

LAND and LIBERTY

MARCH-APRIL 1988

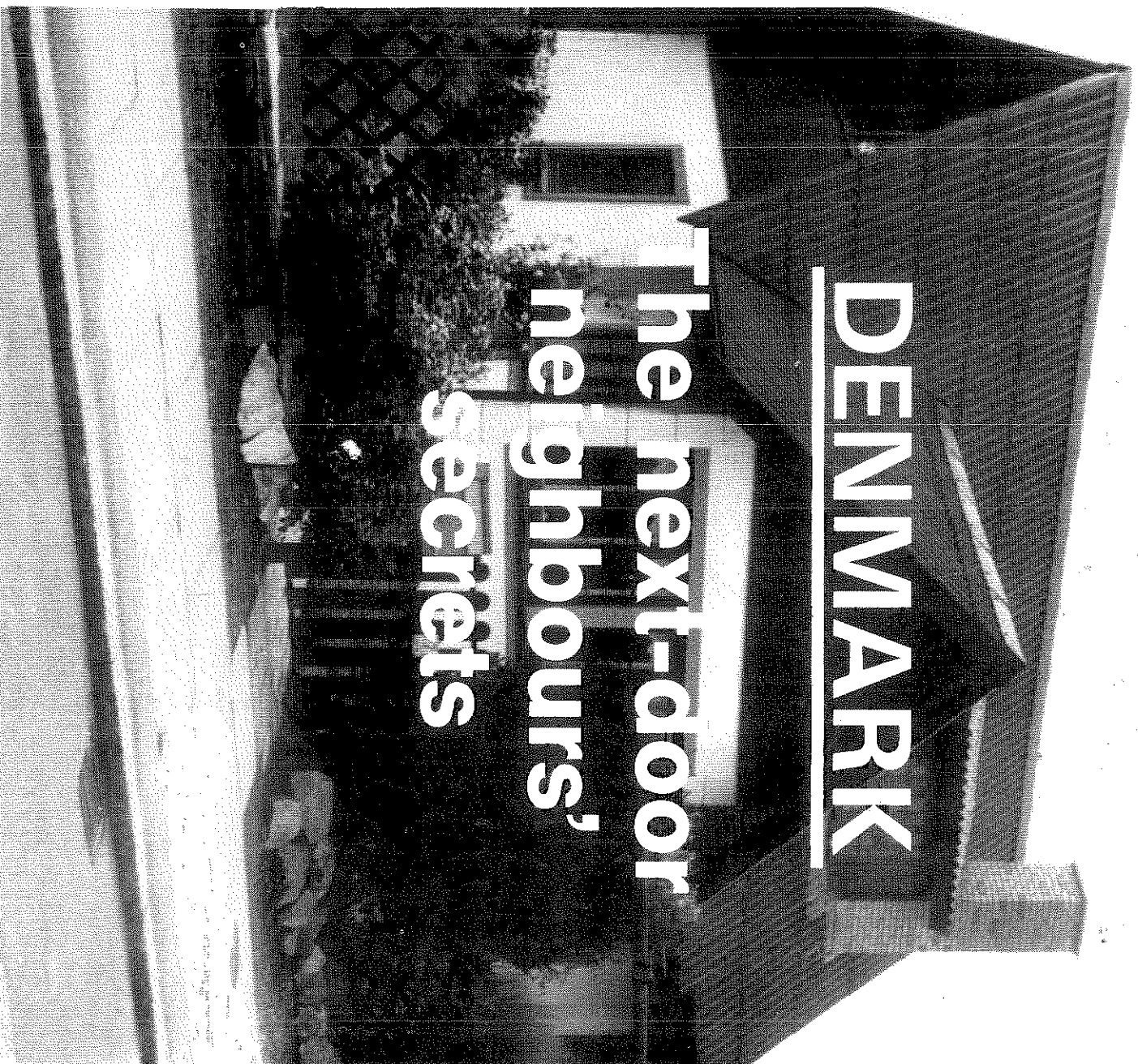
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EUROPE IN
DOCKLANDS

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DENMARK

The next-door
neighbours'
secrets



LAND and LIBERTY

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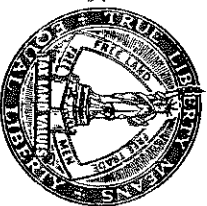
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CONFERENCE

• The 18th conference staged by the International Union for Land Value Taxation and Free Trade will be held in Philadelphia on July 29 - August 6, 1989.

• Accommodation has been reserved at the University of Pennsylvania. Details of the programme, and booking arrangements, will be announced when they become available.

POLL TAX IS UNFAIR ON EVERY COUNT

THE BRITISH government is now actively persuading Parliament to abolish the property tax, which has provided the finance for local governments for centuries.

In its place will go a Poll Tax – a levy on the head of each person over the age of 18.

This legislation, says Premier Margaret Thatcher, is the 'flagship' of her current administration.

And the principal justification for this fiscal change?

Accountability!

The change, she thinks, will encourage voters to withdraw their support for the handful of left-wing councils that spend more than most on welfare services. More, that is, than Mrs Thatcher thinks they ought to spend on locally-administered amenities.

THIS RATIONALE is contained in a letter from Michael Howard, the Minister of State for Local Government.

Mr Howard attacks a tax on site values as an unacceptable alternative.

"Our principal aim in introducing the community charge is to restore accountability to local government," he writes. "At present, out of 35m adults in England, only 15m are liable to pay rates. This undermines local accountability, because half of the electorate are free to vote for extra spending by their council, safe in the knowledge that someone else will meet the cost."

DOES THIS mean that the people exempt from the Poll Tax should be deprived of the vote?

DOES THIS mean that people who make disproportionately heavy claims on local services – such as old folk and children – should be liable to higher taxes than others?

DOES THIS mean the end of graduated income tax (for don't low-tax payers vote for policies that have

to be financed by high-tax payers)?

POLITICIANS will use any argument to defend the indefensible, once they are on a hook – even if that argument is spurious.

At the same time they will debunk sound policies which they do not happen to support. Take the proposal to finance local government by relating the tax to land values. Mr Howard says that this "must be considered unsatisfactory."

Why?

He suggests two reasons. One is "the many technical difficulties" – difficulties, it seems, which Denmark has no problem in overcoming. (See facing page).

But he rests his case on statistics. The major drawback with site value taxation, it seems, "is that it would do nothing to restore accountability."

For since there are fewer land owners (who would pay a land value tax) than there are householders (who currently pay the property tax), a land value tax would exacerbate the problems and weaken still further the link between voting in local elections and consuming and paying for local services.

Henry Law exposes some of the fallacies of this argument (see back page). No matter who votes for them, the benefits of local services are capitalised into land values, so site value taxation is the fair and efficient way to fund these amenities.

If the government wishes to deal with the problem of unrepresentative councils, there is a rational electoral policy for this: proportional representation.

In fairness, it must be said that the Conservative Government knew all about unrepresentative governments: it received far fewer than 50% of the votes cast at the last election!

The real State of Denmark

DENMARK'S system of taxation is advocated with approval by reformers who believe that major benefits would flow from a system of land value taxation (LVT). Is it really rosy in Denmark? Or should we heed Hamlet's caution, that there is "something rotten" in this Scandinavian state?

Denmark adopted LVT 70 years ago, largely at the behest of armers. Today, more than 1.7m parcels of land are valued separately from capital improvements, and the data is published annually by Danmarks Statistik, the Government's central statistical office.

