

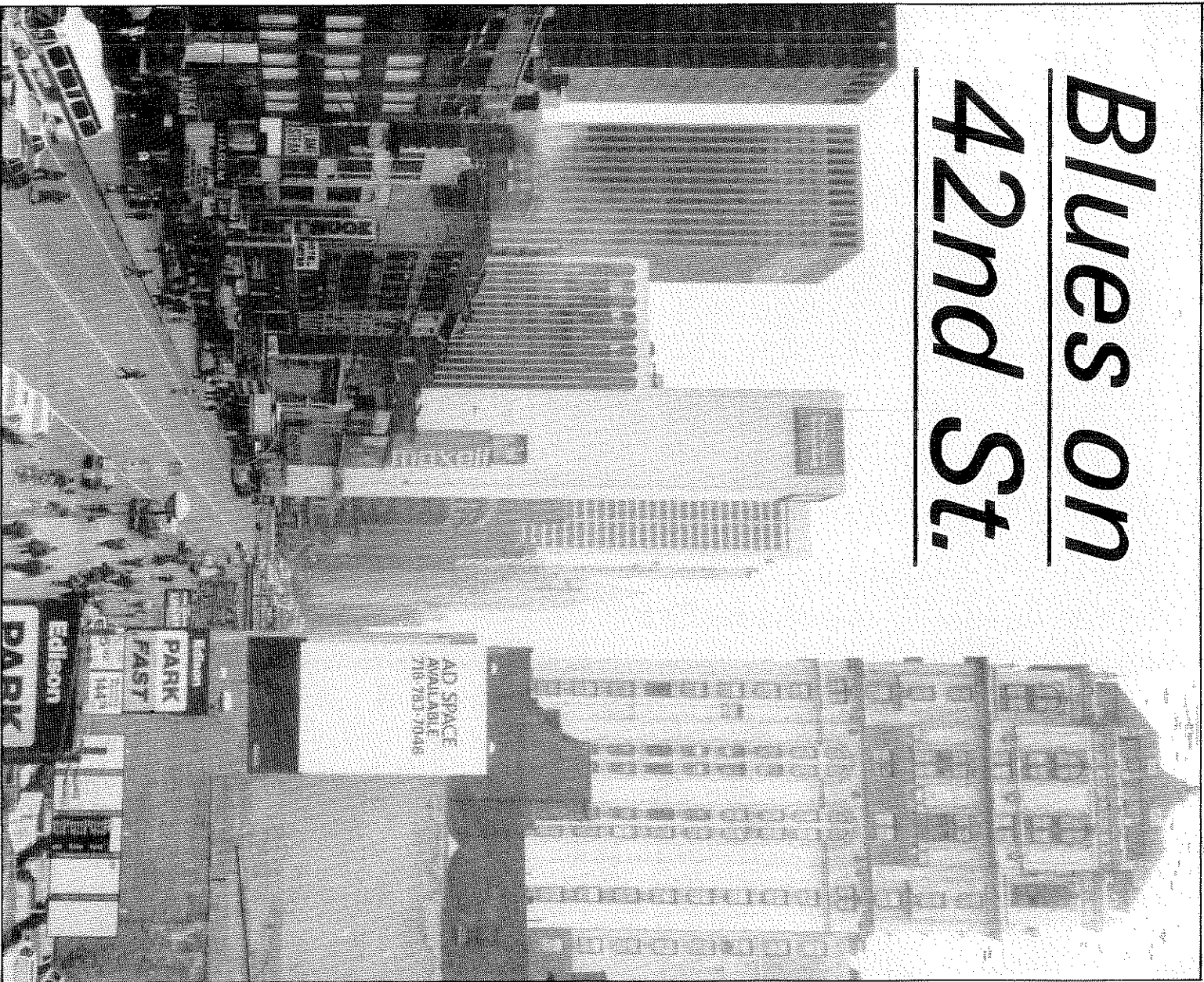
# LAND and LIBERTY

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WASHINGTON and  
NEW YORK SPECIAL!

## Blues on 42nd St.



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# LAND and LIBERTY

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COVER PHOTO: New York City's 42nd Street, where the human derelicts seek distraction with drugs and prostitution. What part does the property tax play in the Economics of Adam & Eve? — Story, Page 26.

## Thieving barons

MARX got a few things right. For example, he had a clear understanding of the institution of slavery.

Slavery is the celebration of the dependence NOT of the slave on the master/landowner, but of the landowner on the slave.

The slave does not depend upon the master; he earns his meagre bread with sweat and tears. And honour.

The master depends on the slave: he idly waits for the man who toil the fields to deliver the riches to him.

ASURFELT of land without labour does not lead to riches. Wealth can only be acquired by applying one's labour to land.

Landowners in regions where labour is short have no alternative but to press-gang men into labouring for them. By slavery, the landowner may enrich himself, but only by depriving people of the fruits of their labours.

This highlights one of the issues which Marx got wrong. The primary ingredients for producing wealth — for earning a living — are labour and land; capital is secondary, an adjunct, to the process.

Others — especially the people who "liberated" the slaves — failed to recognise the primacy of this relationship. People were cut "free" from the land, but not given access to alternative resources.

The former slave owner was delighted: he could adapt with ease to the new circumstance of rootless labourers searching for jobs that did not exist.

It was this combination of circumstances that imposed an exploitative character on the wage-work system. The former slaves, after all, were boxed in: they could not return to their original homelands to reclaim their birthright — the traditional use rights that gave them access to the pastures of their ancestors.

SLAVERY is not a thing of the past. In Brazil, today, fourteen land barons have been accused of

keeping 9,000 people on remote rubber plantations in one of the most inaccessible areas of the Amazon jungle.

The slaves are said to be mostly Caboclos, mixed-race descendants of whites and native Indians. They are bound for life to their masters by a system of perpetual debt. They are paid for tapping rubber, but must buy all their goods at the owners' shops at prices up to 500% higher than their wages.

This slavery is not a purely rural phenomenon. A similar formula, based on debt, is to be found on the building sites of cities in India.

Analytically, however, the role of indebtedness is a red herring. Wage-based slavery has its roots in the condition of landlessness, which is another way of saying that people are denied the right to earn a living wage. This, consequently, renders them vulnerable to the moneylenders and the price-fixers.

SLAVERY, then, is not a subject for the history books: it is a live political challenge. And it is the essence of labour markets in the industrially most advanced nations of Europe and North America today.

We can condemn it in moral terms, that would be easy. Slavery denies the individual his liberty. But the charge of THEFT is the criticism that slave-owners, and their modern manifestations, would regard as most threatening.

For this charge enables the victims to claim restitution from the wrongdoers, rather than merely leaving the slaveowners to square themselves with their consciences.

Social justice demands that the compensation should be paid out of the rent of land — the community-created fund which the slave-owners appropriate unto themselves.

Once the force of that argument is understood, the spurious arguments in defence of private property in land begin to collapse.



# TELL THE TRUTH!

## DC's chief accuses land tax campaign



• Harsh accusations: John Wilson, chairman of the Finance and Revenue Committee

JOHN A. WILSON sits in one of the hottest political seats in local government. Few people have heard of him, but he chairs the Finance and Revenue Committee of the council that runs Washington, DC.

Mr Wilson held public hearings, on January 29, to take evidence on proposals to change the property tax. And he had powerful words of criticism for those who wanted to shift the tax burden onto land values. "Tell the truth!" he admonished the proponents of tax reform.

