

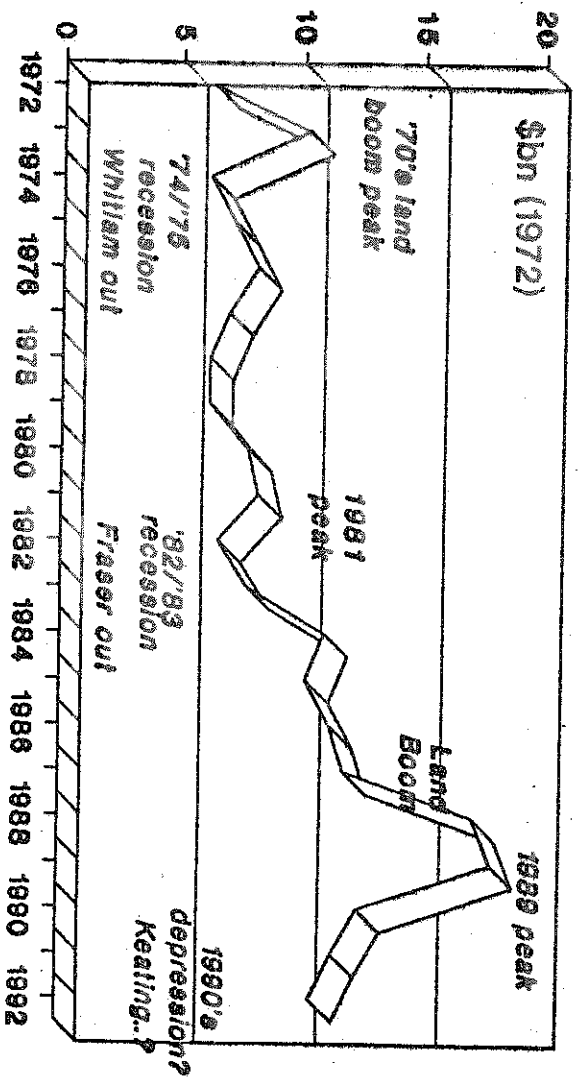
LAND AND LIBERTY

ECONOMICS • POLITICS • PHILOSOPHY

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Australian Real Estate Sales
As an Economic Indicator



RUSSIA: STALIN'S UNDERCLASS

DOMESDAY: OPEN THE BOOKS

MIDDLE CLASS WELFARIAT

DEMAGOGUES & CIVIL WAR

LAND

AND LIBERTY

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LAWS on private property rights are being drafted by federal officials in Moscow, who assume that a constitutional referendum will endorse the privatisation of land. This concept of private ownership of land is a major problem for Russia, which politicians in the Supreme Soviet do not fully understand. Even so, there is hope.

The proposals for new federal laws are being driven by the policies of St. Petersburg and Moscow, which have decided to lease land to users. The draft law will recognise the right of cities to lease land. But it is vital for the healthy evolution of the democratic process that Deputies in the Supreme Soviet engage in a calm debate about property rights. The Democratic Choice group of Deputies believe that privatisation of land is necessary to protect the citizen from state bureaucracy. Their sentiment is correct; the citizen must be free from arbitrary interference from agents of the state. But substituting the tyranny of a small class of people for the tyranny of the state is no answer.

Russia needs to develop the concept of "deed of private possession". But no privatisation formula would be safeguarded if Russia fails to develop democratic institutions and laws. Meanwhile, it is vital she does not rush to privatise her valuable assets. The problem is that the nature of land-rent is not yet understood in Russia. Land-rent should belong to the community, as the main source of finance for social expenditures. But rent has started to flow into private pockets. Land-rent could fund most government spending. The rent-for-public-revenue formula would mean that government investment would be a self-financing process, which would make it possible to reduce or abolish taxation on labour and capital.

Unfortunately, leases for land are being sold for 49 years, in return for rents which are fixed at low rates, and are not subject to revision. Privatisation needs to be carefully re-examined, to take account of issues such as these:

- ◆ Land leases should protect the community's right to receive the full market rent, with regular rent reviews.

- ◆ Buildings should not be privatised, yet, because it is not possible to determine a fair price. Lease the buildings, and give the leaseholder the right to buy in, say, five years from now, at a fair market price.

- ◆ Enterprises which decide to privatise themselves ought not to buy land, for this means tying up scarce money that ought to be invested in product R&D.