Additional information is published in the annual abstract of statistics (*Statistik arbog*), the

FRED HARRISON visited Copenhagen to appraise the tax policies of an "enlightened" country: heaven or hell?

annual review of sales of real property (called *Ejendomssalg*), and a monthly review of statistics (*Statistik Månedsoversigt*) which lists the price of land in its various uses.

For property tax purposes, each house is valued on a dual basis: the property's total (improved) value, and the site's value as if it were not improved. The

information is available to the public in the town hall of each commune, although for 35 of the 200-odd communes there is a more accessible source: their telephone directories – see below.

Thus, a homeowner can compare the value of his property with his neighbour's, for appeal purposes; and prospective purchasers can test the sale price of a house against the official valuations for other properties in the neighbourhood.

The published data on plot

Continued on Page 20 ➔

ENGAGING NUMBERS

DANES use telephone numbers when they talk about their land values. But that's not to say their prices are necessarily astronomically high. Homeowners look up the telephone pages to discover the value of their neighbour's property!

Mostrup, a Copenhagen-based subsidiary company of Thompson's, the British publishers of *Yellow Pages*, includes the assessed values of properties in their direc-

tories. Over 1.6m copies of *Vejviseren* are circulated free to householders. Tucked alongside the number of the house and the name of the street are two numbers: the total taxable value, and the value of the site under the house.

Why include this information? According to Leif Milwertz, the marketing director: "People want the property values published for several reasons. If they are thinking of buying a holiday home or cottage by the sea, they can pick up the telephone directory for the area and see what the general prices are, without going there.

"When a house is offered for sale, its price is usually higher than the assessed value. By looking up our directories, the buyer can compare the asking price with the assessed values for that area. Some people like to read the information so that they can see what their neighbours property is worth. You can gossip about it."

In a period of rapidly rising prices the assessed values can be 10 months out of date: so buyers cannot use the telephone numbers as infallible guides to market prices.

Some communes, responding to the wishes of their residents, have asked Mostrup not to publish the assessed values. Says Lise Saxild, the Editor of the directories: "We are entitled to have this information, which is public knowledge. But if an individual property owner asks to be left out, we will agree."

Poll Tax : the alternatives

TORY Cabinet Ministers, defending their Poll Tax legislation, insist that Opposition parties have no credible alternative to offer, writes Ian Barron.

But now the Association of London Authorities has announced plans that could form the basis of Labour Party proposals at the next election.

The ALA suggests that rates (the local property tax) should be retained but reformed. It is exploring two alternatives to the present method of basing valuations on the rental value

of properties: either

- assess the composite value of land and buildings on the basis of capital values, for which there is plenty of open market data available; or
- switch to a site value tax.

"In either case there is a workable solution to the technical problem of undertaking a revaluation," says the ALA, which welcomes comments. Their address: 36 Old Queen Street, London SW1H 9JF.

TABLE I: DENMARK: VALUE OF REAL PROPERTY

Number of assessed properties (millions)	Total property value	Land Value		Total value	
		Agriculture & Forestry	Other		
Krone, millions					
1920	0.49	12,049	2,795	2,197	4,992
1960	0.84	29,478	3,789	5,479	9,268
1960	0.98	68,419	5,812	11,363	17,176
1969	1.33	242,908	12,196	55,223	67,419
1977	1.66	769,515	39,077	155,197	194,274
1981	1.78	1,115,142	41,800	277,886	319,686
1984	1.80	1,076,576	35,751	232,137	267,888

TABLE III: INDEX OF THE INCREASE IN PRICES: 1965 = 100

Farms: ha 5-15	Single family houses	week-end cabins	building plots (under 2,000 m ²)		
1982	426	337	409	617	815
1983	508	420	496	715	859
1984	587	470	573	829	962
1985	691	581	670	947	1210

TABLE III: INDEX OF THE INCREASE IN PRICES: 1965 = 100

	1983	1984	1985
	1	2	3
	mill. krone		
	131,024	151,175	171,340
Income taxes			
Of which:			
Personal income taxes	124,007	133,856	151,567
Corporation tax	6,994	14,125	14,533
Compulsory fees, fines and penalties	560	732	883
Labour market contributions	9,196	11,764	13,794
Taxes on wealth, real property, etc.	12,711	10,369	11,558
Taxes on goods and services	84,737	94,747	104,925
Of which:			
VAT	50,237	55,318	61,552
Other production duties	476	676	977
Tax incidence total, in % of GDP:	46.6	48.1	49.5
Indirect taxes	17.8	18.3	18.6
Direct taxes	26.7	27.6	28.7
Other taxes	2.1	2.2	2.2



← From Page 19

prices, the number of transactions, the tax rates, etc., is impressive. Table I gives the value for all Denmark.

In 1920 the value of land comprised 41% of total property values. This proportion dropped to 31% in 1950, and was down to 25% by 1960.

NATIONAL REVENUE

Scandinavian countries are notorious for their high income taxes. Denmark is no exception. The Government takes HALF of GDP to spend through the public sector (Table II). The contribution of real property to the exchequer consisted of 2% (1986) of total net payments. Wages and salaries contributed 44%.

In 1936, the average municipal land tax was 1.2% of capital values. The highest rate was levied by Copenhagen: 4.7%.

Price/assessment ratios

Housing Denmark's assessors, originally using land values maps and now with the aid of computers, achieve a close correspondence between their estimates of values, and market prices. With prices rising at an annual rate of

TABLE II: TOTAL TAXATION

DENMARK: Population: 5.1m. Employees: 2m Unemployment (1987) 9%. Families receiving social security payments: 131,000+

between 10% and 18% in the residential market, the average percentage of price to assessed value was 96% (1982) and 108% (1983). The assessors were more accurate when dealing with single-dwelling properties than with properties made up of multiple units.

Agriculture The assessments were about 5% out, except for the very large farms, for which the figure was out by around 7-10%. Significantly, during this period, the price of 10-100 ha farms doubled in the years 1981-1984, whereas they "only" increased by between 66% and 80% for land in smaller holdings.

Land speculation?

There is no doubt about which

THE TAXES (Kroner m.)
on real property: 6,376
wages/salaries: 142,795
total payments: 323,509
€1 = 11.20 krone

part of a residential property is appreciating fastest in price in Denmark. Table III compares bare land prices with the rate of price increase for developed properties. The sharp up-turn in the price of building land in 1984-5 was associated with a drop in the number of new dwellings completed: from 26,863 (1984) to 22,867 (1985). There was no equivalent sharp increase in labour and material costs.

But there was an extraordinarily high increase in the number of mortgages registered in 1985 (so there was no shortage of demand). This indicates an "over-heated" market: people were speculating in the rising price of land.

According to the theory of LVT, a tax on land values deters anti-social speculation which, when rampant, forces up land prices and reduces employment opportunities. What does the evidence from Denmark reveal?

Poul Uffe Dam, the statistician in charge of ADAM, the government's economic forecasting model, told *Land & Liberty* that there was no withholding of land

from construction because this was deterred by the tax on site values — what he described as a “Henry George effect”, referring to the American social reformer who advocated a shift in the tax burden from labour and capital onto land.

But we have already noted one boom in residential land prices, during the mid-1980s. The conclusion, then, is that the tax rate was not high enough to eliminate all the incentives to speculate in land.

But in addition to the direct disruption to the economy, as a result of withholding land from use, damage also arises from a maldistribution of income. This can be seen at work in Denmark’s agricultural sector. In the short period of four years, between 1975 and 1979, the price of farm holdings nearly doubled!