Mr Wilson had sat through nearly 10 hours of testimony, listening to the slick spokesmen for the mainly white-owned, high-value properties. They did not want a higher tax on land values. They wanted a cap on the property tax - which, Mr Wilson was not told, would increase the value of their properties.

So after patiently listening to the advocates for the wealthy,

### **FRED HARRISON reports from Washington**

Mr Wilson was ready for a change of tack. He wanted to hear how reform of the property tax could help the mainly poor, black families who rent their homes. He was disappointed: the case, as it was presented to him in oral evidence, was far from convincing. And he said so.

The advocates of a higher tax on land values claimed that more low-cost housing would become available if owners were penalised for hoarding empty properties and not penalised for improving the quality of the housing stock.

Mr Wilson struggled to understand how this would come about. He appeared to be sincere, his probing questions giving the reform advocates every opportunity to explain how the economics of real estate

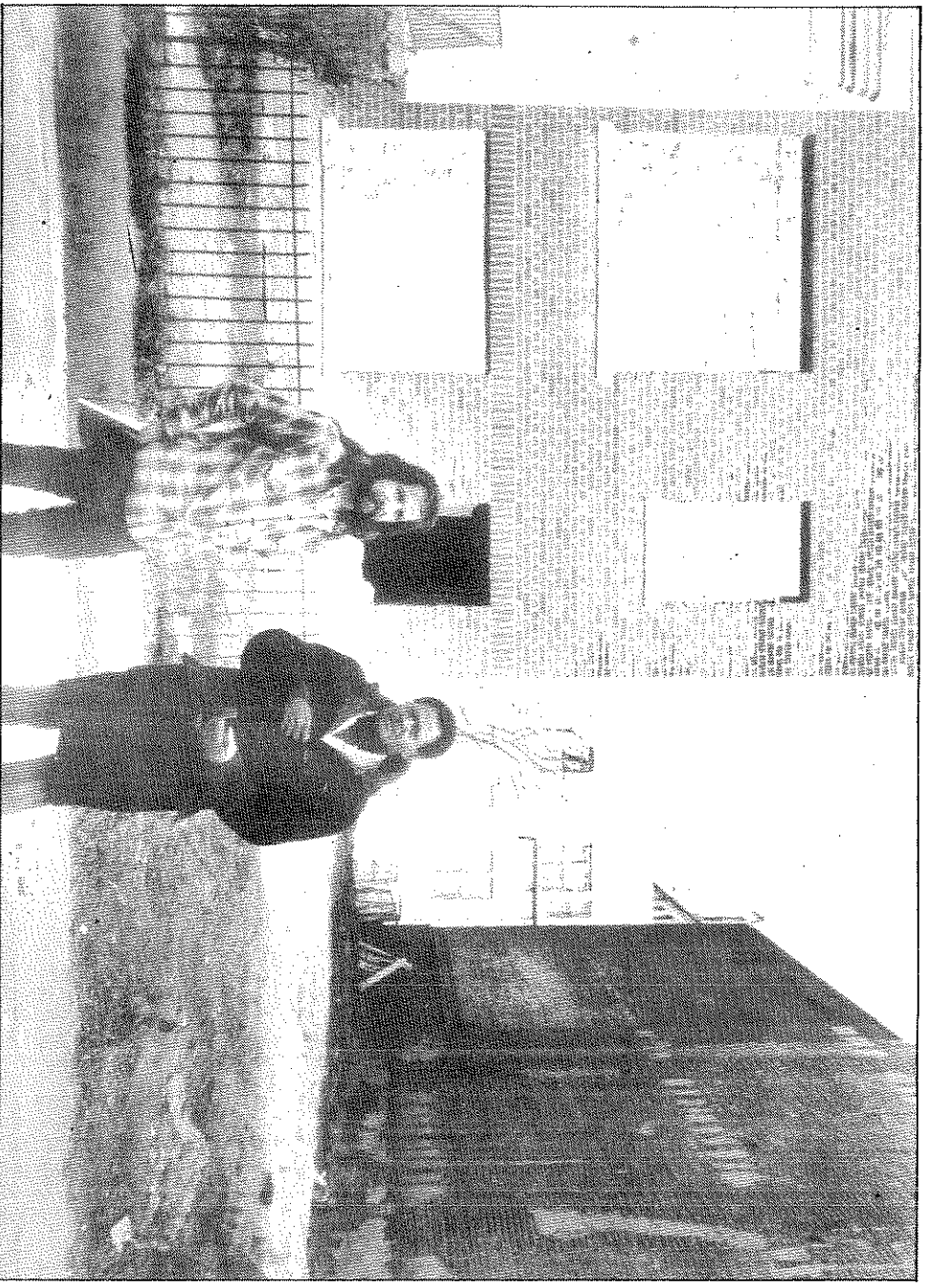
could work to the advantage of the poor. In the end, he accused the reformers of going around the District of Columbia selling their proposal "in an unfair and unethical fashion."

Without using the word "liars!" Mr Wilson was barely able to control his temper when he suggested that "It would be useful for people who go round selling this proposal...should tell the truth."

WASHINGTON is a city under stress. Its mayor, Marion Barry, is indicted for using drugs, the largely black residents are killing each other in the streets at a record rate, and the council has a budget spending requirement that it cannot square with revenue.

Many of the low-income, black families live in squalor. Homelessness is an acute pro-

**Continued on Page 20** ▶



• Community activists: Peter Farina, left, and Ned Stone in one of Washington's derelict residential areas

#### ◀ From Page 19

blem. Yet the city has 8,000 privately-owned houses (67% of them single-family homes) which are boarded up. And, there are 4,000 publicly-owned houses similarly bricked up and beyond the reach of needy folk. On top of that, over 11,000 sites suitable for development stand vacant. Some of those properties have stood neglected since the riots of 1968, havens for the drug pushers who rule many of the neighbourhood streets.

I visited some of these locations with Ned Stone, a black community activist, who said: "Marion Berry was much more interested in providing incentives and [tax] breaks for developers and real estate owners, as opposed to poor people. Working class people will continue to suffer until their leaders have their interests at heart. That's the way it is, in this town." Of the proposal to reduce

the property tax on buildings, he said: "It's a start. It will take time to catch on. It's been demonstrated in many towns in Pennsylvania."

In a dozen cities in Pennsylvania, today, councils have begun to untax buildings and draw more revenue from the value of land. This one fiscal reform, argue its advocates, leads to urban renewal.

WHEN Mr Wilson opened his public hearing, the next day, he was well briefed by the opponents of this reform. Their sheaves of evidence favoured a simple formula - put a cap on the taxable value of properties.

The statistical and legal arguments were persuasively presented, which was to be expected from lawyers, professional assessors, and PR consultants. One of them, Alan Wasserbach, is vice-president of finance for The John Akridge

Management Company, a real estate development and management company which owns and manages 2m square feet of office and retail space in downtown DC.

The two-rate property tax proposal - known as Bill 8-255 - "will increase the tax burden to commercial property owners which has already increased at a rate greater than rental rates since 1983," he insisted. "The proposed law would greatly shift the tax burden within the commercial property community."

"Some property owners would suffer huge tax increases and other property owners would receive reductions. It is not fair to shift a tax burden within the commercial property owners' community so dramatically in one year. The results could cause one owner to have a competitive advantage over another."

His company would lose \$1m, he explained, because while

seven income-producing properties would be better off to the tune of \$500,000, the tax burden on their four tracts of raw land would increase by \$1.5m.

Opposition also came from Harold Thomas, Director of the council's Department of Finance and Revenue, who argued that it is difficult to accurately assess the value of land:

"Because of the inherent difficulties in implementing a differential tax, the questionable and unknown impact of the differential tax on the real estate market, and the availability of more direct approaches to achieving desired societal goals, the department strongly opposes the enactment of Bill 8-255."