Russia will have to use correct methods for calculating the wages of labour, the profits of capital and the rent of land. But western "experts" who advise President Yeltsin do not understand how the market economy really works (they do not understand how 30 million people came to be unemployed in the rich nations today). Russia will have to find her own solution. The starting point has to be education about the principles of income distribution.

WILL STALIN'S UNDER-CLASS HAUNT THE LAND?

EUGENE ALYOSHIN, 38, made his first million roubles organising rock concerts. With the money, he created the first private radio station in Kaliningrad, Baltic Audio Service.

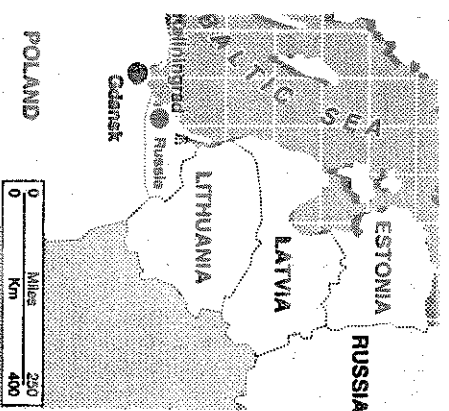
State radio in this district (population) broadcasts for three hours a day, which does little to reduce Kaliningrad's isolation from the rest of Russia, wedged as it is on the Baltic coast between Poland, Belorussia and Lithuania. Half the people live in Kaliningrad, formerly Königsberg in German Prussia. The city was captured by the Russians with the help of British bombing, which devastated most of the centre. The Russians sent the Germans back to Germany and brought in Russians and allocated factories for military production; there are still 300,000 in military establishments, an embarrassment to all.

Talking to the Chairman of the Association of Business Chiefs, it is clear that the smaller manufacturing companies can be privatised by, for example, converting electronic circuit boards to civilian use and retain 400-500 jobs. Larger factories which employ 10,000 workers making munitions have no chance of conversion and are kept going on a low wage subsidy. This way unemployment is not (yet) a problem, and new small companies can be formed gradually.

The City Council is about to give permission for the renting/installation of trading "kiosks" in the centre, following the example of St. Petersburg and Moscow; there will be three rental zones depending on the distance from the centre.

We spent over two hours discussing Henry George's land value taxation principles with 12 members of the City Council and the Land Planning Department. They are all keenly interested in land valuation, leasing and planning. So far the legislative

and constitutional situation is unclear, but everyone is trying to progress as best they can. So, just as the privatisation of all but the smallest companies and shops has not taken place, similarly the privatisation of land has not been agreed. This has not stopped a several hectare site on a prime location on the Baltic coast from being leased to an entrepreneur at a fixed rent per annum of \$8/9000 for 50 years. The developer told us that he



obtained the concession because he was the first and because he had made significant contributions to the City in other ways.

The council is desperately keen to encourage development, but we tried to persuade them to insert regular review clauses in leases so that future increases in land values can be captured for the community.

Since the people were not used to paying a tax on land values until 1992, and then only a few percent, many are inclined to vote for the privatisation of land. However, because the land has not been bought by those who occupy it or will be given it, they think it has no value. In reality they are in a unique position to give 'possession for use' but with the payment of a full economic rent as a tax. This would give

a big stimulus to the economic revival by cutting taxes on buildings, business profits and wages.

Never before have Georgists visited a country where opportunity and the reception of ideas have been greater. Enthusiastic town councils are in place. They have been largely cultivated in Kaliningrad by Professor Nicholas Tideman, a theoretical professional Georgist from Virginia State University and Polytechnic Institute who has made many visits to Russia in the last two years.

In this follow-up visit with Richard Noyes, a New Hampshire state senator, I accompanied Prof. Tideman and had numerous opportunities to present Henry George's ideas more fully on a recording for radio, an interview for a new newspaper and two television interviews. Further visits are essential and there is an enthusiastic team there ready to arrange it. Kaliningrad is spurred to greater activity by its designation as a Free Trade Zone as from January 1993, and they believe they will be selected as one of five towns to experiment with their own tax system.

We are assured that communism has irretrievably passed away and that modernisation and working capital are desperately needed to save the country. Russia can overtake us if she takes the big step of socialising rent and creating a fair share society. If she privatises land, she will perpetuate the underclass created by Stalin.

Russians do realise the value to the individual of buying public property cheaply rather than renting, subject to regular reviews. Eugene Alyoshin bought the licence for his airwaves for a high outright price rather than rent with reviews. He will make his billion very soon at this rate!

* Dr. Smith is Director of a Manchester Venture Centre for the unemployed.

