvest time: the \$100 bills are being flashed around, Mercedes and new four-wheel-drive pick-up trucks vie for space along main street.

"Land prices have more than doubled in the past couple of years...."

### Heartless!

FIRST-generation Asian immigrants thought they were investing in prime building land close to town centres when they decided to buy land – and a new life – in Canada.

In reality, a London court was told, they were paying residential land prices for cheap agricultural land with no prospect of permission to build and no related opportunities to live in Canada.

About 500 Asians and West Indians were due to pay £23m when the racket was exposed. Three men were jailed for what was described as a "heartless" fraud.

### Deserted!

LAND speculators are disappointed at President Reagan's decision not to base the MX missile system in the Great Basin Desert straddling Utah and Nevada.

For two years, the speculators have been buying up large chunks of the desert – expecting to find themselves right in the path of what was expected to be the largest public works project in history.

But the president's decision not to site the system in the area has left speculators holding a lot of sand. One of them, Margaret Sansone, a Las Vegas broker, admitted: "I expected to make a minimum of 200 per cent profit. I'll be lucky now to make 20, 30 or 40 per cent."

Said Jack Matthews, president of the Nevada Association of Realtors: "The small businessman is in shock."

# Govt. land claim is 'a nonsense'

By IAN BARRON

**A** ROW over the supply of land has broken out between house-builders and the British Government.

The argument centres over the publicly-owned vacant land that has been placed on registers.

● **The government** claims that 96,000 acres of land are now available – and that the sale of over 2,400 acres is a good track record.

● **The builders** claim that only 11 per cent of that land is available and suitable for housing development.

House-Builders Federation President Mr. Richard Dibben declared after revealing the results of their investigation:

"It is important to introduce a measure of realism into the claims being made about land registers.

## LAND PRICES

## Builders

## save the pennies to spend £s

**T**HE PRICE of land is going to make 1983 a "fascinating" year for British builders, according to property journalist Jeremy Gates. He reported in the *Daily Express* (31.12.82):

"Prices for decent land where people really want to live are soaring. Seven acres of filled-in gravel pit at Cheshunt, Herts., fetched £1.2m; Letchworth, Herts., land is topping £150,000 an acre.

"In Bedford, Abbey Homesteads have paid £113,000 an acre, envisaging homes averaging £48,000 each and managing director Ray Davies admits: 'Land prices have now surged to about 25 per cent of eventual selling price.'

"Consequently builders are watching every penny. Many are cutting back land banks to three years' supply, where they once held might have held on to sites that would have taken five to ten years to build out."

"Those who have suggested that 96,000 acres of vacant land is awaiting development have quite clearly been misled."

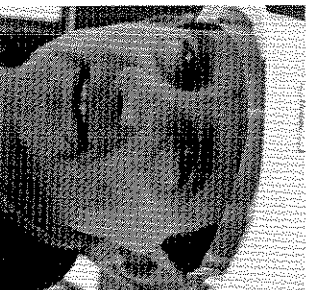
The builders have challenged the government's claim that there is an adequate supply of land available for them. This claim, they say, is "nonsense."

The Federation examined 63 registers, and concluded that some local authorities were manipulating the rules to avoid releasing many of the best sites.

As a result, publicly-owned vacant land represented less than one year's supply of dwellings.

**T**HE ROW has split over into the House of Commons. Labour MPs do not share the general Tory enthusiasm for the disposal of public land. One of them, Mr. Frank Dobson, accused builders of being "parasites and vultures who hover over the registers of public land."

And Mr. Douglas Jay, a former President of the Board of Trade, pointed out that a major vacant site in his constituency had been held idle for 15 years by a private property company.

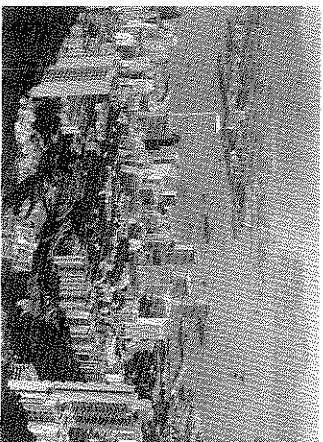


● Richard Dibben

But Mr. Giles Shaw, the Under-Secretary of State for the Environment, claimed that the problem was over the *demand* for land, rather than its *supply*.

He declared: "The real need is to ensure that there is a demand for sites actually on the land register."

"The economic climate has scarcely been helpful to the rapid disposal of land from the register. Nevertheless, more than 2,500 acres within a few months is not a bad achievement."



# HONG KONG

*The future of Hong Kong depends on how these two conflicting views are to be reconciled.*

**H**ISTORY teaches us that most agreements of long standing or particular difficulty, whether between individuals or Governments, come down to a dispute over land – the right to rewards stemming from possession of a particular piece of the Earth's limited surface.

The Hong Kong question now hitting the headlines is a rather exceptional example of this general rule.

Britain took possession of Hong Kong harbour in 1841 to provide a place of safety for its ships trading into China. It had little interest in the place itself. China justified its decision to yield control of the island to Britain on the grounds that, by so doing, the foreigners would be kept out of the mainland.

*Since then much has changed.*

Hong Kong has grown into a major manufacturing and financial centre in its own right. It has interests very much its own and its people – of whatever background – deserve and desire its survival.

But whether the interest of the two main contracting powers have changed fundamentally is less clear.



Hong Kong, in British eyes, is made up of three parts:

- Hong Kong Island – 32 sq. miles ceded by the Treaty of Nanking 1841.
- Kowloon & Stonecutters – 34 sq. miles ceded by the Convention of Peking 1860.
- The New Territories – 360 sq. miles leased for 99 years by the Convention of Peking 1898.

In Chinese eyes, Hong Kong is just a small portion of the province of Guangdong at present administered by Britain – an arrangement which will be resolved at "an appropriate time".

As far as China is concerned, this appropriate time is solely a matter for her determination and bears no relation to the treaties upon which Britain relies – and which China does not recognise.

**O**N HER recent visit to China, Britain's Prime Minister, Mrs. Thatcher, appears to have taken a stand on the treaties.

The Chinese, however, have seen fit to stress publicly that the sovereignty of Hong Kong is not a matter for debate or negotiation. It is Chinese and this must be recognised before any discussions can proceed!

Thus the result of Mrs. Thatcher's visit is, on the surface, one of total confrontation. But clearly with the end of the New Territories lease only 15 years away, the matter had to be raised and the two opposing statements must be seen only as opening shots in what is likely to be a long and difficult series of negotiations.

*There is no doubt that the people of Hong Kong would like Hong Kong to continue largely as at present*

To obtain a better idea of how these discussions might proceed, we need to consider the real interests of the parties. In doing so, we must not forget the interests of Hong Kong itself, which are distinct from those of the main parties, and consider how Hong Kong can bring its influence to bear on the negotiations.

To its own people, China is still largely a closed country ruled by an oligarchy in some ways much as it was when Hong Kong was first carved out. Its internal stability is suspect, making international negotiation difficult and uncertain.