To comply with the law, Mr Thomas' assessors do place a figure on the value of land underneath each building. However, he did not have confidence in the accuracy of those assessments. Land value, therefore, was an unreliable base for a differential tax rate.

"Differential rate taxation, also called land or site value taxation, has been proposed in the US since at least 1879," explained Mr Thomas. "In that year, Henry George published his treatise entitled *Poverty and Progress* (sic) advocating a single tax on land for the purpose of redistributing the wealth created by owners of large tracts of land.

"His intent was to tax wealthy landowners to help relieve the poverty that existed then. Since that work was written, however, society has changed. There are no longer large undeveloped parcels of land in most large cities, certainly not in the District of Columbia. We now have laws that tax both land and improvements on land, and that provide tax relief to the poor and incentives for economic development."

Mr Thomas was not imp-



• Henry George

ressed by the empirical evidence of the two-rate property tax in Pittsburgh. And he argued that advocates of this policy "have not provided a complete economic analysis of the effect of the differential tax on the present DC real estate market, taking into account how this market would be affected by the legislation."

THE RACIAL dimension to the housing problem loomed large in Mr Wilson's mind. His claim that black families who rented their homes would be ejected from their properties if the property tax was restructured went unchallenged. He also said:

• "You will be surprised how many minority groups own their property, who will be forced to sell or can't get finance to develop the property."

• Property owners "would be encouraged to tear down low-rental sub-standard apartments and build upscale housing which they would pay less taxes for, I don't understand it."

• A reduction in the tax on buildings did not mean that "more low income housing is

going to be built. I don't want you to tell people that this will occur when you have no evidence."

• "What you are proposing will bring extreme hardship on the low income people in this city."

• "People come with the approach that this is a pro-housing proposal for low income people, but that's unfair because it's not necessarily that at all."

• Noting the number of vacant properties in the city, he declared: "Many of those houses are owned by minority groups which cannot afford to borrow the money to do them up."

FAMILIES are being driven out of Washington by the price of housing, Mr Wilson acknowledged, but he could not see how a higher tax on land values in preference to the public provision of homes at subsidised rents would reverse the trend.

"We are wary, at this point in our lives, of offering cheap solutions," he declared.

He suggested that, of greater importance than land values was the "redlining" issue - in which financial institutions boycotted particular areas: the black ghettos. "If this land becomes available, where will I get the money to pay for it?"

To arguments that reflected the philosophy of justice contained in Henry George's book, Mr Wilson bluntly retorted: "What do you mean, the land belongs to everybody? Because there are a lot of people out there who think the land belongs to them that their house is on!"

It was at this point that Mr Wilson rebuked the land value taxers, suggesting that they "should tell the truth." He did not want "simplistic" statements, he insisted.

The case for the land value tax, as presented to him at the

Continued on Page 22



hearings, had plainly failed to carry conviction. He said that he had "tried to figure out how it will redistribute wealth," but could not work out the answer. The depression of the Thirties, he recalled, had failed to transfer land from its owners. "I don't understand if the wealth didn't change hands when the value was depressed to almost nothing, it's going to change hands at this point."

The tax reform, he suggested, could not be implemented "in a racist environment." It was a black and white issue, he insisted. He was satisfied that many black families would be forced out of some areas, if the land tax worked in the way suggested by its advocates.

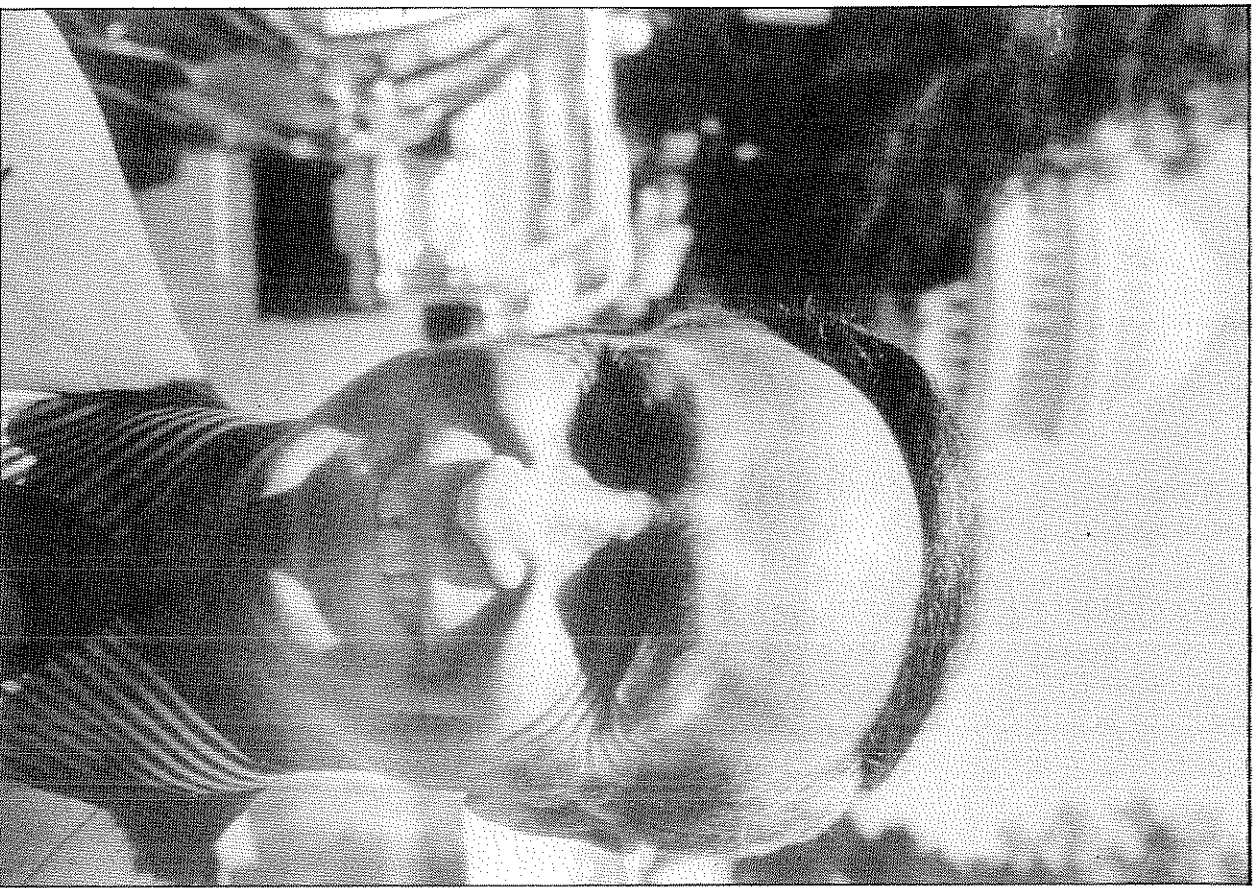
ALL WAS not lost for the tax reformers, however. Something remarkable happened to Mr Wilson's outlook on land taxation, in the few weeks following his original public hearings. For by March 16 he had come to the view that vacant land, at least, ought to bear a heavier tax.

A similar conclusion had also been reached by Mayor Barry, who announced his support for the proposal after leaving the clinic where he was receiving treatment for drug abuse.

"We take this as a recognition that what we have been saying has had an impact," reports Walt Rybeck, of the Center for Public Dialogue, who has worked hard to form a coalition of pro-tax reformers in the capital.