Most of this is explained by the payment of subsidies under Europe’s Common Agricultural Policy. The spending and investment power was shifted in favour of agriculture, which had all kinds of consequences for the economy.

Again, the tax rate on land values was not high enough to neutralise this effect. The government could have tapped the extra rental revenue being pumped into agriculture, which would have enabled it to reduce taxes on people’s earned incomes — if it had wanted to do so.

These are powerful reservations about the Danish experience: many taxpayers would certainly say that there was something rotten about the burden of their income taxes! The sociological evidence also suggests that the paternalistic welfare state, which is built on the enormous public sector tax-take, is nurturing a system that is rotting at its core (see above).

Nonetheless, Denmark’s fiscal system *does* teach us some valuable lessons.

MARCH/APRIL

‘Best country in

the world’

DENMARK is the best country in the world in which to live, according to a University of Pennsylvania computer study.

Data from 124 countries was compared, which revealed that Denmark has the highest standard of living and a welfare system second to none.

Violence, poverty, mass unemployment, class division, racism, inner-city decay and political extremism are virtually unknown. Education is first-rate, and *joie de vivre* is high.

So the survey concluded that Danes are content with life.

They are also killing them-

selves in record numbers.

The suicide rate, which places Denmark at the top of the west European suicide league, is three times higher than Britain’s.

1,600 people kill themselves each year, while 15,000 more attempt it. Danes are twice as likely to commit suicide as die in a traffic accident, and one in four who die in their 20s does so through suicide.

Various explanations are

offered:

- Danes, beneath a veneer of happiness, have a gloomy outlook.

- The society has become so secular that people believe they have the right to kill themselves.

- The welfare state institutionalises people, who therefore are incapable of solving problems. Psychiatrist Jytte Willadsen says: “People find the state cannot cater for their feelings.”

- The accuracy with which government assessors can measure the market value of land is vital in countering the argument advanced by a few eminent land economists — such as Donald Denman, Emeritus Professor of Land Economy at Cambridge University — that it is not possible to separate the value of land from the total value of a property.

Denmark’s assessors execute this exercise routinely, and property users are not known to have taken up arms against the result!

- Reformers who propose that the property tax should fall exclusively on the value of land (because a tax on capital improvements restrains investment) need to be sure that assessors can avoid over-estimating the market value of sites. The evidence from Denmark inspires confidence in this ability.

Danmarks Statistik is based at Sejrogade 11, Postbox 2550, 2100 Copenhagen Ø.

- The equations in ADAM are under continual revision. Danish economists do not have closed minds, so they could experiment with a path-breaking approach to economic forecasting. This would mean modifying ADAM. Radical changes are overdue. According to Poul Uffe Dam, when they tried to persuade ADAM to explain the trends in house prices, it “blew up”. Probably because there was a missing equation; one that gave due weight to the land variables?

Work on these equations, which are missing from the econometric models used by every government Treasury in the world, has already begun at the Department of Economics at San Diego University, California.

- Countries such as England treat information relating to property transactions as state secrets, which makes it difficult for scholars to understand exactly what is going on in the land market. Denmark’s open approach demonstrates that economic anarchy is not a consequence of disclosure!

Textbook to make the politicians sit up

BRINGING AN END TO CITY MISERY

ACADEMIC economists tend to leave the study of urban problems to the geography departments. That explains why so many textbooks on the subject are irrelevant to the issues of the day.

The consequence has not just been one of missed political opportunities, but rather of bad policies – based on misinformation and misunderstanding – accelerating the decline of inner cities and whole regions.

In the United States, the drive to rescue the urban environment has been driven by a hotch potch of policies that have largely rewarded the land speculators who have done the most to displace people and jobs from the centre of cities; speculators who,

By **PETER POOLE**

in the exercise of their rights, have nurtured decay where there should be growth, and profited from human misery where there should be a continuous celebration of a wholesome alliance of individual enterprise and the communal ethic.

These issues are thrown into sharp relief in Britain, where the central government – which exercises greater control over regional economic and political activity than is the case in the US – has

just overhauled its urban and industrial policies.

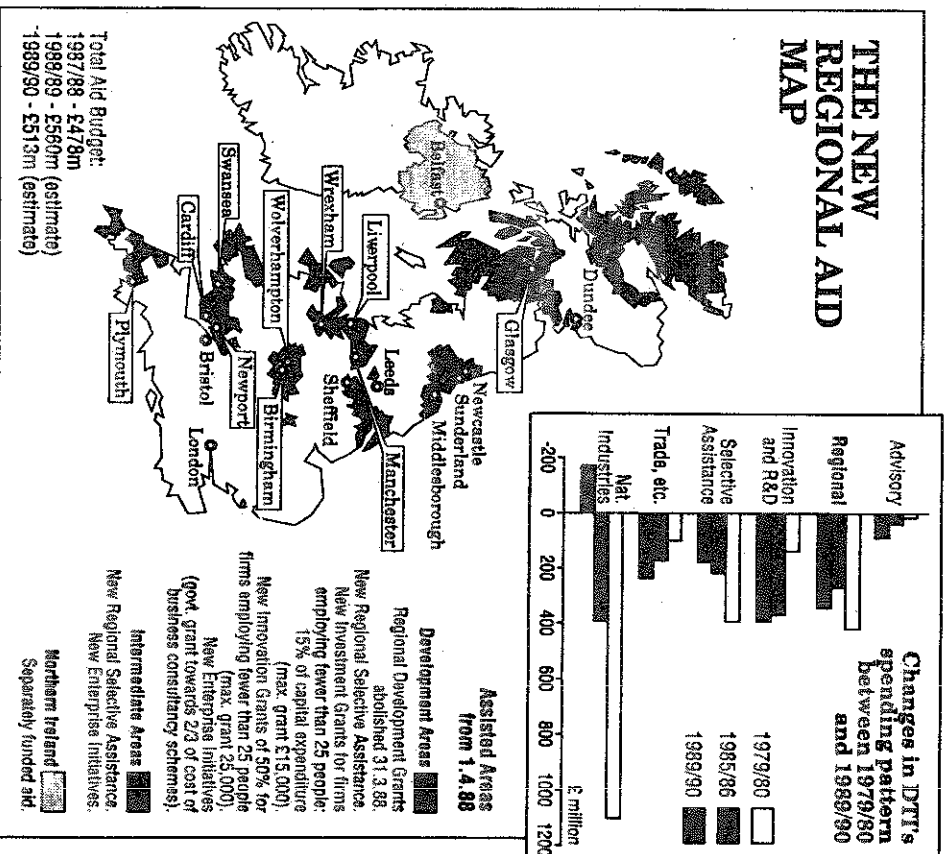
Among other proposals, the Thatcher Government is withdrawing regional aid in favour of selective grants that are biased in favour of small firms. At the same time, it is introducing laws that directly undermine the goal of helping the derelict inner cities and impoverished regions – for example, the decision to abolish the domestic property tax, and the introduction of the Poll Tax as the alternative revenue raiser, which will favour the rich south and further impoverish the underemployed north.

A critical time, indeed, for regional and urban studies. And at last we have a textbook that addresses itself to these issues in a comprehensive, hard-headed manner.

Dr. Paul Balchin and Dr. Gregory Bull are lecturers at Thames Polytechnic. Their *Regional and Urban Economics* (London: Harper & Row, £8.95) ranges over the theoretical literature and contemporary policies; but they also test these against the empirical evidence.