In such circumstances, it is understandable that Britain should want to stick closely to its internationally-recognised legal rights.

At the same time, one can understand the reluctance of China's leaders to take any further steps at this time. Vice-Premier Beng has said: "Let your hearts be at ease."

*So what more needs to be done?*

To persuade China to take another step must be the first objective of British negotiators since, if Hong

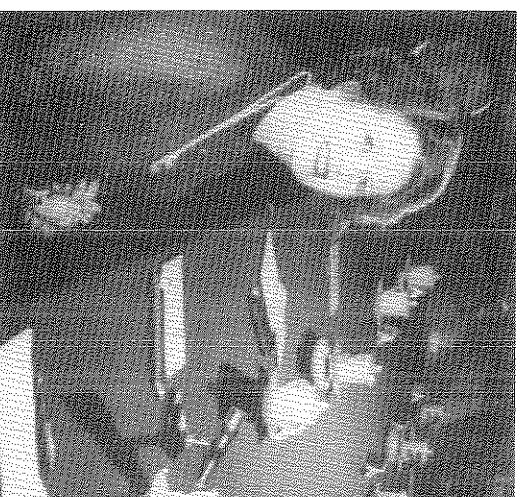


Kong is to continue in anything like its present form. Western lawyers and bankers require bits of paper giving security of tenure for a term of years rather longer than that which will remain in the existing New Territories lease in a few years time.

In this situation, it is the people of Hong Kong (98% Chinese) who feel compelled to take the initiative.

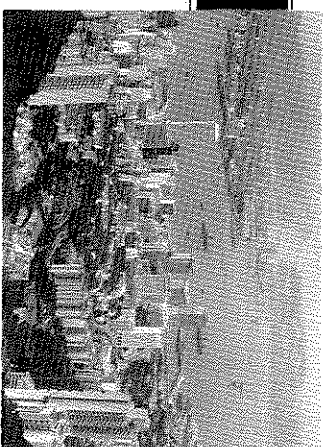
Whilst the post-war Hong Kong Government has failed in one major respect (it yielded to pressure and waived its legal rights to a greater share of land value in renewing leases – see *Land & Liberty*, May/June 1979), it is recognised as generally honest and efficient and has provided the framework of law and freedom within which many people (not just the very rich) have prospered, financially and socially.

There is no doubt that the people of Hong Kong – many of whom



● Mrs. Thatcher opposite China's Premier Zhao

# S DILEMMA



voted with their feet – would like Hong Kong to continue largely as at present.

They do not consider (nor is it in the interest of the majority to do so) that Hong Kong can continue in part only – that is, the ceded land of Hong Kong Island and Kowloon under British administration – after the New Territories lease has expired and the land reverted to China.

Recognising and understanding the Chinese position, they would be prepared (albeit reluctantly) to accept the surrender of British sovereignty over the whole of Hong Kong – and even some Chinese presence – in return for the acceptance by the Chinese authorities of the continuation of British administration.

Thus, it would appear that to establish a solution acceptable to the people of Hong Kong, two points of principle have to be resolved:

- Britain has to surrender its rights under the treaties and recognise Chinese sovereignty; and
- China has to agree to the continuation of British administration for a term of years sufficient to satisfy Western financial concepts – and especially the requirements of land developers.

**N**OW that negotiations have been opened, and both countries have made their positions public, the problem will not go away.

Yet neither Britain nor China may be willing to move on these issues. Indeed neither may see it in their interest to do so.

The interests of the City of London and the British Establishment are not identical with those of Hong Kong and the Hong Kong and Shanghai Banking Corporation.

*¶With good sense ... a form of words will be found to satisfy the egos of Britain and China ¶*

The manufacturing capacity of Hong Kong, being located more and more in the New Territories and merging into the new economic zone of Guangdong, could well be sacrificed to the detriment of the British consumer – but without many tears being shed by the E.E.C.

China appears in no mood to give priority to Hong Kong matters at this time.

In the longer term, it may well see Hong Kong industry, and particularly the manufacturing capacity of the New Territories, becoming part of the Guangdong economic zone, and 15 years may be about right.

Even if Britain were prepared to renounce the treaties, it is unlikely that China would be willing to specify even a minimum term of years for the continuation of British administration, and without that, the

Hong Kong Government would be reluctant to grant leases of adequate duration. And even if they granted, say, 40-year leases, without any statement by China, would the Western developer accept them at their face value? The Chinese developer would!

Hong Kong is but one issue – and not necessarily the most important – in talks between Britain and China.

In the wider context, long-term trade through Shanghai, or co-operation in the redevelopment of China's ports, railways or airfields, and the supply of machinery to its coalmines, may be of greater interest to Britain than the retention of Hong Kong in its present form.

China also has many problems of much greater priority and importance to her than Hong Kong.

*So in the end, it comes down to Hong Kong itself. How can it act to protect its own interests in the face of the lack of urgency expressed by the main contracting powers?*

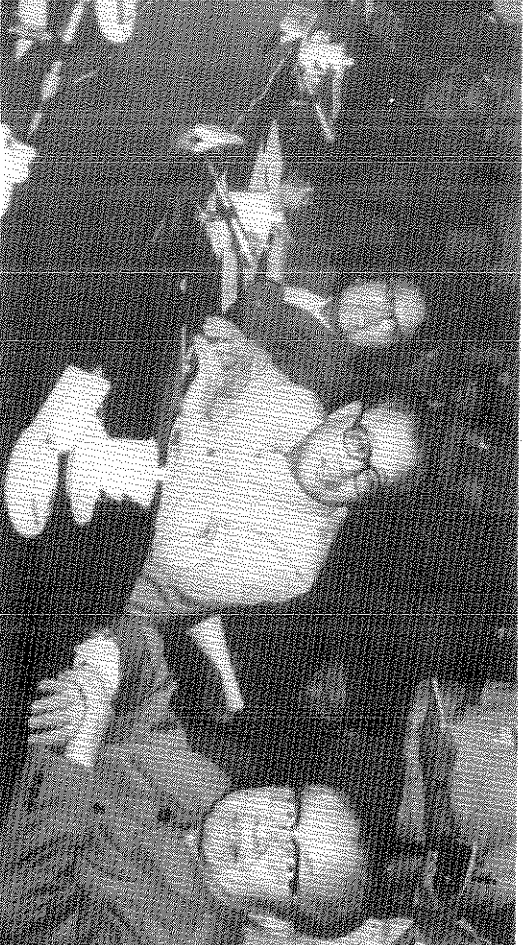


It can endeavour to expand its enterprise and reaffirm its value to both sides, and so press for action to confirm its future. The Chinese offshore oil development may be a case in point.

On the other hand, if it fails to achieve its wishes on these lines, it may decay economically and socially to the greater embarrassment of contracting parties, forcing them through world opinion to take the required steps.