And on March 16, at public hearings staged to discuss how to raise revenue to finance city programmes, Mr Wilson was handed a 27-page rebuttal of the errors and misconceptions that were aired at his original hearings.

This submission was backed up by evidence from William Simons, President of the



• Enhanced status: The Public Dialogue Center's Walt Rybeck

Washington Teachers' Union. He argued that a restructured property tax could raise sufficient revenue for the council. The reform would also reduce the burden on home-owners, and a plan could be devised to help renters.

Another powerful argument in favour of the two-rate tax, said Mr Simons, was that it would create incentives to offset the downturn in economic activity which now threatened the capital. This contrasted sharply with the alternative taxes, such as higher income taxes and a variety of "nuisance taxes", which the advocates of tax reform claim would drive people

out of town. Mr Wilson appeared mollified.

Reports Mr Rybeck: "Mr Wilson said, 'Some people are telling me that your idea is the best invention since sliced bread, but others have raised serious questions about it, and I want you to get together with the Revenue and Finance Department, and the Board of Trade and the Citizens for Fair Assessments, and come back to me with a proposal that we can look at.'"

"This gave us more status than we have had in the past," said Mr Rybeck. "We are now included in the planning process."

# Economics of Adam & Eve

THE ZIEGFELD Folies brought sparkle to 42nd Street. The Astaires, Fred and Adele, danced in the street. The Marx Brothers opened their hit show *Cocanuts* at the Lyric, one of the theatres that made the block between 7th and 8th Avenues a mecca of entertainment.

That was a long time ago.

Today, 42nd Street is the place for the blues – the venue for human detritus who get their high-steppin' kicks from porn and prostitution rather than from a swirl choreographed by the tap-dancing Fred Astaire.

And drugs. You can buy anything you want, but the experience leaves you with the kind of blues that never came out of Satchmo's horn. A mecca still, to be sure, but for crime. In 1988, 2,246 offences were reported on the block – six a day. Over 20% were for murder, rape, robbery assault.

In the last 50 years, while central Manhattan turned itself into a pin cushion of skyscrapers, the developers were kept off the prime sites in 42nd Street.

More than a billion dollars of public and private investment has been spent on the periphery of 42nd Street over the past 15 years. The Bus Terminal has been modernised, Manhattan Plaza

**FRED HARRISON visited New York. He assesses the impact of the property tax on the sociology of the city.**

was constructed as a residence for performing artists and Theatre Row was developed.

But not a single new building was allowed to add sparkle to the block between 7th and 8th Avenues. And so it became seedier, turned over to the drop-outs and drug pushers.

Financially, the property owners – 50 of them, holding 74 parcels of property – have not lost out on their failure to reconstruct the fabric of this famous slice of the Big Apple. The low value/high turnover commercial trade behind the opaque shop windows provide enough cash for the owners to remain content; probably because some of them fail to report their incomes to the taxman, suggests Carl Weisbrod, who is

president of the 42nd Street Project Inc.

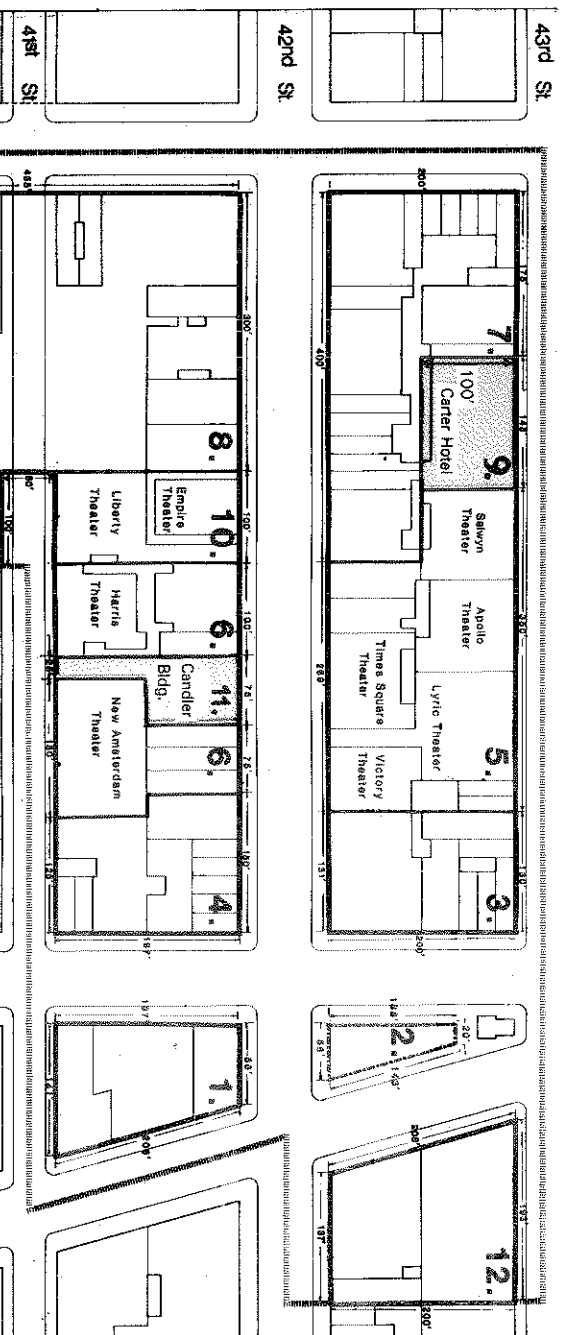
The Project is a subsidiary of the Urban Development Corporation, which wants to use its powers of eminent domain to force redevelopment. Nine seedy-looking theatres would be renovated in the planned \$2.5bn development on 13 acres.

But nothing will happen until the owners have fought the last legal, drawn-out battle, in their opposition to the takeover. Six lawsuits in the last eight years have postponed action to tear down 20 buildings and displace 400 businesses – 40 of them "adult" book stores and peep shows.

Meanwhile, the community is suffering socially, but also financially. According to Mr Weisbrod, writing in *The New York Times*:

"The block's owners collectively pay less in property taxes

**Continued on Page 26**



• The 42nd Street blueprint plots 1,3,4, and 12 for use mainly as offices; 5,6 and 10 for theatre/retail; 7 an hotel; 8 a mart

# Sting in

# A

With the arrival of a new government, INSITE reports on to the prospects of peace and prosperity in Brazil.

THE LANDLESS peasants of Brazil have heard it all before. But once again, they are being showered with promises, this time from the incoming government led by Fernando Collor.

President Collor took office on March 15. His new agriculture minister, Joaquim Roriz, claims they will carry out "the greatest land reform in the world without violence."

That would be a truly remarkable achievement. But can Collor, whose presidency was energetically endorsed by the big landowners, deliver? If he does, his financial backers will lose heavily, because 75% of the "land tax" due from landowners remains unpaid every year. The largest landowners pay the least. Will they allow their president to hit their pockets?

As for the violence, Brazil has indeed suffered major social disturbances in recent years. Cavalry charges - sabres drawn, truncheons swung - have been employed against squatters.

• But even if the government managed to rein in the police, they cannot stop the private armies employed by the land barons. These mercenaries are used to control the peasants, whose desperation for land is an unceasing cause of rural conflict. The murder of landless farmers and their champions, from trade union leaders to Catholic priests, is now a routine occurrence. The assassins usually go unpunished.

The world has a vested interest in land

reform in Brazil, because of the impact on global weather conditions arising from the deforestation of the Amazon.

Most people tend to forget the plight of the aboriginal tribes, however, whose plight is more immediate than the shift of temperatures by one or two degrees in the northern hemisphere.