Middle Class Welfariat

A prosperous, entrepreneurial, liberal middle class, thrifty but risk-taking, supportive of honest but limited government and suspicious of the established order, has been the foundation of Western, capitalist, civilised society. Unfortunately, in our lifetimes, the British middle class has fragmented. Only a decreasing part now fits that description. The rest has joined, become, the establishment, a middle class "welfariat".

To the civil servants and local government clerks, one must add all those others who are dependent on the state - those in quangoes, in nationalised industries, in undertakings reliant on state patronage, state subsidy, or the state as a sole or prime purchaser. The list includes many among the legal and medical professions, the teachers, lecturers, performers, 'farmers', and the sophisticated welfare scroungers (literate, miss nothing - how unlike the real poor).

They are afraid of freedom, of standing on their own feet, of the rolling back of the state. To them, Lady Thatcher's rhetoric sounded an increasing threat, and she had to go. It was all acceptable so long as only workmen in overalls were being laid off, but going beyond talk and actually laying a finger on middle class white collar office workers was a step too far - and that was even before the slump!

The new, dependent middle class thought it had comfort and security. Underlying timidity, and "what I have, I hold", surfaced at the first sign of trouble. Life for most people has been getting better more or less uninterrupted since 1945. Why risk it? Why experiment? There is also envy. "It isn't fair!" has become the great middle class whinge. A generation of snivellers has been brought up to worship differentials. Such people would rather not be better off themselves than see their neighbour better off still.

That arguments can be advanced in mitigation, is interesting but no more than that. What matters is that those of us who want to see changes in the way our country is run, be clear where we are starting from. Unhappily, we have to accept that while the ethical case for the collection of the economic rent of land remains the paramount justification of land value taxation, few middle class voters are likely to be interested. They want to know what is in it for them, and they will want to hang on to their privileges much more tenaciously than any trade unionist to his "Spanish customs". Noses will be readily cut off to spite faces. This is gloomy, but it is far from

hopeless. State paternalism comes at a price, and that price will be rising, no matter which party holds office. State action is erratic, unreliable, unpredictable, unprincipled, "not fair!" The obstacles to a radical programme are not so overwhelming as they at first seem.

Those standing to gain from LVT are immensely more numerous than those who might be losers, and in a democracy it should be possible to prevail within a generation of serious trying. Politicians are (for the most part) undeniably capable of the necessary cerebral effort to acquire an understanding of LVT, but they have much else to do which requires urgent attention, and in practice they live off their intellectual capital, and never have the opportunity to acquire anything after they enter the legislature which they did not have before election to it, except the ability to cope with administrative detail.

Yet politicians are in the business of holding on to their seats and of acquiring and holding office, and this requires quick and visible results. Once they are persuaded there is a case, whether from conviction or desperation, they will move fast.

Putting the Land Question back in politics

Here lies the opportunity. *Costing the Earth* has shown that there is serious money to be had from land values. LVT supporters must demonstrate that it is possible to raise revenue and do a great deal of good at one and the same time - but not with half measures!

I do not believe there is an elaborate, deep-rooted conspiracy by big landowning individuals and companies (not in modern, advanced, Western nations, anyway). They get away with it because economics as generally taught is confoundedly sloppy, and because no one has yet mobilised a vested interest against them. Two such come readily to mind. Businesses which have enormous investments in capital and little in land are obvious targets - petroleum and chemicals, for example (oil and gas producers already pay royalties, a rough-and-ready form of LVT). At the other extreme, farmers on marginal land (crofters and the like) look clear winners from LVT.

To cap it all, anyone who pays any form of tax on earnings, savings, goods, or services, has a vested interest in seeing land rent collected and used for government expenditure instead. Even Mr. and Mrs. Suburban-Nimby can be persuaded to part with the land value of "The Acacias" to receive a share of the Square Mile and the rest, if all their taxes are slashed too.

LEWIS LITTLE

Round the world

LONDON Public interest

THE DUKE of Westminster, Britain's richest landowner, quit the Conservative Party after failing to persuade the government to abandon its plan to allow tenants to buy the land under their homes. The Duke owns 300 acres of Mayfair and Belgrave in London, which are estimated to be worth £3.7bn. He also inherited estates in Cheshire, Scotland, Canada and the United States.

"The distressing to have heritage over 300 years taken away," said the 41-year-old Duke, who claims that he would rather not have been born rich. "I am concerned that the Government will interfere with contracts freely entered into between two willing parties."