But with good sense and careful negotiation, it should not come to that. Indeed the interests of both parties are such that the probability is that a form of words will be found to satisfy the egos of both. Possibly some form of condominium might be set up, with no term of years stated, which would enable Hong Kong to get on with its own life in its own way.

*That is all the Colony has ever asked – and all it needs to survive and prosper.*



at the start of talks in Peking on the future of Hong Kong

# BARBADOS Time to kill off

**L**AND and property prices in Barbados have been "sky-rocketing" and speculators have been doing good business, according to the Barbados *Sunday Advocate-News*.

The newspaper expresses concern, not so much with the direct effect of land-price rises on the Barbados economy as with their impact on the island's property tax assessments which have risen sharply, sometimes by 100 per cent.

*"Putting Taxation"... "Taxes - Source of Great Concern"... "Adjust the Rate of Land Tax"* - these are some of the *Advocate-News* headlines in a recent issue.

Now, the Opposition spokesman on finance, Mr. Richie Haynes, has called on the government to undertake an immediate review of its policy on property taxes following complaints by property-owners about the increase in their site values.

The Barbados property tax is not a pure land-value tax, although it did start that way in the early 1970s.\*

Since 1975, it has been levied on "improved values" - i.e. on land and buildings taken together. In contrast with the United Kingdom, however, vacant sites are taxed - indeed, at a higher rate than developed sites.

So, although, regrettably, the improvements made (and paid for) by owners themselves are subject to tax, the assessments in Barbados *do* react to changes in land value in much the same way as the pure land-value taxes of, say, New South Wales and Queensland.

To counter some of the complaints being made by property owners, the Prime Minister of Barbados, Mr. Tom Adams, pointed out recently that, high though some tax assessments might be, they still did not exceed the market value of the properties. "Would the owners sell their properties for the amounts they are being taxed?" asked Mr. Adams.

The *Advocate-News* acknowledges the force of this argument but insists that there is a catch.

Most people, it contends, were not planning to sell their properties, and it is a bad system that treats them as if they were. What Barbados needs, it suggests, is a capital gains tax from which the government can reap the

benefit when people sell their properties for the "fantastic sums" now changing hands.

The paper's columnist, Leonard St. Hill, argues: "Since the majority of property owners are not speculators but persons who intend quietly to enjoy a fundamental human right, the market value of such property, as the basis of annual taxation, is specious reasoning..."



● Prime Minister Tom Adams

**M**ISGIVINGS over the impartial application of land-value taxes tend to be voiced, from time to time, wherever such taxes are levied. So used are we to thinking in terms of money incomes and "ability to pay" that other, more ethical, grounds for levying taxation in a particular way are easy targets for special pleading. And countries that might commence with a straight land-value property tax - such as Barbados - frequently find their governments yielding to the siren-song and adulterating the tax with dubious concoctions of reliefs, rebates and exemptions.

*They usually end up with a hotch-potch of arbitrary expedients which no-one accepts as fair - and which everyone is trying to change to his own advantage.*

Sometimes, the genuine sympathy for small property owners faced with higher tax charges is exploited by the more powerful interests who introduce red herrings, such as the plight

of the "poor widow" - she of small income who, through "no fault of her own", becomes faced, so it is said, with an enormous bill for land-value tax.

In 1909, at the height of the campaign in Britain over Lloyd George's new land taxes, Winston Churchill dealt summarily with this kind of argument in a speech in the House of Commons:

"We are not confronted with any great argument on behalf of the owner. Something else is put forward... to shield the actual land-owner or the actual capitalist from the logic of the argument or from the force of a Parliamentary movement.

"Sometimes it is the widow. But that personality has been used to exhaustion. It would be sweating in the cruellest sense of the word, over-time of the grossest description, to bring the widow out again so soon. She must have a rest for a bit; so instead of the widow we have the market-gardener - the market-gardener liable to be disturbed on the outskirts of great cities if the population of those cities expands, if the area which they require for their health and daily life should become larger than it is at present.

"On the one hand we have one hundred and twenty thousand persons in Glasgow occupying one-room tenements; on the other, the land of Scotland. Between the two stands the market-gardener, and we are solemnly invited, for the sake of the market-gardener, to keep that great population congested, within limits that are unnatural, and restricted to an annual supply of land which can bear no relation whatever to their physical, social and economic needs - and all for the sake of the market-gardener, who can perfectly well move farther out as the city spreads..."

**C**HURCHILL'S words, echoing across seven decades, still synthesize the basic dilemma. To emasculate a land-value tax out of sympathy for the poor widow, the market-gardener or, as in Barbados, those property owners who wish "quietly to enjoy a fundamental human right", is to place their individual interests before those of the vast majority of the population.

## Spotlight on the Caribbean . . .



To allow individuals to occupy valuable land without paying the proper dues to the community is to betray those whose well-being depends, to a considerable degree, on the best use being made of land.

*For a land-value tax is not just a revenue raiser.*

One of its essential purposes – perhaps its primary purpose – is to promote the good and economic use of land, this being the key to high levels of employment and rising standards of living. In this process, it is vital that owners of land should not only be *allowed* to develop their land without penalty – there should be a *powerful incentive* for them to do so.



● Winston Churchill – Barbados should recall how he demolished an argument long used to protect land owners

Such an incentive can exist only if land of equal value bears an equal weight of tax – irrespective of the use being made of it. To reduce one owner's tax because he is getting less income from his land than another whose land is of equal value would be to discriminate against the latter for doing what is likely to be of benefit to the whole community.

The people of Barbados suffered a grievous blow in 1975 when the island's land-value tax was corrupted by the taxing of improvements. Those whose sympathy for some owners would induce them to sabotage the tax further should ask themselves where the wider interests of the people lie.

Changes in the property tax are overdue, but Barbados would do well to heed the voice of Churchill rather than that of the *Sunday Advocate-News*.

*\*Land & Liberty, May/June 1981, p.56.*

## BARBUDA

## Land tax

## to protect heritage

**A** TOTAL population of 75,000 hardly suggests a power-hungry super-state. A sub-tropical island with an area of just 108 square miles and an economy based on sugar, cotton and tourism hardly seems the sort of realm which other communities need fear.

Yet if the island you lived on is an even smaller speck in the ocean, separated from the larger one by a trifling 30 miles of Caribbean sea and inhabited by a mere 1500 people, all intent on retaining the advantages of social custom enjoyed for well over a century, you might feel a little apprehensive if you woke up one morning to find your puny homeland placed under the jurisdiction of your larger neighbour.

Such is the situation today on the tiny Caribbean island of Barbuda. After centuries of existence as a British colony – one of the Leeward Islands – the 62-square-mile piece of limestone and topsoil is now linked with neighbouring Antigua in independence from the British Crown.

Yet instead of exulting in their newly-acquired independence, many Barbudans, according to a *Financial Times* report, 'look to the future in apprehension and anxiety. To them, joint independence with Antigua, with St. Johns, Antigua, becoming the capital of the new state, is as inviting as being shackled up with Big Brother himself.