The Yanomami are facing extinction because gold prospectors cannot be kept off their land. British pop singer Sting is one of the few high-profile people trying to rouse the public's anger against the genocide. Sting established the Rain Forest Foundation to try and protect native land, and in January he held a meeting with Raoni.

Raoni, the leader of the Xingu Indians, knows that the choices are stark. He says: "Are you going to kill all the Yanomami? God gave this land to us, the Indians. Sarney has cheated us."

Following his meeting with Raoni, Sting went on to a meeting with President Jose Sarney, to petition on behalf of the



• Messy eviction: mounted police, swords drawn, uproot landless squatters in Sao Paulo, South America's largest city

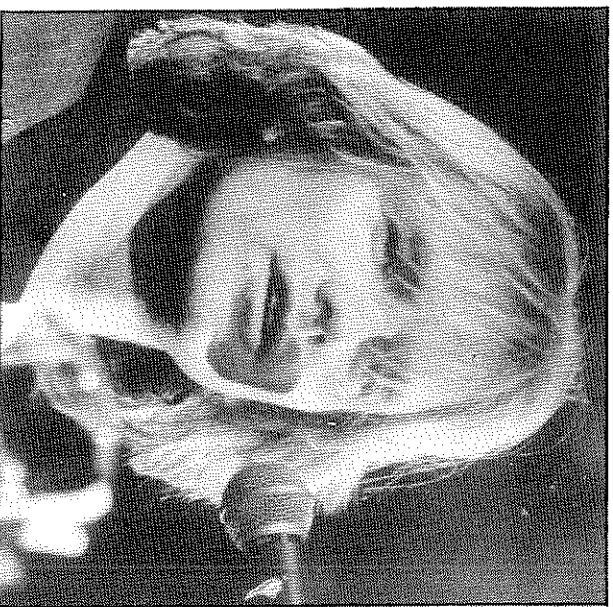
Indians. Time for Sarney. As the little time left Earlier, he had front the Amazon can be judged Catholic Indians which accused the lands belong 65%.

IT WOULD be a tragedy of Brazil indifference to needs. It would to interpret the helplessness in despair of the voluntarily at scratch out a deep in the jungle. Take, for example, 3,500 landless large ranch in evicted early in massacre by a private army. I of 80 policemen peaceful solution landowner, S which prevent

Over 1,460 clear victory of right-wing Rur which is a government's programme. Its



# The tale of Amazonian nightmare



• **Sing: Battling against the genocide**

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d succeeded in

starving the landless peasants off the  
privately-owned land.

The families are now camping along a  
road 25 miles from the Santa Fe farm.  
They have nowhere to go. They need 5,000  
hectares (16 sq miles) to survive, and that  
land is not available in the state of Rio  
Grande do Sul.

Understandably, many of them will  
exercise their option of last resort: they will  
head north, along a well-worn path to the  
Amazon basin. Here, they can hope to  
carve out a tract and till the land for up to  
five years, before the fragile topsoil gives  
up and is abandoned.

Others will leave their families in the  
shanty towns and head for the mines,  
where their mercury will pollute the  
streams and poison the Indians. But while  
the plight of the prospectors is a personal  
tragedy - of hard toil in mean conditions  
for little reward - for the Yanomami it is  
their culture that is at stake.

That culture is inseparably woven into  
the fabric of the forest. Take away their  
land, and you take away their culture; and  
without the reference points provided by  
culture, the people just find a way to die.  
The malaria and measles brought by the  
prospectors becomes a convenient instru-  
ment for finishing the job.

TO PITCH the analysis of Brazil's dif-  
ficulties in terms of the need for land  
reform, however, is to side-track analysts  
from the heart of the problem.

There is enough land for everyone in

Brazil; enough rich soil to produce suffi-  
cient food to raise each person's diet to  
healthy standards. The rights of private  
property may allow a relatively few people  
to enclose more land than they need, but it  
is the tax system that allows them to get  
away with *under-using* that land.

By failing to impose a heavy tax on the  
rent of land, governments conspire with  
owners to deprive people of access to life-  
giving resources. By constructing a system  
of fiscal inducements that encourage cor-  
porations to buy farmland, governments  
encourage farmers to sell and head north  
to the Amazon. By offering subsidies to  
farmers who clear the trees of the Amazon,  
governments indict themselves for jeopar-  
dising the welfare of the biosphere.

It is this thread of fiscal policies - which  
has been exposed by World Bank econ-  
omists, so no-one can claim ignorance -  
which is at the centre of the Brazilian  
tragedy.

Until fiscal policy is restructured, would  
it make much sense to pursue the idea of  
paying rent to Brazil in the form of bribes  
to protect the Amazon? This financial deal  
would lead to a piecemeal approach that  
would merely slow down the process of  
depletion.

By collaborating with the Brazilian  
authorities to develop this proposal, other  
governments would indict themselves for  
distracting the Collor government from  
the role of the existing fiscal policies,  
which enrich the landowners but are  
ultimately responsible for the destruction.

than a typical, medium-sized Manhattan office building. They require a wildly disproportionate share of public services (between 40 and 50 law enforcement officers a day are assigned to the block; the Sanitation Department says the block costs 10 times more per mile to clean than any other in Manhattan).

Existing owners, like the Brandt Organization and the Durst Organization, say they will rehabilitate the block. Durst says that, if the comprehensive redevelopment takes place, it will not recover the \$2.5m it has spent on renovating eight theatres.

Mr Weisbrod is not convinced, which is why he wants to force the issue. "They pay lip service to the public's desire to see the block cleaned up. But, in truth, they are committed to defeating the only serious effort to reclaim 42nd Street, all in an apparent attempt to maintain business as usual on this tragic and dangerous block."

A HINT of the extent of under-use of the prime sites emerges from a few of the statistics.

- The properties use just 20% of the total development capacity of the land.
- Rents reach \$200 a square foot - high, but short of what the properties would yield if they were redeveloped.
- The value of the land in the central and east side of the area alone is \$200m.
- Revenue to the city in property taxes amount to \$6m - the amount paid by a typical, medium-sized office building in Manhattan. Fifteen years after redevelopment, the tax is expected to yield nearly \$250m.

Here, then, is a prime example of how the tax system fails to reinforce the commercial logic

of the marketplace. Individually, the landowners enrich themselves as the area rots into the gutter. Their cash flow is high; meanwhile, the capital value of their sites appreciates by leaps and bounds - thanks to the public and private investment in the neighbourhood.

The property tax could be restructured to force owners to use their sites to the highest and best permitted use. A high tax on the value of the land alone would push owners into redeveloping their properties in response to both the legitimate needs of the community as well as to their own financial benefit.

Mr Weisbrod does not have much sympathy with that kind of talk. "Tax policy cannot be used as a means of achieving other social ends," he says. "At least, not in a direct way," he told *Land and Liberty*.

But he agrees that, under the present arrangements, the community is the loser. "The public and government does get screwed, because those properties are truly being undervalued.

"The unbelievable irony is that the property owners claim they are over-assessed on 42nd Street, and they bring petitions to have them [property taxes] reduced. At the same time, they say that our appraisals undervalue their property!"

The property tax, explained Mr Weisbrod, is assessed on the basis of the net income received by the owner of a property, plus the value of the land.

"Up to five or six years ago, tax policy and assessment in New York City was rather haphazard and not an entirely rational process. Increasingly, it's becoming more rational. The goal is to assess property at 45% of its true market value."