Many Tory landowners dislike the government's determination to allow tenants to buy out their landlords' interest. But for the Duke, the legal battle was lost when he fought the Leasehold Reform Act (1967). He took his case to the European Court of Human Rights, where he was told that the compulsory transfer of property from one individual to another "might constitute a legitimate means of promoting the public interest".

The court also added that "the enhancement of social justice within the Community could properly be described as being in the public interest".

But that has not stopped the aristocracy from condemning the government. Earl Cadogan (owns Sloan Square and 90 acres of Chelsea) has withdrawn financial support from the party. Lord Howard (owns 120 acres of Marylebone) accused the Tories of theft.

Said the Earl of Dudley: "I see it as an excuse for

people to be able to acquire freehold property at below the market price". And Lord Forbes: "I can't think it's right to take away someone's heritage and let others have it".

GLASGOW Empty promises

The Thatcher years were supposed to extend home ownership to the population. The facts, note campaigners for the homeless, speak for themselves.

◆ There are an estimated 100,000 empty properties above Britain's shops. The government, at a loss over the problem of homelessness, is offering up to £25m to finance the conversion of these premises into residential use.

◆ On the run-down Craigmillar estate in Glasgow, one in five properties is empty - which, argued the Prince of Wales on a recent visit, proved that lessons had not been learned.

MOSCOW Food first?

RUSSIA'S farmers are receiving conflicting signals from the Yeltsin government. Agriculture minister Viktor Khlystun proposes a 3% tax on the profits of enterprises to shift resources to the agricultural sector, but his government - fearing hyperinflation - is now trying to clamp down on subsidies. Although 200,000 private plots were distributed to farmers last year (and rising at 9,000 plots a month), the sector is still dominated by state and collective farms.

◆ The Ukrainian government has passed a decree granting cultivators of private plots full ownership of the land. There was a 50% increase in output from these plots last year, after the state loosened controls.

TOKYO World's richest

TAIKICHIRO MORI, 88, the world's wealthiest man, has died. He was worth \$13 bn - a fortune based on his company, Mori Building Co., which owns 83 buildings in Tokyo. He revelled in the name "Tokyo's Landlord". He was a speculator who would buy land up to 20 years in advance of planned development.

EDINBURGH Crofters' victory

BILL RICHIE was a man with a mission. "Not for the first time in our history have the landlords broken the trust of the people," he told a gathering of crofters in the hills of north-eastern Scotland last summer. The families had gathered to hear Richie's plan "to take control of the land from the foreign owners". Liberal MP Robert MacLennan was cheered when he attacked "the feudal superiors" for their treatment of tenants.

Cause of the rising of the clans was the decision to sell the 21,000-acre North Lochaber estate for "significantly less than half the price" paid three years ago to the Vestey family for the land. The estate was bought for £1m by a Scandinavian property company that went bust at the end of the last land boom.

The crofters succeeded, raising enough money to buy their estate. In February the crofters visited the estate's factor, but instead of handing over the £2,500 rent, they collected the keys to their estate.

Says Iain MacIver, president of the Scottish Crofters Union: "The time is right for a fresh look at land tenure and usage and the crofters must be congratulated on their courage and far-

sightedness. They have set an example for others to follow. A whole new perspective of land management now opens up, with the people who work on the land having control of it."

◆ Forty Highland estates, valued at over £20m during the land boom, are for sale. "A third of Scotland's land mass," reveals MacLennan, who attacks the "absentee landlordism" in a region where the evictions of the 19th century are still fresh in people's memories.

The Countess of Leach is selling one of the estates. Sixteen families are being evicted to prepare for the slice-up of the land, to maximise revenue.

CAPE TOWN Exodus

THE THREAT of democracy in South Africa has persuaded some Afrikaner families, who call themselves the "Israelites", to go in search of a "promised land". They are reportedly planning to create a white enclave in Mozambique. South African farmers are known to be buying cheap farmland in Mozambique as quickly as they can. One plan, involving two men who allegedly visited London in January to buy arms, invokes the purchase of a million hectares.

BONN

For the past two years, the 30 employees of East Germany's Grundbucharchiv, or land registry, have been inundated with thousands of requests from people who want to recover property confiscated by the Nazis and the communists. Ironically, ex Nazis now want to recover property that was taken from them by communists - property which they had previously confiscated from Jewish families.

News in Brief



DEMAGOGUES and Civil War

by Peter Poole

THE RUSSIAN Academy of Administration is worried. The college that educates the nation's top civil servants believes that the Yeltsin government is receiving bad advice from the West, and fears that the politicians are succumbing to ideas that are not in Russia's best national interests.