Trusting the Antiguanians rather less than they trusted the British, they see the change as merely swapping one colonial ruler for another. They fear, under Antiguan dominance, their traditional way of life will be changed beyond recognition.

**T**HE ROOT of their anxiety lies in the land, in those 62 square miles of shrub-covered coral. Since the abolition of slavery in 1834, no land on Barbuda has been privately owned; it has been held by the island council "in trust" for all Barbudans.

On Barbuda, there are no land rents, no land for sale, no land to be purchased and no mortgages. If a person wishes to build a house, he has only to obtain the approval of the 11-man council before he is free to go ahead and build. The same applies if he wishes to take over an extra piece of land for growing crops for his family.

The Barbudan Council, instead of manning the barricades to preserve their benign but out-moded system of land tenure, would do well to consider whether the interests of their citizens would be better served by abandoning the physical division of the land, with its built-in rigidities and prejudice against the foreigner, and introducing, in its place, a system of land-value taxation.

But the signs are that the bed of clover may soon get rather rumpled.

A piece of legislation passed by the central government in St. Johns has brought Barbudan fears to a head. Called the Barbuda Ordinance (Amendment) Act, it sets up a land tribunal whose ostensible purpose is to compensate Barbudans who have a claim on land sold or leased by the Crown. According to the authorities in St. Johns, the Act does nothing more than "give Barbudans title over their land". Barbudans, however, see the measure as the thin end of the wedge which could undermine the position of their island's council and pave the way for land to be privately owned.

To reinforce these fears has come a series of development proposals relating to Barbuda, including a multi-million dollar project called "The Sovereign Order of New Aragon". According to the *Financial Times*, this would involve completing a new hotel, building roads, a port and a new airport. As a pre-condition, however, it would involve the acquisition of "rights" over about half the island's land area.

These events appear to confirm all the Barbudans' worst fears. Their system of land tenure – probably unique in the developed world – appears to be under serious threat.

**T**HAT the Barbudans should seek to preserve their 150-year-old land system is far from surprising. A system that involves no payment of land rent to private landlords is a treasure indeed. In effect, the benefit of land rent is being shared by the whole population, although whether it produces completely fair results is difficult to determine. No doubt there are the usual difficulties inherent in a physical share-out of land; one citizen may be allotted very valuable land, another might get a less valuable plot while a third gets something palpably sub-standard. And it must be difficult to ensure that new generations of Barbudans – especially if population is increasing – are as well served as those of the present.

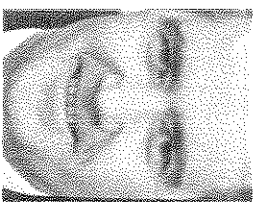
Of course, with only 1500 people living on the island, the problem of allotting sufficient living space to all of them might not be too great. But are there never any immigrants requiring somewhere to live? Can it be that for a foreigner to set up domicile on Barbuda is as difficult as becoming a citizen of, say, Monaco or Liechtenstein? The concern of the island council that the "foreigner" should be kept out is not difficult to understand.

● Turn to P.34

# Reports by BERT BROOKES

The graded tax, which levies higher rates on land than on buildings, is used by five cities in Pennsylvania. This may be a hidden treasure – “like finding gold in our own backyard” – claims WILLIAM J. COYNE, a Pittsburgh Representative in Congress. Here he explains why.

# ‘An idea we must nurture’



● William Coyne

**T**HE LAND TAX may have a critical role to play in halting the unemployment problem.

This may be viewed from the perspective of three related issues: America's economic strengths, land speculation and market incentives.

*America's economic strengths are many.*

The U.S. is still a very rich nation by any measure. We are blessed with vast natural resources. Our workforce is well-educated and highly skilled. We have no lack of needs and desires to keep production humming.

Yet our economy is on the skids. One out of every 10 workers is jobless. Clearly something must be missing from this formula.

*This brings us to land speculation.*

Imagine a little country where the people are willing to work but where the population is near starvation. Then you find that much of the fertile farmland is fenced off so it cannot be used.

You will find it easy to recommend a solution: let the people cultivate that good soil so that they can feed them-

selves.

Surprisingly, this story closely parallels what is actually happening in America's cities, where some of the most productive sites are, in essence, fenced out of use.

Let me quote from a Congressional report, *Compact Cities*.

● In 1971, the average city had 25 per cent of its land vacant;

● In 86 cities, land that was both vacant and usable amounted to over a million acres;

● Public agencies trying to buy up sites for public housing encounter high prices.

*This brings us to market incentives.*

Rarely have we heard why the market system did not save us from the Great Depression, or from the current prolonged recession.

If the tax system makes it more profitable to hold land out of use than to put it into production, the market system is undermined.

When land speculation becomes a national sport, the enterprise system is in deep trouble.

## ● BARBUDA: From P. 33

With Antiguan pressure for the development of the land of its junior partner, it is almost inevitable that a land-tenure system as elementary as this will begin to creak at the seams. A physical share-out of land – the division of 60-odd square miles among several hundred families – must involve a degree of fragmentation. And in the modern world, with larger units of land needed for the advance of industry and commerce – to say nothing of leisure and recreation – fragmentation becomes a major obstacle to progress.

The Barbudan system of land tenure, benign though it may be to its beneficiaries, can hardly hold back the currents for very long.

But all need not be lost. It is quite feasible for the islanders to modify the system so as to preserve its benefits without perpetuating its shortcomings. It is quite possible for them to continue to enjoy the benefits of the land rent; indeed, it is possible to arrange for future citizens, whether born on Barbuda or not, also to participate in its benefits. Yet there need be no bar to the use of land in large units for industrial or commercial purposes.

The secret is to cease giving individuals a physical share of the land and give them, instead, a share of the land rent.

The key is to require the land user to pay the appropriate land rent but to pay it, not into the pockets of private landlords, but into the public treasury from where it would be used for the benefit of all citizens.

For convenience, we call it a land-value tax. For convenience, the land can be privately owned and the owners can be granted title deeds. But periodical valuations of the land and an annual levy on those valuations would ensure that, as nearly as possible, the annual value of the land (effectively, the land rent) would be taken into the public purse.

The Barbudan Council, instead of manning the barricades to preserve their benign but out-moded system of land tenure, would do well to consider whether the interests of their citizens would be better served by abandoning the physical division of the land, with its built-in rigidities and prejudice against the foreigner, and introducing, in its place, a system of land-value taxation.

Many local authorities in the Commonwealth – for example, those in New South Wales and Queensland – would be happy to advise them on how to set about it.

## REFERENCE

1. *Financial Times*, 21.5.82.

**T**HE MISSING element in our formula for a dynamic economy is a device to put our idle land back into use.

The differential tax deals with these incentives in a rational way. Despite a national recession and despite a regional steel crisis, the five cities that are taxing land values more heavily and keeping their taxes on wages and buildings relatively low, are managing to show signs of economic growth unmatched by their neighbours.

This should be big news at a time when so many plants are closing, so many businesses going bankrupt, so many men and women searching for work. At the very least, these issues merit careful study.