While opposing the use of the

property tax for social engineering, Mr Weisbrod frankly admits that "While each individual parcel makes a good deal of money, it doesn't pay what a truly developed site would pay" to the city in property taxes.

WITH high incomes, and low taxes, why should the property owners want anything to change?

That combination produces a special brand of commercial incentives, Mr Wiesbrod acknowledges. "The uses that are enormously profitable cater to a transient population who want fast food, pinball arcades, sex, movie theatres, and hole-in-the-wall grocery stores that sell only condoms and knives.

"The street is a breeding ground and hangout for criminals. It provides a built-in support system for criminals - they eat, meet, buy drugs, here. It's a springboard for crimes committed to the west and the Times Square area."

In the postwar years, Midtown Manhattan was extensively redeveloped on the back of the taxpayers: the real estate interests successfully lobbied for "tax breaks" - in other words, shifting the financial costs of running community services onto others. With this "incen-tive", the realtors enriched themselves.

But once in a while, not even these golden inducements will lure developers. 42nd Street is a prime example. The rationale behind the public initiative stems from the seediness of the physical and commercial environment, which discourage piecemeal private investment.

Why should any one landowner risk his money in providing an "up-market" building and service to customers in the mid-

# Everything under control

TWELVE Pennsylvania cities have begun to transfer taxes gradually off production and on to land values, to good effect.

Take Erie as a typical example. It is now taxing land assessments at 9.15% and buildings at only 2.7% instead of both at the same rate of 4%. This is what Erie achieved:

- \* Fully 64% of all property owners saved on property taxes (more than 80% of all homeowners), according to the City Planner's statement before City Council.

- \* Many large property owners won assessment reductions on their buildings through the appeals process, since Erie will now get more of its revenue from land rather than buildings, the city won't lose as much revenue through these assessment appeals.

- \* \$5,682,374 per year in property tax was transferred from buildings (.040-.013  $\times$  \$437,105,680). This will make buildings cheaper and more profitable to build and operate.

Considerable evidence suggests that Erie can expect a construction spurt in the years ahead. Here's some of that evidence:

- \* All 10 Pennsylvania cities with a two-rate track record have experienced construction spurts following their adoption of the two-rate property tax system.

- \* All 24 cities in Victoria, Australia, which since 1954 have switched to taxing only land values have experienced construction spurts far greater than their neighbouring and comparable cities.

- \* In a study of practically all the

By Steve Cord

cities in South Africa (there is no data for some of the smaller towns), those localities taxing only land values experienced the greatest growth in building assessments from 1951 to 1984; those localities which tax buildings also but at a lower rate than land did not grow quite as quickly, but they grew faster than those towns taxing both land and buildings at the same rate. The differences were substantial.

If we reduce (and maybe even abolish) taxes on production, and expand taxes on land values instead, an unprecedented prosperity ensues. After all, if we tax jobs less, won't we have more jobs, and if we tax capital investment less, won't we have more capital investment?

And if we tax land values more, the selling price of land will fall (primarily because there will be less net rent available to the private landowner, and the capitalization of it into selling price will also be much less). If land sells for less, then it will be more accessible to poor people.

Also, if the holding cost of land is increased due to a higher land value tax, then sites will have to be used efficiently, and this all by itself will lead to increased economic production and prosperity.

Some may ask: Won't all this development congest our cities? Won't it lead to the premature development of our countryside? The answer is a clear NO.

If local government collects the rental value of land in taxation it will encourage sites to be used efficiently, in accordance with demand in the marketplace.

But it won't encourage congestion, which is inefficient use of land. And in any case, zoning and land-use planning is still possible, although the need for it will probably be reduced.

The premature development of our countryside would not occur; in fact the land would be preserved. Land value taxation would ensure more efficient use with less sprawl.

People currently develop five-acre sites in the countryside instead of quarter-acre sites in cities, or they use rural lands prodigiously in either case, the clean-and-green countryside is developed prematurely.

Land value taxation simply won't sprout office buildings on land best suited for farms. Such developments are simply not the best use of farmland sites.

Inefficient land is the chief cause of the loss of countryside. The remedy is to tax land values, not labour or capital.

Parks and playgrounds are not taxed under the current property tax, nor will they be taxed under the proposal for land value taxation. But it would be easier to acquire land for such amenities because land would be much cheaper, some of it even near-zero in price.

Likewise, with historical-preservation buildings: they are not now taxed, nor would they be under L.V.T.

to a more desirable commercial destiny.

Now, the UDC appears to have an unanswerable case for public intervention and comprehensive redevelopment. Until many of the buildings are torn down, and the theatres rehabilitated, 42nd Street will remain a particularly bruised chunk of the Big Apple; one on which the maggots can get fat, plying their

trades in the filthy doorways between 7th and 8th Avenues.

Later this year, the bulldozers may bring an end to the economics of Adam and Eve on 42nd Street. But unless the policymakers reform the fiscal system, the dynamics of the vice trade will continue to operate with impunity, displaying itself as a slice of the evil apple in the seedy corners of every city in the world.

dle of a cesspool? The mistake, of course, is not to be found in how the market works, but in an irrational system of property taxation, which allowed the neighbourhood to run down.

Property owners were not encouraged to renew the physical fabric on an organic basis, in small increments, constantly responding to the needs of the community - a process that would have steered 42nd Street



# —Business in sad

BRITAIN'S Conservative Party presented itself throughout the Eighties as the champion of business enterprise, standing up against, in the red corner, the arch-enemy – high-spending councils.

The notion of business, straining at the leash, and held back only by taxation and bureaucratic restrictions, has been one of the ruling ideas of the Thatcher years. It gave us, firstly, the rate-free Enterprise Zones and now the government's reform of the business property tax, the Unified Business Rate (UBR).

We might have expected the business community to be grateful for its new found freedom from the depredations of rapacious socialist authorities, but as soon as firms discovered how much more they will pay under the new system, howls of anguish attracted headline attention.

The Confederation of British Industry (CBI) and the National Federation for the Self Employed (NFSE) predicted widespread ruin. The CBI estimated that over 500,000 businesses would see their rates rise by 20% a year in real terms for the next two years, whilst 100,000 businesses, which were expecting their rates bill to fall, would gain no advantage because of the transitional arrangements.

The CBI called for protection for the "losers" during the transition period. NSFSE went even further, reiterating its long-held view that business rates should be abolished altogether.

Such a response indicates a superficial understanding of the issues and an inability to appreciate the long-term implications of this tax change. It is true that, because of the poor transitional arrangements, many businesses will have a problem if their rates have risen sharply. Of far more importance, however, is the effect of the new tax as it works its way through the economy.

ALL PROPERTY taxes are based on rental values. The component of this which relates to the value of the land is determined by location and sustained by the infrastructure provided by the community. To the extent that the UBR is a tax on land values, it will be related both to ability to pay and benefits received, since it will be highest in areas of greatest geographical advantage.

Considered in relation to all the other taxes to which businesses are subject, the UBR is reasonably fair and involves firms in little in the way of administration; it is far less burdensome than Value Added Tax, Corporation Tax or

THE peasants of England revolted when the monarch tried to impose a Poll Tax on their heads in the 14th century. Their descendants, today, are every bit as angry – and are taking to the streets in mass demonstrations, up and down the country, against the Poll Tax which comes into operation this April. Some of their leaders are stalwarts of Prime Minister Margaret Thatcher's Conservative Party.

• A shaken government has fought back with a smear campaign: the revolt, they say, is led by extreme left-wingers known as the Militant Tendency. And Mrs Thatcher has sought to deflect attention from the groundswell of opposition to her favoured alternative to the residential property tax – which is now abolished – by attacking Labour MPs who advocate civil disobedience.