By adopting the economist's perspective, they are compelled to consider issues that tend to be underplayed by textbooks from the same shelf. The ownership, use and taxation of land are recognised as crucial factors in the complex forces that, on the whole, are leading to the disintegration of the built environment.

The authors are critical of postwar Labour Governments that have been "repeatedly side-tracked by the aim of taxing development or betterment values,





• **HARD-HEADED HEROES:** Greg Bull, left, and Paul Balchin . . . a thought-provoking exercise.

without due attention being paid to public acquisition” – a structure which, one hopes, will be taken to heart in the party’s current review of policies under its young Welsh leader, Neil Kinnock.

As a prelude to their review of rent theory, Balchin and Bull state:

Even if it were logical to consider “returning” land to the people, it is unlikely that the majority of the population would wish to have direct responsibility for the ownership and use of a sizeable quantity of land. Given a choice, it is probable that most people would have a preference for a share of the monetary value of land rather than a common title of ownership.

The book offers a powerful commendation of the virtues of land value taxation.

THE AUTHORS, while striving to maintain the even-handed neutrality of the scholar, demonstrate an ability to synthesise political nous with a refreshing understanding of how the land

market operates in reality as well as in theory.

They do not shirk the logic of the evidence that is packed into their book, which leads them to make statements that would sit well in a radical manifesto. For example, in reexamining “the land question”, they declare:

Private ownership, it could be maintained, is economically inefficient and inequitable. Since most economic activity pulls up land values, the resulting wealth is accumulated by private landowners and not used for the benefit of society as a whole. A huge volume of financial resources – which could be invested in productive industry and so increase the gross domestic product for the benefit of all – is being soaked up by land for largely speculative reasons, to the detriment of all except a minutely small number of landowners and their financiers and advisers.

Bold conclusions based on a detailed examination of the evidence drawn from as far afield as the UK housing market and the Graded Tax employed by a

number of cities in Pennsylvania, in which the property tax burden is being progressively shifted from buildings and onto land values, to the benefit of the local economy in terms of construction and new jobs.

One might wish to quibble with the lip service paid to Karl Marx’s pedantic breakdown of unearned rental income into sub-categories; or the association of “advanced capitalism” with the seizure of common lands during the great enclosures of the 18th century (which was actually the arrival of advanced landlordism); or precisely what it was that Henry George, the American social reformer, proposed to tax in the 19th century.

But these are trifling points when read in the context of a book that now forces other scholars, and politicians, to come to terms with issues that are central to the task of abolishing poverty and unemployment, and rebuilding our derelict cities.

A FALSIFIED land market is the single major obstacle to the renewal of any community. Change should be ever-present in a healthy society. People need to move for domestic reasons; employers relocate or expand their activities in response to new demands from consumers; recreational activities are transformed by new tastes.

Little of this can happen if the owners of land are content with the role of legalised squatters (until it suits them to use or sell their assets). And that is the principle reason for urban dereliction.

Britain's government under Premier Margaret Thatcher believed that it had the solution to this problem when it created Urban Development Corporations. These UDCs were given draconian powers to compulsorily purchase both publicly and privately-owned land, so that it could be reallocated to others who would use it. But the citizens of the London boroughs of Tower Hamlets, Newham and Southwark have decided that the experiment – measured in terms of benefits going to the local people – is a failure. And the people on the Isle of Dogs, in one corner of the 5,500 acres covered by the London Dockland Development Corporation (LDDC) held a conference to say so.

Who, then, has pocketed the benefits of a vigorous process of governmental interference with other people's property rights? And does the UDC model offer a generalised solution to the problems confronting local governments in urban areas throughout the world?

BATTLING Member of Parliament Mildred Gordon, who represents the Bow and Poplar constituency, had no doubt that the LDDC brought many benefits to her locality.

Unfortunately, she said, those benefits went primarily to 'land speculators. She likened the LDDC's action to what happened with the 18th century enclosures, when the peasants were dispossessed of their land. "It's our fight to see that it doesn't happen to our local community, because the LDDC and their speculator friends think that the local people are sitting on valuable land and are in the way." In her view, gains to local people have been "pathetic, minimal."

Mrs Gordon grew up in the Highway, on the north-west corner of the Isle of Dogs which is bounded on three sides by the River Thames. "Even on an MP's wage I couldn't afford to move back, so what about the children living here, and people who were moved out during the war and would like to move back? They don't have a chance." Mrs Gordon also branded the LDDC "a dictatorship. We want it disbanded and democratic powers returned to the local authorities and to the community." THE PROBLEM with Mrs Gordon's suggestion is that local authorities and public agencies that owned vast tracts of land were as guilty as private land speculators, when it came to squatting on valuable land in strategic locations. They would either not sell their land, or they demanded unrealistically high prices. *That is why the Conservative Government created the UDCs – to get action.*

The defence of the LDDC was left to Jonathan Matthews, a Liberal councillor from the borough of Tower Hamlets. He sits on the board as a council representative; the Labour-dominated Newham and Southwark councils decided not to participate (yet they complain about the LDDC taking decisions in secret).

He frankly agreed that the LDDC, as a QUANGO (quasi non-governmental organisation) held sweeping powers which enabled it to get results quickly. And it financed its schemes out of enhanced land values.

When the LDDC was established in 1981, land values were £30,000 an acre in Beckton; £50,000 an acre in Docklands. The area was run-

Shattered dream the for Dockland

INSITE report

down; there was a net loss of £1 million. As a result of the action promoting many national newspapers, have been converted into Yuppies being transformed into marina.

Consequently, average land Matthews. By compulsorily acquired had "realised assets from land can be used on public sector in

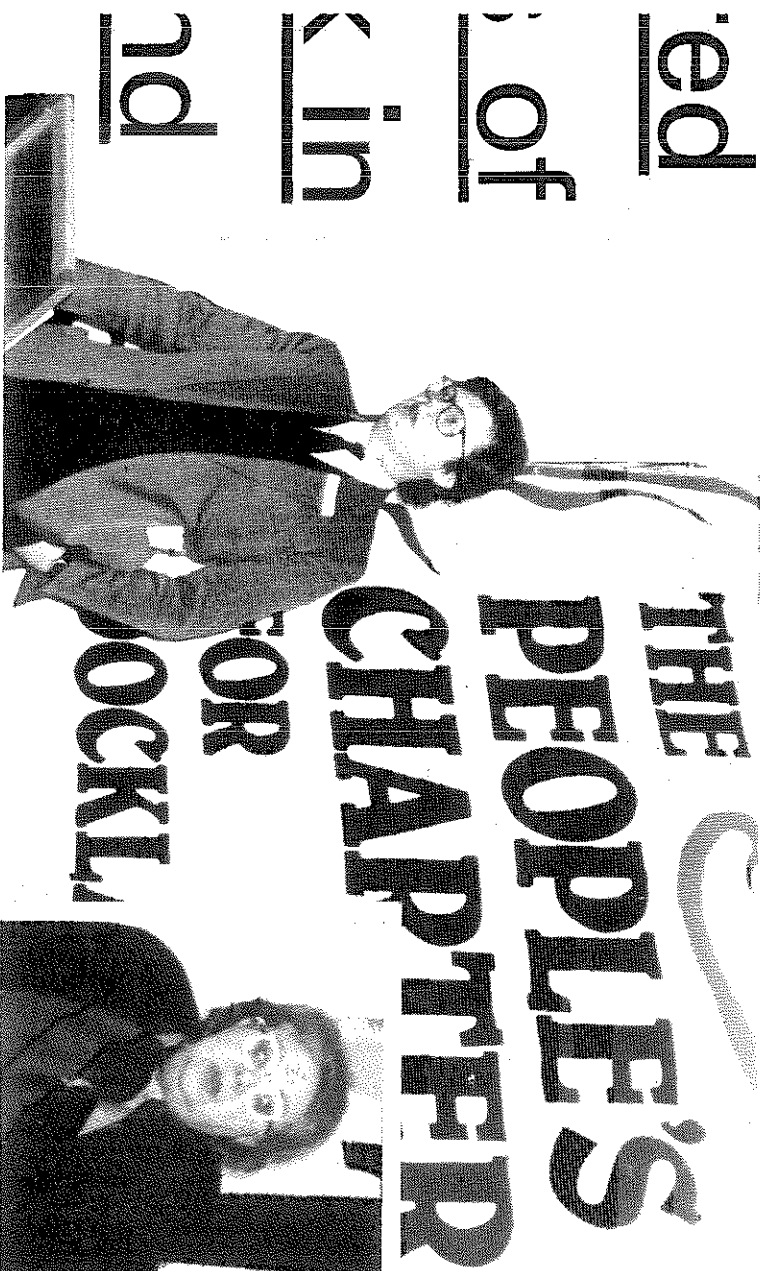
- £400-500m will be spent on the City;
- £200m is being spent on new development.
- £200-300m is being developed.