● I would like to see our journalists do some investigative reporting about who owns Pennsylvania's urban land and natural resources – and how much those who are simply sitting on these resources are being taxed for them.

● I would like to see state and local officials look more carefully into the extent to which land values are being created by public works and services, and how much the recapture of these publicly-generated values could ease the tax burdens on housing, factories and other productive activities.

● I believe we in Pennsylvania are on to something exciting. I do not want to claim too much for it. But I would like to see us nurture it and make the most of it.

There is great appeal, in principle, to the idea of a new federalism that returns more powers to localities. But this cannot make much practical headway until and unless local governments tap into stronger revenue sources. It appears that land value taxation may be one of the most politically palatable and economically beneficial avenues toward increased autonomy.

Federal programmes aimed at helping cities obviously will be ineffective to the extent that these efforts are eroded by perverse local taxes that favour land speculation and that weigh too heavily on wage earners, homeowners and small businesses.

# Land — the no. 1 asset

**F**ORMER Congressman Thomas B. Curtis launched a scathing attack on U.S. federal financing in a recent speech in which he urged the need to tax land more effectively.

Statistics on the wealth of the nation were abandoned at the federal level in the 1920s, he said, and were now deliberately avoided.

The Economic Indicators prepared monthly by the President's Council of Economic Advisors followed the same format set in 1950.

"It is unchanged, measuring economic activity seemingly with a deliberate avoidance of measuring any aspect of wealth," he complained.

Mr. Curtis, a member of the Lincoln Institute of Land Policy, said that the property tax was unique because it expanded the tax base. He cited the case of education.

"Such expenditures made from the proceeds derived from wealth *increase* rather than *dampen* the tax base.

"Property, when it is taxed to support good schools, sewers, fire protection, police, and other community facilities, increases in value substantially beyond the specific tax paid.

"It is the only tax in the bag of taxes our society uses which attains this result."

All other taxes, he pointed out, cut into the tax base.

When public expenditure is financed by the property tax, the taxing authority is the same as the spending authority.

Unfortunately, said Mr. Curtis — a Republican who campaigned to get Ronald Reagan elected as President — the present Administration in Washington has forgotten the basic theory about fiscal policy: that tax policy cannot be separated from expenditure policy.

Budget Director Donald Stockman, he declared, did not know what a capital budget was.

Land, argued Mr. Curtis, was the capital asset *par excellence* with the greatest "shelf time." It was unique in that it included space, and was "mother earth from whence almost all other capital assets came."

The property tax, however, was

**BY PETER POOLE**

now the Cinderella of the taxes, "responding beautifully since World War II to our social needs, but needing a little grooming, a few new clothes, and certainly a little attention and understanding, a little tender loving care, and certainly less abuse."



● Thomas Curtis

**M**R. CURTIS recalled that in 1879, Henry George had argued that land was important and should be put to its most efficient use.

Despite the increasing sophistication of the social sciences since then, economists with PhDs had seriously neglected the study of wealth.

"Perhaps they believe that if capital is ignored, it will wither away. In 1920 those who were on the scene simply said 'Let's stop trying to measure it because it is too difficult to measure.'"

But the time has come for a change, insisted Mr. Curtis.

"We must start developing political science and remove it from the alchemists who are perverting it, just as we need to remove economics from the astrologers who fabricate weird patterns out of the blinking stars and predict all sorts of nonsensical futures for us."

A historical study of land utilisation would produce sound conclusions.

"The utilisation of land in America provides a very neat opportunity because the data covering only about 400 years are available and retrievable.

"And we are still in the era of transition — we are not yet in space and in hydroponics, so we need to learn much more about the efficient use of land and apply that knowledge to our daily lives.

"The essence of land reform in what we smugly refer to as the undeveloped world lies in a system of rational real estate taxation.

"Well, we are only a developing nation ourselves and we have much to do in land reform through developing a more rational tax system.

"We can begin by considering the site factor of land — as Henry George suggested 100 years ago."

**EIRE**

## *The politics of tough talk but little action*

**D**R. GARRET Fitzgerald, the Fine Gael Leader, formed the coalition government in Dublin after doing a deal with the minority Labour Party.

Labour originally drew up a list of strong demands as the price for entering into partnership with Fine Gael.

One of its demands was a 90 per cent tax on profits from the sale of development land.

Talks between the two parties resulted, sure enough, in the coalition. But in the end, the only clause in

their agreement affecting property was the decision to impose a property tax on people living in houses valued at more than IR £65,000.

Economics the *Political Science*  
A study of the Corruption of  
Economic Concepts

by V. H. Blundell

ESSRA Discussion Paper No. 3  
available from 177 Vauxhall Bridge Road,  
London SW1, £1.75 (p. & p. included)



● Francis Pym

## BRITAIN, ARGENTINA

● Lord Shackleton feared the worst. He warned that the Falkland Islands' future would be damaged if the British government rejected his call for land redistribution.

● On December 8, those fears were realised. Foreign Secretary Francis Pym announced schemes costing £31 m to improve the island economy. But he rejected

Shackleton's plan for land reform.

● Mr Pym declared: "We are not convinced by Lord Shackleton's proposal for the wholesale transfer and sub-division of absentee-owned farms. We believe this is inappropriate and consider a gradual approach to land redistribution under the auspices of the Falkland Islands Development Agency more in keeping with the

# Shackleton — a failure

LORD SHACKLETON was presented with a unique opportunity when he was invited to draw up proposals for the future of the Falkland Islands.

Innovation was imperative if Britain was to establish a solid basis for prosperity and the moral legitimacy of the British dependency.

Britain earned the right to define a new social order, that met the aspirations of all the islanders, when she committed herself to repelling the Argentine invaders.

The campaign cost over 200 British lives.

The price, however, was to be even higher — £7.5m in development aid — and to the financial advantage of the monopolists whose claims to land would have been worthless but for the loss of British blood.

● In September, Shackleton proposed that the land, which is largely owned by absentee landlords, should be *purchased* from the monopolists (cost: £18m) and sold to farmers.

● In October, the island council supported the plan by asking Westminster to end absentee ownership.

● In November, the Falklands Islands Company, which owns 43 per cent of the islands, declared its willingness to *sell* land to "pioneer families" from Britain at £1,000 a time, to set up farms along the road from Port Stanley to Darwin.

**S**HACKLETON had a clear appreciation of the economic processes at work on this cluster of South Atlantic islands. Historically, absentee owners

had drained the economy of profits. This haemorrhage had to stop, especially if Britain was to provide aid to make the economy a viable one.

Absentee owners, declared Shackleton, would appropriate the aid by converting it into rental income and sending it back to Britain.<sup>1</sup> Family farmers, however, would plough back their profits.