Which is why a pamphlet published in St. Petersburg in January fired the imagination of scholars in the Academy, Russia's leading educational and scientific research centre.

The pamphlet was co-authored by Tamara N. Chistyakova, Director of Eco-Grid (a private research centre), and Fred Harrison, Director of the London-based Centre for Incentive Taxation and editor of *Land and Liberty*.

The authors analysed the strategic importance of land-rent in Russia's future international relationships. It argues that Russia - whose economic output is slumping by the day - could quickly assume a leading role in the global economy, if it adopted a new tax strategy.

A key feature of the plan outlined by the authors is that, by abolishing taxes, Russia could finance social spending out of land-rent, while giving its manufacturers a price advantage in the global markets (for rent would not be reflected in the price of exported goods). Thus, the reindustrialisation of Russia would be accelerated, giving her manufacturers an increasing share of the world's consumer markets.

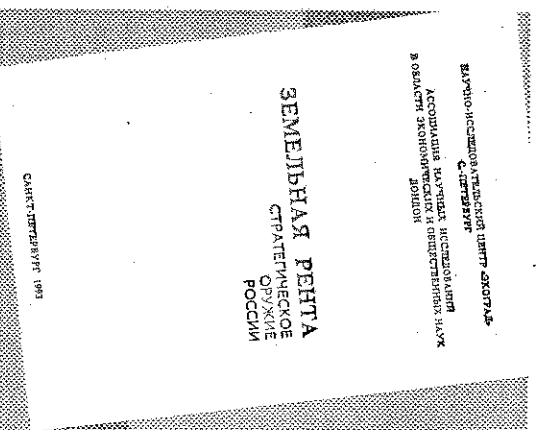
THE ANALYSIS captured the imaginations of the professors at the Russian Academy of Administration, which has established a number of training and research centres that are charged with analysing the strategic problems associated with the switch to a market-based economy.

And they decided that the programme of action detailed in the pamphlet was so important, that they personally assumed responsibility for making sure that copies were placed in the hands of Prime Minister Viktor Chernomyrdin, Supreme Soviet Chairman Rhuslan Khasbulatov, and agriculture supreme Alexander Rutskoi.

They said they could not be sure that President Yeltsin would read his copy, but they had no doubt his advisers would do so.

PROFESSOR Yuri Lyubimitsev heads the Academy's department of scientific research.

He told Chistyakova and Harrison that, with the demand for the private ownership of land now gaining political momentum, it was important to circulate the pamphlet in order to promote the idea of the socialisation of rent.



The pamphlet stirring Russia

"President Yeltsin does not understand the strategic consequences of the introduction of private ownership of land," said the professor. "He is influenced by his team, and they are pushing him to undertake these steps. To try and introduce your ideas means to struggle against the team of Mr President. And it means to struggle against the advisers who come from the West."

Prof. Lyubimitsev acknowledged that the argument in the pamphlet - that the managers of state enterprises wanted to get their hands on the land - was correct. "This wish, which can be explained from the economic point of view, is very near to the political position of the President's team, the President himself, perhaps, and some

western political, economic and financial circles. Unfortunately, the result can be negative for us. That is why Russia can be thrown away in this historical competition."

Prof. Lyubimitsev has arranged for extracts from the pamphlet to be published in an economic weekly newspaper (*Economy & Life*).

It was necessary to stimulate discussion, said the professor, for if Russia privatised land, no mechanism yet existed to socialise rent.

"Some political forces demand the introduction of private ownership of land, but they try to talk only about the introduction of land, they try not to speak about the consequences. They just say that those who have the land will work on it more effectively, but it is demagoguery."

He was also worried that public debate was being distorted by politicians and businessmen with the financial power to promote their causes. "The mass media is monopolised by some political forces, who are trying to block researchers who are able to speak in the language which is understandable to the population."

One of the practical problems for Russia, he pointed out, was the absence of any understanding or law that would help them to value land beneath state-owned enterprises. Furthermore, he said, they did not know if the price of land would influence costs of production and the price of products, and whether the land value differed if it was publicly-owned or privately-owned.

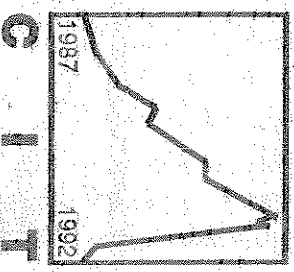
"But President Yeltsin, without solving these questions, started to give away the land. We are afraid the land sites under enterprises will be given away for vouchers."