Many people are unable to pay the tax, which falls on everyone over the age of 18. Others can afford to do so, but are refusing to pay because of what they see as the inequities of the tax. In Scotland, where the Poll Tax was introduced a year earlier than in England and Wales, the bailiffs will go onto the council housing estates in droves, next month, to try and recover the Poll Tax by selling people's possessions.

A full report on the mass disobedience will appear in the next issue of *Land and Liberty*. Here, HENRY LAW explains the other half of the Thatcher "reform" of local government revenue: the retention of the property tax for commercial and industrial property, but levied at a uniform rate across the country.

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employees' PAYE Income Tax, which, despite appearances, is effectively a tax on business.

But although the UBR is levied on occupiers of business premises, in the long run, the burden of the UBR will fall on landlords. This will come about because the main consideration of tenants is the total cost of occupation, and therefore property taxes tend to depress rental values. By this mechanism, the UBR will be passed backwards to landlords.

Conversely, landlords quickly claim any cuts in property taxes as rental values rise, as we shall see in those parts of Britain where the UBR will result in lower payments. This process has been well documented, notably in the Enterprise Zones, where rents inside the zones were higher than those outside by the amount of the rate concession.

For this reason, it is pointless for the business organisations to argue for the abolition of rates; those members who occupied tenanted property would gain nothing. The Federation of the Self-Employed has only to look at what happened in 1928, when agricultural rates were abolished: the benefit was absorbed by increased rents.

With the realisation that the burden of the UBR

# disarray

will ultimately fall on landlords, the CBI's response is scarcely relevant. The UBR has been well publicised for the past two years. Businesses have been told what to expect, and rentals, which have until recently continued to rise by 15% - 20% annually, should have already discounted the forthcoming changes.

If firms now find the new rate too much of a burden on top of their rents, they will negotiate harder at their next rent review, pressing for a smaller rent rise to compensate for the higher rate rise. The standard upwards-only rent revision clause in business leases certainly makes things difficult, but this, strangely enough, is a problem about which the CBI and NFSE have never expressed any concern!

So far as businesses who are owner-occupiers are concerned, if the UBR results in hardship, they have only themselves to blame, because their problems are due to sloppy accounting practice which counts imputed rental income as "profits". Their businesses then appear to be healthier than they really are; some firms that seem to be making profits would not be viable if current market rents had to be paid for the premises occupied.

By distinguishing between profits and imputed rental income, at current market values, firms would set themselves realistic targets and would not be so vulnerable to increases in the property tax.

THE FURORE over the UBR carries more than a whiff of hubbub. Until recently, annual rent rises were higher than most of the forthcoming rate rises, and because landlords ultimately pick up the rates bill anyway, the complaints of the business community are misguided, their arguments deficient and their proposals not in the interests of their members.

All of which is not to say that the UBR will be good for business. It will not, and the transition arrangements will prove damaging. But what is needed is not a cushioning from central government, but action on upwards-only rent revision clauses.

Rental values, after all, can go down as well as up, and a government claimed to be in favour of allowing market forces to operate freely would have outlawed upwards-only rent revision clauses long ago. At the very least, it could have made a once-only provision to set aside upwards-only clauses to enable tenants to negotiate lower rents to take account of any higher rates due to the

introduction of the UBR.

No doubt, where the UBR results in lower charges, rents will adjust upwards quickly enough! With a ban on upwards-only rent revisions, firms could have protected themselves against the short-term impact of rate rises by negotiating with their landlords - and the members of the business organisations might well ask why their representatives failed to press this.

Worst still, the business organisations have done their members no service by keeping quiet about the continuing exemption of agricultural land from rates, and by ignoring the problem that the UBR, like its predecessor, penalises modernisation and improvement: higher rates are payable on a new, well-equipped factory than on an outdated one.

*Owners who keep their premises vacant are rewarded by a rate reduction, whilst land speculation is encouraged because vacant industrial land is deemed to have no value. This does nothing for the economy.*

The remedy, is a rate based on site values alone, ignoring buildings and improvements. All land zoned for commercial, industrial or agricultural purposes would be assessed at its market value and subject to the standard rate.

Bringing vacant and agricultural land into the rating system would spread the tax base and save manufacturing and service industries substantial sums of money. The CBI has no excuse for not being aware of the option of site value rating and of the benefits which this would bring to industry, and if its research department was doing its job properly, it would have been able to put a figure to the potential savings. The business community could then have presented a credible alternative. Even now, it is not too late to put forward proposals for improving the rating system in time for the next round of valuations.

The business community's reaction to the new property tax indicates a widespread ignorance. Of 218 businesses questioned in a survey by NFSE, 76% had not even heard of the UBR and 95% did not know how it would affect their business.

Discounting of rents to allow for the higher UBR may, of course, not have happened if the lack of awareness amongst businessmen is so widespread, but if many of them really have been caught out, perhaps they should blame themselves for their choice of newspaper; businessmen ought to realise that they need to know what is going on in the world if they want to succeed. One might also ask why the CBI and the NFSE did not keep its members properly informed of the impending changes?

# New social paradigm is vital after Marx

MOST ANALYSTS, in commenting upon the recent events in Eastern Europe, seem to take it for granted that two alternatives only are on offer: "capitalism" or "socialism".

There has indeed been a certain amount of speculation that new forms of economic organisation might emerge, but these, it is assumed, would be pick-and-mix systems, favoured, perhaps, as a means of easing the transition from socialism, by societies fearful of exposure to the full rigours of capitalism raw in tooth and claw.

Liberals in the West, hoping that something better could evolve in the post-communist world, might envisage a system like that in Western Europe, but with a higher proportion of "socialism" in the cocktail.

Not everyone would agree that Marxism is finally and unequivocally discredited. It remains a powerful force in Africa and Latin America. Ideologically, the African National Congress appears to be committed to Marxism and Nelson Mandela has declared he is in favour of widespread nationalisation in South Africa.

Elsewhere, Marxists are attempting to retrieve their intellec-

BY HENRY LAW

tual position by claiming that what has been happening in Eastern Europe is a perversion; if only the doctrine had been followed as laid down by Marx himself, all would be well.

Marxists, therefore, are urged to hold fast to their faith and await a fresh opportunity to put his ideas into practice.

THE MARXIST project was an attempt to remedy the evils of "capitalism", a system of economic organisation which led to exploitation of the masses. Although Marx tended not to be explicit in defining his terms, this understanding of what is meant by "capital" and "capitalism" is almost universally accepted.

Like most economists since, Marx appears to have conflated capital and land, and seems not to have regarded land as an entity in itself.

Crucial to Marxist economics and social theory are two hypotheses. The first is Marx's

Labour Theory of Value, which asserts that the value of an object was directly related to the labour that had gone into its production. The second is the belief in the perfectibility of human nature: given an ideal environment, humans would be naturally good.

Both ideas are seriously



• Nelson Mandela

flawed. Take the labour theory of value. Objects which no-one wanted could be very valuable merely because they had taken a great deal of effort to produce.

Although it is common experience that the value of an object is usually proportionate to the labour that had been put into its production, the labour is not in itself the cause of the value. Labour and value are indeed related, but the *value of an object is the labour which someone is prepared to give in order to acquire it.*

Marx's labour theory of value allows of no mechanism for the direction of production. Instead of markets, production has then to be managed by "the community" – in practice, by bureaucrats.