Owner occupation, then, underpinned the Shackleton proposals for appropriating and redistributing land. *But is this the most sensible model?*

We argued in a previous issue that a single fiscal policy (land value taxation) would provide a wide range of advantages — economic, social and diplomatic — and constitute a firmer basis for geopolitical stability.<sup>2</sup>

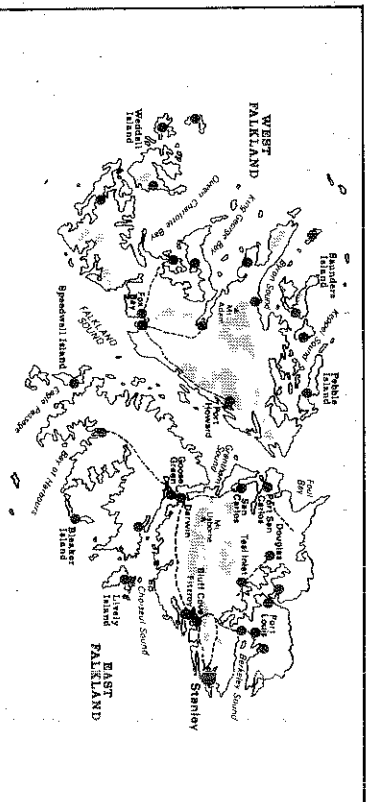
Under a system of land value taxation, the British taxpayer would not be asked to make further financial sacrifices in these depressed times. For the absentee owners, who would not be able to meet all their fiscal obligations, would be obliged to release surplus land to farmers for nothing.

The farmers, at no cost to themselves in terms of capital outlay, would acquire holdings to which they would have secure legal possession for as long as they paid the economic rent to the island community.

Shackleton himself noted that the tenancy arrangement had the advantage of making smaller capital demands on the farmer. He also identified one of the key defects in the existing land tenure system:

"The disadvantage is that even assuming that a satisfactory law can be drawn up giving reasonable security of tenure, the tenant at times of low wool prices, could well be squeezed out of business by a landowner anxious to maintain the level of his rent."<sup>3</sup>

**T**HIS CAN indeed occur under monopolistic conditions: landowners have no social obligations and are free to allow land to fall into disuse rather than accept lower rents. The expulsion of the Irish tenant farmers from their holdings in the 19th century, by absentee English owners, is a shameful example of this process.





# AND THE FALKLANDS

capacity of the islands' existing agricultural population and more consistent with realistic immigration prospects."

- This response was condemned by Mr. Terry Peek, a Falkland Islands legislative council member. The government's proposals, he said, would not break the stranglehold of absentee landowners.
- In the first of two articles,



● Edgar Buck

FRED HARRISON argues that Lord Shackleton – as well as the British Government – failed to develop the ideal solution for the Falklands.

- In the second article, EDGAR BUCK highlights the economic factors behind Russia's support for Argentina during the Falklands crisis.

## When trade might have averted war

THE APPARENTLY inexplicable factor in the Falklands crisis was the friendly relations between Russia, a communist country, and Argentina, ruled by a fascist junta.

The explanation for this is economic. Historically, Argentina and Britain were friends, and for many years, trade between them was substantial and profitable – both ways.

Argentina supplied, among other things, good cheap beef raised on great ranches and, in return, Britain supplied a variety of goods and services.

When Britain joined the *European Economic Community* all that changed.

High tariffs were placed upon meat coming from outside countries. It is officially recorded that "exports of beef were considerably reduced from mid-1974 as a result of European Community Import Restrictions".<sup>1</sup>

This was serious because cattle ranching covers about half the total land area of Argentina, a third of its exports is meat and meat-by-products, and the total contribution of agriculture to export income is 90 per cent.<sup>2</sup>

The European Economic Community was recommended as a free trade area which would benefit member States. But the words "free trade" are misleading, for they mask the true economic description which is: a "cartel to keep up prices". The tariff on beef imported from Argentina is 70p per lb.

The trade between the United Kingdom and Argentina was seriously affected as the table shows.

A POLOGISTS for the protectionist system let people believe that the tariff tax is paid by the foreigner, when clearly it is the British consumer who ultimately pays; and secondly, because the beef is placed on British wharves at its agreed price, and the 70p tax added, the price of the meat, plus the tax, becomes the sum upon which the importer expects to have a

profit on re-sale. In the process of further dealing, the various handlers add their profits to the composite sum so that the consumer bears much more than the original 70p per lb tax.

There might well be a rejoinder that the object of the exercise is to keep the beef out, so that the total amount of the tax would not be all that large if the tariff were effective, because there would be no trade.

Either way, the British consumer pays the equivalent of the tax in the price of the meat, and its effect is to subsidise inefficient producers within the cartel. This is a direct reduction in the standard of life of the British people who, in addition, pay colossal sums to belong to this silly system.

This brings us back to the inexplicable factor in recent events: Why was there no condemnation of Argentina by Russia?

Clearly it was because Russia was receiving the cheap meat which, before Britain's entry into the E.E.C., had been imported for the benefit of British people. Obviously Russia did not want to surrender these cheap supplies, nor Argentina its market.

Free trade between nations establishes an inter-dependence which is a greater guarantee of peace and co-operation than all the treaties, charters and armies one can imagine.

In the case of the Falklands, therefore, it is worth asking: "Would the government of Argentina have invaded the Falklands had trade between Argentina and Britain been at the level it was before it was halved by the cartel tariffs of the Common Market?"

### REFERENCES

1. *Hints on Exports to Argentina*, British Overseas Trade Board, 1980/81.
2. *Atlas of Earth's Resources*, London: Mitchell Beazly, p. 130.

### U.K. – ARGENTINE TRADE (£m)

U.K. imports	1973	1975
U.K. exports & re-exports	106.1	53.4
	41.7	67.7

### REFERENCES

1. *Falkland Islands Economic Study 1982*, London: HMSO, Cmd. 8653, 1982, pp.9, 10.
2. P. E. Poole, "The Case for a Heritage Fund", *Light & Liberty*, July-August 1982.
3. *Op. cit.*, p. 59.
4. H. S. Ferns, "What Next for the Falklands?", *The Journal of Economic Affairs*, July 1982, p. 251.

This would not happen under a system in which the community taxed away the economic rent of land for the benefit of all its citizens.

For if prices fall, there is a lower surplus – economic rent – to be claimed by the exchequer. Regular revaluation of annual land values enables the tax authorities to sensitively adjust their fiscal claims.

Thus, there would be no hardship, and no monopolistic barrier to men who wish to work on marginal land that can produce just sufficient income to pay for wages and interest on capital investments.

The attractions of raising exchequer revenue for the islands from its natural resources, rather than from labour and its products, were itemised by Prof. H. S. Ferns:

"As a place where there are no taxes on workers, no taxes on enterprise, none on exports, not on imports, and no interference with honest productive activity, the Falklands would have enormous attractions for workers and business people in the unstable, chaotically 'managed' communities of southern South America."

Shackleton could have exercised his influence in the direction of just such a prosperous, libertarian society. Instead, he reaffirmed the system of property relations that he had condemned as inequitable and inefficient.

Enlarging the number of land monopolists might present fresh opportunities for today's islanders, but what about the needs of the next generation?