"This is at no cost to the City. It is a triumphantly to a hostile audience of an authority which is the keets of the big developers.

ON THE FACE of it, then, it is unlocking valuable natural assets. The LDDC currently owns 8,000 acres acquired and resold 678 acres open spaces. This means that the within the LDDC's area have without having contributed any boom.

If we assume that the average residual land was then worth about £500,000 as the average value near the water's edge) the value than £1,750m.

This phenomenal increase in



DEFENSIVE: Jonathan Matthew. Inset: Mildred Gordon who complained of "pathetic" gains for local folk

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tion, and high unemployment.

y the LDDC, large firms, includ-
elocated in the area. Warehouses
ments, and abandoned docks are

s are £1m an acre, says Cllr.
land and reselling it, the LDDC
, to generate extra money which

w railway linking Docklands with

ids; and

o making land ready for re-

er," Cllr. Matthews pointed out
cal activists who resent the inter-
larly considered to be in the poc-

C model is an effective way of
t what's on the bottom line?

s, plus 425 acres of water. It has
using, industry, commerce and
rs of the other 3,524 acres of land
ited from an increase in values
to the conditions that led to the

n 1981 was £40,000 an acre, this
40m. Today, if we conservatively
op bucks are only paid for sites
this land has gone up to more

has been entirely due to the com-

munity's decision (through the central government) to unlock some of
the land. Unfortunately, little of the value of land that has not been taken
into LDDC ownership will find its way into the public purse.

Mrs Thatcher says that UDCs are a key plank in her strategy to renew
the derelict cities of Britain. She is creating more of them – but will they
succeed? Isn't the Docklands, just a few miles down the road from the
City, and with its own airport link to Paris and Brussels, a special case?
Sheffield is not likely to enjoy the same boom as the East End of
London.

The hearts of at least 40 British cities require urgent redevelopment:
who can believe that a bureaucratic solution can embrace and solve a
problem of those proportions?

These are the lessons suggested by Docklands:

- An instrument is needed to unlock the land market, which by its
very nature is monopolistic and therefore disposed to interfere with the
constant, small-scale (organic) changes that reflect the needs of a
healthy community.

- The finance to underwrite that renewal is literally beneath our feet:
the value of land which would increase even as *the first decision* was
taken to rehabilitate an area.

- Equity requires that the whole of the community-created value
should be captured for the public benefit. The only practical way to
achieve this is through an annual levy. This requires a sensitively-
reformed property tax. Unfortunately, the Thatcher Government is
moving in the reverse direction: it has decided to abolish the tax on
residential properties.

So the Yuppies of Dockland are about to receive another windfall:
they will capitalise the tax saving into higher prices for their properties.
Meanwhile, the East London council house waiting lists continue to
grow longer, for the LDDC does not rehouse people whom it displaces.
Mrs Thatcher did not give it the responsibilities of a housing
authority.

Princess Alice's right answers

PRINCE Charles, the next King of England, carries the troubles of the world on his shoulders. Despite his privileged background, he has chosen to identify with the problems of ordinary people, by making controversial forays into Britain's social and economic problems that have not endeared him to the Prime Minister, Margaret Thatcher.

He has complained about the working conditions of Asian families in Tower Hamlets, one of the slums that lie within the shadows of the skyscrapers of the City of London. He has also secretly sweated with workers down on the farm, to make sure that he has an earthly understanding of what it is like to labour for a living.

And he has used his position to cajole investors into helping to rebuild the rotting inner cities.

None of his proposals for remedial action will actually work, for they do not match the scale of the problems that he finds so disturbing.

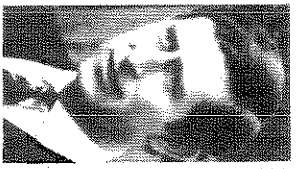
THE PRINCE listens to people. He is perhaps closest of all to his 87-year-old grandmother, the Queen Mother, but he ought now to learn more about the views of his paternal grandmother, the late Princess Alice of Greece.

She believed that land value taxation would solve the domestic problems confronting her country. Advocacy of such a fiscal reform would certainly lead the prince into a political minefield. For constitutionally he is not supposed to stir controversies that set him in conflict with Parliament, or Her Majesty's government.

It seems, however, that the British public admires the 39-year-old prince for his blunt-speaking forays into issues ranging from medicine to architecture. A public opinion poll for a television company revealed overwhelming support for his actions.

And that is why, if he were con-

• THE PRINCE OF WALES: "The royal family must have money," he says. "If they have to look to the state for everything, they become nothing more than puppets, and prisoners in their own countries. That's what happened to the Japanese royal family. They can't even go on holiday without asking parliament."



vinced of the correctness of his grandmother's philosophy, he could afford to become an advocate of land value taxation.

Why should he?

• Britain's problems – which are common to all industrial societies – have recurred periodically for 200 years, from the time of the Industrial Revolution. It is therefore wrong to place the blame on particular features of contemporary society (the planning system, for example, which has been with us for a mere 40 years).

• Take the dereliction of the inner cities. The problem is not that old industries die; they have been doing so for two centuries, as one invention has superseded another. Rather, land speculation – holding land vacant for up to 15 years at a time, to benefit from cycles in land values – has

**INSITE and
the dilemma
that faces
the caring
Prince
Charles**

priced embryonic businesses out of the market.

What looks like prudence for the landowner is disastrous for the people who need homes and premises in which to start up new businesses that create jobs.

The Urban Development Corporations are a partial solution: they compulsorily purchase land in their areas and place it into the hands of those who want to use it. This is fine, for a few people, in a district favoured by Parliament's decision to establish a UDC, but this mechanism does not provide a continuous process for renewing our cities, which need to constantly adapt themselves with the minimum of disruption.

• Or look at the problem of housing. Again, none of the instruments available for action offer a generalised solution to the problem of land prices, which present the greatest obstacles to the building industry.

The wholesale slum clearances of the '50s, and the mindless pre-fab estates which were spawned in the '60s, were the results of frustration with an economic system that could not respond to social needs.