The Marxist belief in the per-

## Scholars invited to write about Henry George

SCHOLARS interested in writing learned papers on the works of American social reformer Henry George are invited to submit proposals for a conference to be held at Lafayette College, Pennsylvania, in June 1991.

"This is an opportune time to increase in the academic community a knowledge of George's works," says Prof. Jerome Heavey, one of the organisers.

"That is the primary purpose of this conference. We invite pro-

posals for papers which provide a scholarly analysis of George's written works and their significance and impact in the history of economics and the other social sciences."

The papers will be published in a book, to mark the first of what is hoped to be a continuing series of conferences.

Scholars who would like to participate should write to Jerome F. Heavey, Dept. of Economics and Business, Lafayette College, Easton, Pa. 18042, USA.



fectibility of human nature poses even greater difficulties. Let us accept, for the moment, the idea that in a perfect society, people would be naturally good. But the only people available to create such a society are the imperfect humans of our present society, and how could such imperfect creatures produce the ideal environment? The Christian notion of Original Sin encapsulates this predicament.

This does not leave us in a situation that is without hope, but makes it essential to acknowledge that people attempt to satisfy their desires with the least effort and, as a corollary, that they will not exert themselves unless some desire is satisfied in doing so.

People might climb mountains, but they will travel to the foot of the mountain by the easiest route. On this view, the best economic organisation which could be achieved would be one in which people stood to gain as little as possible from being dishonest.

IF CAPITALISM has succeeded in delivering the goods, it is because it has allowed the market mechanism to operate relatively freely. Prices act as a signalling device, directing both production and consumption, and allocating productive resources in ways which most closely satisfy human desires.

Of course, not all desires can be satisfied by the market mechanism. It would not be possible to construct a decent society by relying solely on the market, which, of its nature, is unable to produce what might be termed "public goods". It is not within the power of any individual to purchase a road, a frequent train service, a sewerage system, clean air, universal access to the law, and so on.

Nor can the market be relied

upon to deliver goods such as education for the poor or care for the dying. At this point, the market mechanism fails, and hence capitalism also. Undiluted capitalism does not deliver public goods.

But recall our definition of "capital": "man-made goods set aside for future production", "land" is a separate entity.

To recognise land as distinct from capital provides a useful analytic tool, as it becomes possible to discern a further element in the economic systems of the



• Karl Marx

West, related to the institution of land ownership.

Although, in most countries, the use of land is governed by limitations such as planning control, the allocation of land is, broadly speaking, governed by the market. Farmers grow crops to suit their soil, and the most intensively used land is that in the centre of cities. To this extent, the market promotes the most efficient use of land as a productive resource.

It is the presence of a community which gives value to land. Whenever people occupy land in a settled manner, rent arises, because everyone recognises that some sites are better than others. In the past, some societies have managed to even out the differences by holding the land in common and allocating it so that everyone had portions of both the best land and the worst. A similar result might be achieved by

collecting all the rents and sharing them out equally among all the members of the community.

UNDER THE economic systems of the West, the rent of land is privately appropriated. This leads to a partial failure of the market mechanism when it becomes advantageous to hold land out of use speculatively, as if it were a commodity.

This deprives everyone of its use. A variety of harmful phenomena follow as a consequence: boom/slump cycles, periods of large-scale unemployment, low pay, scarcity of housing and great disparities in living standards.

Indeed, most of the problems of concentration of power and claims on wealth can be attributed to the private appropriation of the rent of land – all of the evils of what is termed "capitalism".

It is significant that the greatest poverty is to be found in those countries that possess the richest natural resources. Natural resources give rise to rent, and if this is privately appropriated, those who claim it are in a position of great economic power.

IT IS particularly unfortunate that Marx, in his critique of capitalism, considered land and capital as a single entity. This served to obscure the nature of the "capitalist" system.

Marx was then forced to aggregate the wages of supervision, interest and rent, and regard them all as "profit" – surplus value, the fruits of exploitation. From this source, there arose also the Marxist confusion over the rights of private ownership of property.

If the two elements of "capitalism" – free markets and the private appropriation of the rent of land – are separate and distinct, it is possible to envisage

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# Soviet land reform realism

A NEW law which will allow individual citizens to lease land will prove to be one of the most far-reaching of the recent Soviet reforms.

The law, passed on Feb. 28 by the Soviet parliament, has been described as a "compromise". It will not allow explicit ownership. Land will be granted to people who want to carry out small-scale farming, build a cottage or engage in a traditional craft-based industry.

People will be allowed to pass land on to their children, but they will not be allowed to break up their holdings.

Individuals will have to pay a land tax or rent, to be fixed by the parliaments of the republics according to the quality and size of the plot.

The details remain to be worked out, and news reports have said nothing about the possibility of individual holding of urban land. But in essence, the scheme is sound. Soviet politicians have shown a grasp of fundamental issues which Western politicians

and economists have consistently ignored.

The Soviet scheme acknowledges that individuals should have security of occupation, whilst accepting the principle that since the land belongs to the community, the value of the land - its rent - should be returned to the community.

As it stands, however, the scheme presents a major problem: without a market in land, how can the rents and taxes be set at a level which accurately reflects the value of each site?

Where sites are undervalued, there will be a tendency for an unofficial market to develop, where sites are overvalued, holdings will not be economically viable.

The lack of a free market in land might not be an insuperable problem if, at the outset, potential owners were invited to bid for land by some kind of auction system, and holdings subsequently given up were then offered for open tender.

The absence of an established

valuation profession in the Soviet Union is a problem. If the scheme is to function efficiently, a crash training programme is going to be required.

The new land laws could have a beneficial impact far beyond the boundaries of the Soviet Union. Sooner or later, private land holding, subject to payment of a tax or rent, will be extended to urban land.

Rent from these sources would then, before long, leave the Soviet government in a similar position to that of Hong Kong, which, deriving considerable revenues from its Crown leases, is able to allow capital and labour to operate under a low tax regime.

Has the Soviet Union, perhaps unwittingly, taken the first step towards turning itself into a tax haven? If this were to happen, the country would quickly become a magnet for capital and labour - to the extent that, to retain their competitive position, Western countries would be forced to take notice and follow suit.

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an economy organised to permit the first but not the second.

It would not be any kind of mixture of "capitalism" and "Marxism"; such a concoction would be rather like being slightly pregnant, because, in the final analysis, Marx's Labour Theory of Value allows no place for markets.

From what has been said, it should be clear that, so far as economic organisation is concerned, capital and production should be privately owned and controlled. Markets deliver the goods that people want, which include many things that bureaucrats can never even begin to imagine.

Yet the private appropriation of the rent of land is something

which ought not to be tolerated, because the rent of land is created by society as a whole. The community dimension must be applied to land, which, in reality, belongs to the people. "Landowning" is, in any case, no more than a "bundle of rights" and a legal fiction.

So far as economics is concerned, the most important of these rights is the landowners' claim on rent. In this connection, it is of interest that, in Britain, the Sovereign holds the land on behalf of the nation, and freeholders are precisely that: "holders".

Formal public ownership of land is not required to put matters to rights, since the important thing is what happens to the rent. As much of the rent as the community desires can be

collected through the tax system. The rent of land could, indeed, be the main source of public revenue.

The allocation and use of land is, on the whole, probably best left to the market, with an effective planning system to enable the community to intervene as it desires - which is, in any case, much more easy to achieve if a system of land value taxation is in operation.

Moderate levels of land value taxation are levied in a number of countries, and experience indicates that the higher tax, the greater the benefit and the more widely distributed the economic opportunities. The Hong Kong system of Crown Leases has, to some extent, achieved a similar result and is a major reason why the colony has prospered.