# EEC — a heavy burden

**W**HATEVER may have happened in the 1975 Referendum, relatively few British people in any political party feel the slightest enthusiasm for the Common Market today.

Those who do feel any enthusiasm tend to belong to special categories: some farmers, bureaucrats and lawyers who have managed to mount the gravy-train, plus a diminishing band of people who always have felt a strong cultural affinity with Europe.

"The average Briton" — as Anne Daltrop writes in her book — "remains unconvinced of any pressing need to cross the Channel other than for a fortnight's annual holiday in the sun".

By contrast, a great many continental Europeans really do feel a strong sense of "European-ness", quite apart from any national feeling they may entertain.

The tradition goes back to the Roman Empire. In the Middle Ages, Pope and Emperor alike claimed authority over all Europeans, as successor to the Romans. Well into the 20th Century, the Roman eagle was the badge of Russia and Austria. "Tsar" and "Kaiser" are both corruptions of "Caesar".

In the immediate aftermath of 1945, people came to see (surprise, surprise!) that "if goods cannot cross international frontiers, armies will". With encouragement from the United States, Europeans began to edge towards economic union. In 1957-58, they formed the E.E.C., with boundaries coinciding almost exactly with those of the empire over which Charlemagne had ruled eleven and a half centuries earlier.

**T**HE HISTORY and structure of the E.E.C. form the subject of Anne Daltrop's book.

Unfortunately, the book suffers from one of the worst-designed dust-covers I have seen for a long time, and there are a few small slips about the organisations which battled against one another in the British Referendum campaign of 1975. But in general, the book is lucid and well-written, and an excellent source of factual information about matters on which few people are adequately informed.

Yet, in a sense, it is a depressing work.

A quite fantastic amount of thought, as well as honest and far-sighted

idealism, has gone into the Common Market. We do not — and cannot — know how large a part the E.E.C. has played in healing that accursed rivalry between France and Germany which has cost incalculable numbers of human lives; but there is something to be said for the view that its part has been considerable.

So does the E.E.C. rank as what the authors of "1066 and All That" called "a Good Thing"? As with most putative Good Things, that depends on the angle from which you examine it.

From Britain's point of view the E.E.C. is, to say the least, a most dubious asset; and there are several fundamental objections to the whole thing.

## BOOK REVIEW

By Roy Douglas

Anne Daltrop  
*Politics and the European Community*  
London: Longman, £6.50

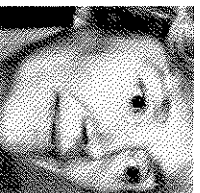
**I**N THE first place, membership carries a requirement to impose common tariffs on goods from the rest of the world. Most of Britain's trade was conducted with non-Europeans. In both world wars, Britain managed perfectly well with practically no European trade, but the submarine campaigns against imports from outside Europe posed a threat to her very survival.

Before she joined the E.E.C., Britain was a relatively low-tariff country. She has now been obliged to impose new tariffs which choke the most vital part of external trade.

*Do we wonder that British unemployment is now the worst of all major nations in the world?*

The effect has been particularly bad in connection with food prices and their general effect on living costs. The cheap-food British economy was joined to the dear-food economies of the E.E.C.

Not is that all.



● Anne Daltrop

● Roy Douglas

As Anne Daltrop tells us, 40 per cent of the Community budget in 1979 came from the Common External Tariff, and a large further proportion on foodstuff levies imposed on imports from outsiders. This policy has done little or no harm to historically autarkic countries like France, but has had a terrible effect on Britain.

Indeed, it has cut against Britain in almost every direction. The aim of the C.A.P. (Common Agricultural Policy) is to improve the efficiency of the agriculture of member-states. British agriculture was relatively efficient before we joined. Thus, the British consumer now finds himself paying taxes on his food in order to subsidise foreign farmers to enable them to compete more effectively with British farmers.

The whole thing is charged with the domestic politics of member-states who have uneconomically large peasantries.

This book provides some useful figures. "At the beginning of the 1980s almost three-quarters of the Community's budget was being used for farm support, to buy, store or dispose of food surpluses grown by farmers who made up less than eight per cent of the Community's work force." Again, in Britain "in 1976... butter was 220 per cent higher than on the world market, wheat 124 per cent and beef 158 per cent."

**F**INALLY, the E.E.C. is profoundly undemocratic in its whole conception. Its mainspring is the Commission, whose members — once appointed — are, for practical purposes, irremovable.

The so-called "European Parliament" has no control over revenue raising; about the only thing it can do, short of requiring the resignation of the Commission *en bloc*, is to reject the Community budget.

Thus the noble conception of European union collapses in a miasma of internal politics.

Whatever may have happened between Germany and France, the people of Britain have become deeply soured towards the continent as a whole, while the entire structure threatens to evolve into a protectionist bloc which will run into deep antagonism with the United States and the Soviet Union alike.

*Not a bright prospect!*

**U**NEMPLOYMENT and stagnation have been steadily rising in many countries, and there has been a rising chorus in most of them demanding more protection from foreign competition. The old fallacies of protectionism ride again.

But strong voices have spoken out against this trend.

President Reagan, as reported in the last issue of *Land & Liberty*, warned how peace was threatened by the growth of protectionism.

Former Presidents Jimmy Carter and Gerald Ford have, in turn, issued a joint statement which declared: "Governments in many parts of the world are faced with pervasive economic ills: sluggish economic growth, high rates of inflation and high levels of unemployment. In the search for solutions, they are being pressed to guarantee markets for particular interest groups by adopting protectionist measures: import restrictions, export subsidies, trade barriers in new guises.

"These seductive remedies for economic ills threaten to drag the world into another period of trade warfare such as the one we experienced during the Great Depression.

"They are seductive because they promise remedies to ills without taking into account the new ills they will create. In fact, they are not a remedy for the principal malady for which they are prescribed: unemployment. The truth is that for every job they protect, they are likely to cause the loss of more than one job. Trade warfare will put the world economy at peril..."

Well said! Carter and Ford were right to link protectionism with the economic conditions of the '30s. At that time, during the most crippling depression in U.S. history, the worst tariff in U.S. history was passed – the Hawley-Smoot tariff – which economists agree simply deepened the world crisis.

Yet the "seductive remedies" of protectionism are again appealing to many.

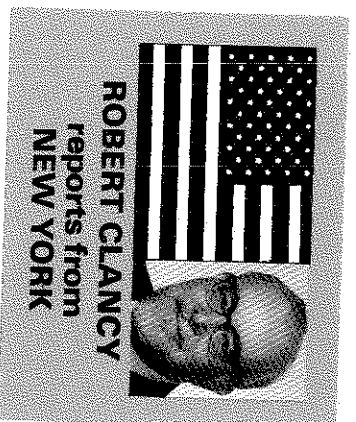
## VANDALISM!

**BRITISH** Leyland, the ailing car maker, is about to demolish over a million sq ft of factory space in Coventry to avoid paying £191,000 in rates, the local property tax.

Coventry Council levies 50 per cent of the normal rates on unoccupied premises.