And the system could not res-

LVT SHOWS WAY

pond because the land market is, by its nature, monopolistic; structured to dictate the price and the pace at which it allows the community to use its finite resources.

On the other hand, the prince's solution – self-help groups rebuilding slum dwellings – leads the thousands of homeless families into a fantasy world.

• Or look at the problem of employment. The principal cause of recessions is the land booms which price businesses – from street-corner shops to great manufacturers – out of their premises; which divert capital from machines to quick gain land deals; which distract entrepreneurs from providing the goods and services needed by people, in favour of takeover deals that enable them to strip companies of their under-valued properties.

The prince has expressed dismay at the way Bengali families are forced to work in overcrowded, decaying premises in Tower Hamlets, in the East End of London. But that is all they can afford – and even then, it is a struggle to meet the rents!

Although presented in a side-of-the-mouth whisper, most of the major economic textbooks agree with the view expressed by H.R.H. Alice: the only way to achieve a competitive land market is to levy a tax on the value of land.

THIS IS not a proposal to increase the tax burden: on the contrary, taxes on wages and profits further aggravate the problems created by the absence of a tax on land values. It is imperative, if we are to encourage people to work and invest, that we *reduce* taxes on labour and capital.

• The Crown estate yields £30m for the Treasury – which is said to be about what it costs for Britain to maintain the monarchy. The Crown Estate Commissioners manage property worth £1,257m on behalf of the Queen.

PRINCESS Alice of Greece – mother of Prince Philip, the consort to the Queen of England – was an ardent advocate of land value taxation.

She mounted a vigorous propaganda campaign in Greece, using the books written by American social reformer Henry George as the basis for change.

After joining the International Union for Land Value Taxation in 1926, she wrote an article published in the Athens daily newspaper, *Prota*, on May 22, 1927:

"For the last four years I have given much thought to the movement which is engaged in promoting the levy of a tax on the value of land, and I have studied Henry George.

"In every nation leagues

are established or are being established to work for the Single Tax on Land Values, and when in response to a demand expressed at the International Conference in Copenhagen in July last, there was founded the International Union for Land Value Taxation and Free Trade, I made myself a member of that.

"The great advantage of the Single Tax on Land Values is the liberation of commerce and industry from the burdens of taxation, without causing any reduction in the public revenue.

"After serious and thorough study, I have arrived at the conclusion that the idea of a Single Tax could contribute to the economic restoration of our country. I have no hesitation in stating

my conviction that this question ought to be studied by the statesman of Greece. I am sending you four books in English which fully explain the operation of the principle and policy."

In an article in the same newspaper, on January 25, 1929, she emphasised the importance of distinguishing between land and capital.

She pointed out that while the price of capital tends to increase as a result of additional taxation, a tax on site values must have the effect of forcing down the selling price of land.

Propaganda, declared the princess, was more than ever necessary, if the taxation of land values was to be promulgated.

Princess Alice died in 1967, aged 82.

Prince Charles, of course, as the beneficiary of the income from the estates of the Duchy of Cornwall, would be faced with serious personal questions if he were to embark on a study of land value taxation. But since a tax on economic rent would be offset by a reduction in their other tax liabilities, most people would be net winners – and provision could be made for the few losers during a transitional period.

The prince, who dares to advocate *alternative* perceptions of the world (including alternative medicine, and extra sensory perception) is a brave man. He is struggling with a holistic philosophy, and that is why he ought to be attracted by land value taxation: this single tax reform would diffuse its benefits into most areas of people's lives.

There are no practical problems with its administration. After all, if the prince's predecessors, the Norman conquerors, could do it with the aid of the Domesday Book, there cannot be any difficulty in valuing and taxing land in this com-

puterised day-and-age! Indeed, the mechanics of land value taxation are even now on display in countries like Denmark and Australia.

WITHOUT realising this implication, the prince has recommended that people should learn from a city that has benefitted from a partial application of land value taxation (according to a report in the *Financial Times* on October 12, 1987).

At a speech to the annual meeting of Business in the Community, of which he is President, the prince pointed to Pittsburgh as an example of successful urban renewal. Little did he know it, but that success is largely built on the benefits of the Graded Tax, a two-tier property tax in which the rate on land is much higher than the rate levied on the value of buildings.

Prince Charles is looking for answers. His lonely days of reflection in the Sahara, or by the trout streams of Scotland, won't help unless they somehow tune him into the message from his grandmother.



• ARE WE MOVING TO A FREER WORLD? Margaret Thatcher beams as her soul-mate Ronald Reagan talks tough over the Soviet Union – which he once characterised as the “evil empire”. But now the American President has signed a treaty with Mikhail Gorbachov. And Mrs Thatcher says Britain won’t shift her foreign policy by abandoning the “nuclear deterrent”. End of a special relationship?

A WARNING TOO LATE

BLANCHE Cook's book *The Declassified Eisenhower* appeared in 1985, and one aspect of its merit is the access given to many of Eisenhower's personal papers. She leads the reader on a journey that is sometimes anticipated and frequently troublesome.

The Second World War and its aftermath was characterized by intrigue and by events the world's political leaders sensed were far too damaging for public debate. What occurred during those years unfolds on the pages of this work as more than history but not quite an indictment.

That Cook is disturbed by many of the revelations uncovered is clear; any final judgement – either about Eisenhower or of American foreign policy-making in general – is left up to the reader. Nevertheless, our personal codes of ethics and sense of justice are uniquely challenged by her treatment of twentieth century political decisions and the methods used to achieve certain policy initiatives. Cook asks, however, whether the course of events could have been otherwise:

• IS RONALD REAGAN'S nuclear pact with MIKHAIL GORBACHOV no more than an act of short-term opportunism? ED DODSON examines the myths at the root of American foreign policy in “the land of liberty.”

Since nuclear holocaust was unacceptable [Eisenhower] pursued alternative means to ensure America's dominance in the race against the Soviet Union and in the race to secure access to the world's resources and markets . . . that was a commitment to a free-market economy. Others called it empire. Whatever it is called, to control the world's resources and defend them against nationalists and communists proved to be an ongoing and draining experience.

This is as close as Cook comes to a moral judgement insofar as the interests of multinational corporate power were aligned with those of anti-communist politicians to “promote the American way of life throughout the world”.

Cook identifies the years of the Second World War as the beginning of the “American Century” and the rapid expansion of the “American System”. What she and so many other observers do not see is that the uniqueness of the “American Experience” was itself fast losing ground. The

global wars of 1914-18 and 1939-45 acted as catalysts, advancing the expansion of centralised authority in American socio-political structure at the expense of individualism and large-scale political participation. Strong, in fact, are the parallels between America after 1949, particularly, and Britain in governments policies in that year:

During a war it is no easy task to prevent your sympathy clouding your reason. The whole social system seems to be organised against any individual attempt to concentrate the attention dominantly upon the causes of war. Governments, churches, theatres, the press, and local authorities direct their efforts, in the main, warwards; the whole thought of society and commerce seems to be occupied with war; and all desire to question the reasons given by statesmen for participating in the war must be suppressed. It has been ruled already by certain ‘leaders of thought’ that it is unwise, unpatriotic, and un-English to suspect the motives of Governments,

or waver for a moment in swearing wholehearted allegiance to the authorities [Wellson, p. 369].