The full story of the destruction of buildings, as a way of sidestepping rates, appeared in the Jan-Feb. 1982 issue of *Land & Liberty*. Rates are not payable on vacant land.

## It's time to practise what we preach



In the last election, Democrats made considerable gains in Congress and in state governments at the expense of Republicans. The poor state of the economy was the chief issue – and when conditions are bad the party in power always loses.

Jobs were an overriding concern – and it is hard to convince the unemployed, and those threatened with unemployment, that foreign competition is good.

In years past, Republicans were the high-tariff party and Democrats the low-tariff party. Roles have been reversed. Now Republicans are preaching free trade while Democrats preach protection.

In the old days Republicans generally sided with industries which wanted protection against foreign competition. Nowadays, with so many multi-national corporations, it's the labour unions which feel most threatened, and their main influence is in the Democratic Party.

**I**NDUSTRY, however, is still worried. Although top leaders are expressing sentiments in favour of free trade, there is still a lot of hedging.

Here is an excerpt from an interview by *Barron's* (a financial weekly) with U.S. Commerce Secretary, Malcolm Balbridge:

Q: To sum up on free trade, you're in favour of almost free trade?  
A: I'm in favour of free trade but we have to protect ourselves on the way to it.

This curious sentiment expresses the current ambiguities on the subject.

In the first place, "free trade" – an untrammelled international free market exchange – is far from being promulgated. Instead, what is under discussion is an "international trading system" which is by no means free from government involvement. Cautious agreements are negotiated one by one, quotas are imposed and countries are asked to exercise "voluntary restraints" in exporting their products.

The U.S. protests against the subsidising of agriculture by the European Economic Community, but does remarkably similar things with its own agriculture.

*The free market is preached but not practised.*

There is still a European Free Trade Association, consisting of western European countries which are not members of the E.E.C. (Britain and Denmark dropped out of E.F.T.A. when they joined E.E.C.) But E.F.T.A. does not amount to free trade either. The association has import-export problems and member nations have negotiated deals with one another as well as with E.E.C.

The U.S. has lost a lot of its manufacturing leadership, especially to West Germany and Japan. Not to worry, say the optimists, the U.S. is forging ahead in the service industries (computers, telecommunications, etc). True – maybe. Other countries want to get in on this act too. And the service industries are not making up for the loss of jobs in the manufacturing industries. The U.S. has the highest rate of unemployment since the '30s – and so have many other countries.

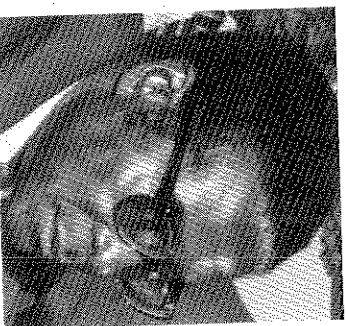
Thus there are many forces and undercurrents causing the rising tide of protectionism. The question is: can all the King Canutes hold back this tide?

The unsolved economic problem lies at the root of the world trade problem – and ultimately world peace. The spectre of unemployment and depression still haunts the world. Measures so far adopted – ranging from supply-side to Keynesianism to socialism – have not worked.

Is it not time to look at the fundamental but generally ignored diagnosis of land monopoly and land speculation as the basic cause of unemployment and depression?

Should we not now consider the fundamental remedy of full land value taxation and the abolition of other taxes? This measure would encourage production and permit a truly free market to operate without the dangers inherent in our present system. With a prosperous domestic economy, free international trade would come much more easily.

# A message to Mugabe



● Robert Mugabe

By PAUL KNIGHT

but one wonders why it has not attempted more in the economic field during its 2½ years' existence.

Why does it spend so much effort on state visits (there were three in early November) and political invective? Is it so bereft of

ideas and initiative that it must still retain the repressive laws of the Ian Smith regime to the detriment of industrial expansion, individual enterprise and freedom?

The country is hemmed in by its location, its access to the sea being over unfriendly South Africa which nevertheless serves it better as a corridor of trade than the alternative, though friendly, Mozambique, a country still in turmoil.

But must it cut itself off even more from the outside world by severe exchange controls?

Comrade Ushewokunze may see that rights to land are the basic problem, yet he appears to spend his main energies harrasing people, particularly the whites.

If may not be practicable for everyone to own a piece of land in the sense of becoming a farmer; nor does the constitution agreed at Lancaster House allow the existing (and economically vital) commercial farmers to be taken over except by purchase.

● But would not a national tax on land values help to redress the present inequitable distribution of ownership and in a real sense give "every man a piece of land"?

● Equally, some relaxation of exchange controls, particularly in respect of new industrial enterprise and materials needed for the existing industry, could help national regeneration.

Industrial expansion in Southern Africa is necessary to absorb and release the energies and enterprise of the emerging nation, where blacks and whites alike have much to offer and much to lose.

Both these steps – taxation of land values and easing exchange controls – could result in further exodus of whites which in turn could aggravate and lower the levels of skills available in the country in the short term.

But if the changes were made gradually, the immediate loss could be contained and even reversed by new expertise, not only from Europe. In the medium and long term, the benefits from such a liberation of spirit could be crucial.

*May we hope that Mr. Mugabe, who must be well aware of all that is said above, will turn his energies – and those of his ministers – towards economic reconstruction, so that all Zimbabweans may look forward to a future of peace and prosperity?*

THE CONFLICT in Zimbabwe which culminated in the national war of liberation was not motivated by a desire among black Zimbabweans to become white but was essentially a class struggle between the usurpers of the country's wealth on the one hand and the landless blacks on the other.

So said the Minister of Home Affairs, Comrade Herbert Ushewokunze, who went on to stress that the conflict was not over "colour, language or religion" but over land and mining rights acquired by the colonisers.

The struggle, he added, would continue until there was a "just distribution of the nation's resources".

Within days, the outgoing chairman of the Natural Resources Board, Mr. Lance Smith, expressed disappointment at the way in which the agricultural resettlement scheme was being applied: he did not consider that the resettled farmers could survive and bring up a family on a sustained yield basis comparable to the existing (white owned) commercial farms.

He pointed out that there was "no other source of wealth but that produced by the energy of the people applied to the land at their disposal", that there is "nothing that does not come from the land and nowhere to turn if we muck it up".

Mr. Smith also argued that it was a mistake for the government to allow the inhabitants to believe that "every single man had a right to a piece of land".

Between these two speeches, the U.N. Secretary General issued a report on economic assistance to Zimbabwe and stressed the adverse effect of the lack of foreign exchange on the well developed and diversified manufacturing sector. Such industry was dependent on imports of materials and capital equipment and, due to lack of foreign exchange to purchase, their manufacturing output was not absorbing the labour force available.

WHAT LESSONS can we draw from these three quite independent statements made in the same week?

The freedom of action of the Zimbabwe government is subject to severe restraints due to political, territorial and constitutional factors,

Joseph Hanlon in *The Guardian*, 3.12.82.