In the U.S. even the tremendous backlash against the long involvement of Americans in the Vietnamese civil war has not seemed to diminish the ability of subsequent Governments to rekindle the spark of militaristic adventurism. Our society does seem to nourish a strange respect for aggressiveness in the guise of our self-assumed role of the protector of 'free peoples' — wherever that may take us. As one historian writes, "The crisis and the beneficiaries were those few with simple, persuasive answers and the means at hand to implement them" (Wiebe).

THE DEVELOPMENT of an expansionist mentality in America can be traced directly from the founding of the nation; the rapid industrialization experienced early in the twentieth century accelerated the process.

In the 1920s, nativism raged against the new waves of immigrants flooding into American cities and took form in a determined anti-communism crusade. Americans were faced with tremendous moral challenge when the war against fascism required an alliance with the Soviet Union, knowing full well that the defeat of Germany and Japan would leave Russia and its Marxist-Leninist regime as the United States' major competing power.

As Blanche Cook concludes, this attitude was carried right through the Second World War and only deepened afterward. The American leadership was not about to accept a division of the spoils of war that gave to communism new opportunities for political power:

The United States was . . . committed to a crusade against 'communism' no matter how popular and broad-based or nationalist and democratic the independence movement might be, and no matter how repressive,

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cruel or generally unsatisfactory the right-wing ally might be.

Certainly, few Americans knew of or cared about the sacrifices made by the Russian people during the war; even if this had been general knowledge this was, as Blanche Cook describes, the era of Americanization, of 'making the world safe for democracy' and for using our new military superiority to preserve (consistent with the earliest Jeffersonian instincts) our free access to foreign markets and sources of raw materials.

Underlying American foreign policy was also to be found a strong current of Liberal consensus' traced by historian Frederick Lewis Allen to the 1920s and a uniquely American anti-egalitarian mentality. Allen noted in his 1931 work *Only Yesterday* that "the typical American of the old stock had never had more than a half-hearted enthusiasm for the rights of the minority . . . he had been accustomed to set his community in order by the first means that came to hand — a sumptuary law, a vigilance committee, or if necessary a shotgun."

The principles of individualism were misused again and again in pursuit of opportunism; and, continues Allen, "when running things himself [the typical American] had usually been open to the suggestion that liberty was another name for license and that the Bill of Rights was the last resort of scoundrels."

When the editors of the *New York Times Magazine* in 1963 asked the question "What Sort of Nation Are We?" they responded "We are probably the most democratic in feeling and action,"

a statement that conveys the extent to which myth has dominated mainstream American thought. Our history has not been characterized by toleration and equality of opportunity. 'Liberalism' may have softened the impact of unbridled Social-Darwinism, but the changes were those of degree and wrrenched from the powerful at great cost. American political leaders and those who wielded tremendous economic power successfully perpetuated the even greater myth that 'the American way of life' represented the highest 'good'. In places such as Vietnam and Korea we experienced bitter disappointments as we attempted to Americanize the globe; nevertheless, the way we conduct our foreign policy has changed only in degree and according to what the political leadership views as acceptable re-election risk.

Interestingly, before entering the political arena Eisenhower sensed that the world had changed, had become a global community and, in fact, "naively wondered why the world's resources could not be internationalized," suggesting that "since raw materials represented the world's basic needs, they should belong to and serve everybody" (Cook, p. 229).

He would soon abandon these principles in favour of those provided to him by certain interest groups as THE agenda for American foreign policy.

IN 1951 THE Guatemalan government of Jacobo Arbenz declared its intention "to give land to the agricultural workers [and] expand agricultural credit for the benefit of all who work the land" (Cook, p. 224).

The American response by 1953 was to support the overthrow of Arbenz, precipitating "the return of almost a million and a half acres that had been

Finding

George

VIC BLUNDELL reviews a fine new 'warts and all' study

I REMEMBER a day, some twenty years ago, when we invited a journalist (who had written on the land question in Georgist terms) to the offices of *Land & Liberty* for lunch and a chat. When he arrived, he looked around curiously at our shelves of books and pamphlets. "What exactly do you advocate here?" he asked.

"Land value taxation," I replied, "and free trade, private enterprise, personal liberty, the abolition of all monopolies, privileges and subsidies, and sound money. And," I added for good measure, "we are opposed to the protectionist EEC."

"Heavens!" he exclaimed, "what a package to try and sell!"

He was right, of course: it was some package to sell. Yet although we took the opportunity to argue for these things whenever they became topical, our main plank, I explained, was land reform.

This approach, we believe, embraces all that Henry George stood for and forms an indivisible philosophy of freedom. But here some questions arise. Are Georgists, in advocating land-value taxation, calling for tax reform or land reform? What is the difference? And are all land-value taxers Georgists?

These are some of the important questions raised by Rhoda Hellman in her book *Henry George Reconsidered*. Rhoda Hellman has been closely associated with the Henry George movement in the U.S. for many years, particularly with the New York Henry George School of Social Science, where she was originally a student, and she writes almost exclusively of U.S. experiences.

She has produced an excellently written and provocative book, which bears the marks of painstaking and thoughtful research. She explores the many-sided aspects of George's philosophy and the "enigma" presented by its fortunes over the last 100 years. She advances an explanation to account for the slow progress of George's ideas which, she says, now exist in a "lively limbo", representing neither success nor failure.

Her book begins with an examination of Henry George's life and times, assessing his achievements, influence and position in the political spectrum. In her account of the history of the Henry George movement, she traces the origin of the name "single tax" and examines its implications for Georgist propaganda.

A chapter is devoted to the founding of the Henry George School of Social Science, and another to some vignettes of classroom teaching – not entirely uncritical. The attitude of economics professors and the source of their hostility is reviewed, although some exceptions are noted.

In the final and perhaps most important part of her book, Rhoda Hellman gives her

reasons as to why the land tax concept has been disregarded by economists and politicians, and examines their criticisms. She concludes with some suggestions of what Georgists could do effectively to advance the cause and gives some examples of the opportunities available.

IN HER history of the movement, the author traces the origin of the name "single tax" to Thomas Shearman, a lawyer and businessman, and to this description of the Henry George philosophy she attributes a great divide in interpretation of what George stood for and also the direction the movement took in its propaganda. It marked the departure from land reform to tax reform – a shift in

** Rhoda Hellman whose book, Henry George Reconsidered, is published at \$12.95 by Carlton Press, New York. (Obtainable from the Robert Schalkenbach Foundation, New York, and Land & Liberty Press Ltd, London).*



emphasis within the movement from its predominant stress on the collection of land rent to anti-tax activity.

Shearman also coined the term "single tax limited" to describe the legislative goal. This marked the distinction between calling for the entire rent of land to be appropriated and limiting it to the amount required to replace all other taxes. This was based on the assumption that the latter was less than the annual rent of land. In short, the evils of taxation

were stressed rather than the evils of land monopoly.

After this, the author argues, the "single tax limited" was further limited by confining propaganda almost solely to untaxing buildings, taking only enough land value to balance the tax relief. This had appeal to businessmen, for it provided compensation to landowners as a class, or at least those with buildings on land.

With this limitation of the single tax, the wider range of land owners who owned natural resources were excluded from the scheme and further, it offered nothing to the landless and propertyless in society.

The other schism in the movement, says Rhoda Hellman, was caused by the preoccupation with private enterprise, which weakened George's call for government control of natural monopolies. At the 1893 conference of the National Single Tax League (later to be disbanded after a three-year existence) a case for state control of monopolies other than land, whenever free competition became impossible, was rejected. This was against the wishes of Henry George.

Thus two steps from the pure philosophy had been taken by the movement which was now headed by Shearman and Louis Post. Post interpreted the conference decision as "marking a cleavage between the socialist (sic) and the ultra-individualist factions of the movement, with George belonging rather to the former camp."

These divisions remained in one form or another with various loosely coordinated groups of followers meeting and disseminating their brand of Henry George's reform.

In the last and most important part of her book, Rhoda Hellman offers some controversial conclusions as to why the movement has made so little progress and why George's main economic idea

has been relatively ignored.

The main criticism of George's theory, she says, disputes the assertion that the private appropriation of the rent of land is the major cause of poverty; that the landowner is the residual claimant in the distribution of wealth which leaves labour and capital with only enough to sustain them and keep them going; and that all the benefits of increased productive power are finally absorbed by the rent of the land.

Rhoda Hellman examines this criticism and concedes it to be the weak spot in George's argument, although it does not invalidate the Georgist claim that to take the rent of land for the people would go much of the way towards remedying the maldistribution of wealth.

The other argument of the critics and a corollary of the first, is that there is a leak in the classical formulation of the distribution of wealth to rent, wages and interest, and it flows to the holders of special privileges and monopoly powers other than land.

But George, says the author, far from ignoring these unearned profits, specifically pointed them out, detailing them in his book *Social Problems*. But the question remains, she says, "Why is it not generally appreciated how keenly aware George was of all these non-land monopolies?" She concludes that it is because George himself did not emphasise it, his eyes being fixed on the "first great reform" without which nothing else would avail.

Thus when crystallising his reform in

From Page 29

distributed among one hundred thousand families."

Eisenhower had assumed the foreign policy stance that dictated a blind reaction to any and every revolutionary group that in any way appeared pro-Soviet or pro-Marxist and against the interests of international business concerns.

This statesman in war had become very much the pawn; only at the end of his second term, in his farewell address, did he seem once again aware of the incongruities of American foreign policy in an age of emerging self-determination. Too late he raised a warning against the perils of the expanding military-industrial complex.



• HENRY GEORGE

Progress and Poverty with the statement that to relieve poverty it is necessary only to appropriate land values. George did not incorporate the proviso that all other sources of unearned income – from monopolies, privileges, cartels, etc. – should also be eliminated.

This, Rhoda Hellman calls "the missing proviso", which has led to so much misunderstanding, when coupled with his economic theory that rent is the residual claimant in the distribution of wealth.

WAS GEORGE all that misunderstood? I wonder. Perhaps by some academics, but not by the landed interest, who appreciated only too well the implications of his proposals. And that is where the real opposition lay, and their objections cannot be theorised away.

Hellman concludes with some sugges-

tions as to what Georgists could do. She seems to feel the movement (speaking, as always, of the U.S.) has been hijacked by those who would make George's reform a property tax issue (merit though this has) to the exclusion of the wider issues contained in George's philosophy.

She considers there are a number of opportunities being missed to support more taxation on oil, coal, gas and other windfall profits that arise, and to support anti-privilege legislation. Rhoda Hellman would not eschew government controls and legislation when they are directed at monopoly profits linked to natural resources. Profits may be an ambiguous term, but their source in many cases is unmistakable.

Such activities she considers would be more in the spirit of Henry George's philosophy than the Shearman line of "single tax limited" reflected in property tax reform.

Finally she considers the direction in which the extra revenue should flow so that wage earners and the poor would benefit, such as relief of the payroll (PAYE) tax and low-cost housing.

Altogether, this is a fascinating and provocative book relevant to both sides of the Atlantic and beyond. Get it.

• V.H. Blundell is the former editor of *Land and Liberty*, and served for 25 years as Secretary of the United Committee for the Taxation of Land Values London.

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TAX ON LAND VALUES STILL THE KEY

Poll tax threat to democracy

THE dictionary defines "accountable" as "bound to give account", in the context of responsibility to others; to give account of one's actions means to explain them. In this sense, politicians in a democratic society are undoubtedly accountable to the electorate as a whole for all the decisions which they make, for example, on questions concerning taxation and public spending. If the electorate is not satisfied with the performance of its elected politicians, the remedy is available through the ballot-box.

It is less easy to sustain the notion that politicians are specifically accountable to particular sections of the community such as taxpayers or ratepayers, because a fundamental principle of democracy is that every citizen has an equal right to a say in how the community is governed. The poor pensioner paying very little in tax is entitled to one vote, no less than the millionaire paying large amounts in tax, or, for that matter, the whisky-drinker who makes more than an average person's contribution to the national coffers.

For this reason, there can be no direct link between voting and tax-paying. Once the idea of such a link is accepted, on the principle of "no taxation without representation," it is a short step to the argument that pensioners and the unemployed should be deprived of their votes and that the right to vote should be dependent on a property qualification.

WHO PAYS RATES? In Britain, everyone pays rates as part of their share of the cost of household expenses, and indirectly from general taxation through central government's contribution towards the cost of local authority spending.

It is a fallacy to assume that some taxes are more effective than others in encouraging politicians to be vigilant about the way that public money is spent. The introduction of a Community Charge (or Poll Tax) will do little to curb high-spending councils. Money spent on "gay centres" and the like makes for lurid headlines, but the amount spent in this way is a tiny fraction of the total. "Loony" politicians, the rating system and supposed lack of accountability are a minor cause of local government waste.

There are three principal reasons for local government waste, the first being the natural tendencies of all bureaucracies to keep on growing.

The second concerns financial control. Budget allowances, based on the previous year's spending do not promote economy.

Equally important is the fact that local authorities are not expected to produce regular valuations of their assets; one might find, for instance, a council owning a depot in a valuable town-centre site. There may be excellent operational reasons for having a depot at such a location, but the site should be regularly



• NICHOLAS RIDLEY, left, the Minister charged with the unpopular task of persuading the British to accept the abolition of the local property tax in favour of a Poll Tax, says: "Of all the arguments for change, [accountability] is the one which people do not seriously challenge."

• Wrong, argues HENRY LAM, who says that the government's bill now passing through Parliament threatens the basic philosophy of a one-man-one-vote democracy, and he proposes a reform of the property tax which would be faithful to the Thatcherite ideal of accountability.

valued and the rental charged to the council committee responsible. This would enable the true costs to be identified and the council would be able to manage its resources rationally and efficiently. Unfortunately, such valuations are not carried out.

The third cause of waste? Poor management, which is largely related to local authority staff selection and recruitment.

The Poll Tax will not cure these problems.

Taxes and benefits are another area of concern. The cost of providing local services does not increase in direct proportion to the number of people living in a house. Councils have to pay for the police and fire services, and to sweep, light and maintain roads, irrespective of the number of occupants.

"Personal" local authority services tend to be "consumed" largely by children and pensioners; the "benefits received" principle would imply that a community charge ought to be linked to the number of schoolchildren or old people in a household.

Nevertheless, if taxes and benefits are to be related, it should be to benefits available rather than to benefits received. The quality of services varies from place to place even within the same local authority area. Some schools are better than others, and not everyone can live opposite a park. This is reflected in the price of properties.

Although there are even fewer landlords than there are ratepayers, it is landlords who are the ultimate beneficiaries of local authority services. Indeed, the most accurate measure of the quality of public services on offer at a particular place is the value of land; land values are a measure of what people are prepared to pay for these services. A park or a good local school will push up land values, which are also enhanced by facilities such as a frequent train service.

If we wish to relate taxation to benefits, we must move towards a system of taxation based on those land values — a Community Charge on land values.