Citizens have been given vouchers with a face value of R.10,000, which

Continued on p12

INTELLIGENCE

EI/37 MARCH 1993



THE LESSONS OF '73 - and 2,010!

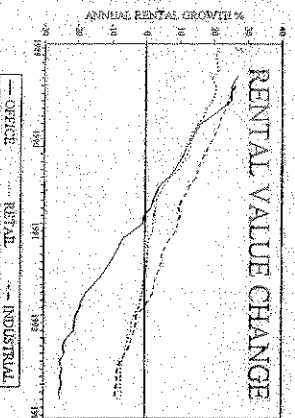
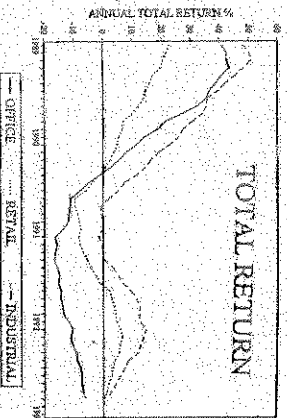
LAND SPECULATORS are back in the market with a vengeance on both sides of the Atlantic. The new 18-year cycle is being put in place by cash-rich corporations. They will shoot the global economy to a mid-cycle crash at the turn of the century, leading to the depression of 2,010 which, EI predicts, will dwarf the current depression.

That prediction may be looking too far into the future for most investors, but not for operators like George Soros, for whom the long-term growth in land prices offer the richest pickings.

Soros is the Hungarian-born Wall Street investor who made more than \$1bn (£600m) from speculating against sterling on "Black Wednesday" last autumn. He is now buying property, and is advised by Canada's Paul Reichman. Last month Soros was joined by Reichman to invest in north American commercial property. Soros described his new adviser as "one of the most astute and visionary figures in real estate investment". True; a reputation not diminished by the fact that Reichman's Olympia & York company went bust largely as a result of its venture in London's Docklands - the world's most spectacular property company crash.

Soros is establishing Quantum Realty, with \$525m to invest in

property, with an additional \$130m from Soros-related co-investors. Why invest in a sector that has been depressed for two years? Soros believes now is a time of "great opportunity to begin to assemble a prime portfolio of commercial real estate at advantageous prices".



The same motivation is attracting operators into the UK market, where total return on property registered 0.0% last year, according to Richard Ellis, the London real estate company. Germans are particularly active in Britain. They spent over £400m in the last few months of last year, and - with no sign of their economy bottoming out - they are taking refuge in the asset that will give them the largest gains in the long term: land.

This is cold comfort for British

builders, many of whom bought their land at the tail-end of the last land boom. They continue to sack workers. Few have been as sharp as Berkeley Group, which reports a respectable profit on last year's operations. How did they do it? They sold their land bank in 1988 - at the height of the land boom - and now run a "buy-build" policy, in which they acquire small parcels of land for immediate use.

Other construction companies - like George Wimpey, which has had to write-down the value of its holding of residential land in the UK and the US - continue to pay for the folly of not studying the economics of land speculation. And ironically, the first victims of the new buoyancy in the land market will be building companies. For with spirits now rising in the City, fears are growing that banks will "pull the plug" on builders - forcing them into bankruptcy, knowing that the land can be sold to pay for the loans.

The Chartered Institute of Building's chief executive, Keith Banbury says: "Statistics suggest there is a link between land values rising and firms going out of business at the end of a recession". Builders have only themselves to blame: they need to keep statistics that track back to 1973 - and look forward to 2,010!

DOWN UNDER IN THE DARK AGES

AN OPINION poll has revealed that 49% of the British people would like to quit the recession - and Australia is one of their favourite destinations. Down Under, however, people have the same idea. In the last 24 months, 12,000 Australians have emigrated to Britain. With 11% unemployment, a cloud has been cast over the image of Australia as a fun land of sun and economic opportunity.

Prime Minister Paul Keating knows it, which is why he played his trump card in a bid to get re-elected on March 13. He promised a referendum, in which Australians would decide whether they wanted to ditch the British monarch as head of state and turn Australia into a republic. The ploy was intended to distract voters - 1m of whom are now without jobs - from the bad news: such as a foreign debt of \$160 bn (£75 bn). And a brain-drain which, in two years, eclipsed the outflow of highly-skilled workers over the previous 20 years.

When Keating called the election, he said it would be about whether Labour should be returned, committed to equality and social justice, or a conservative opposition that planned to introduce a purchase tax and destroy the trade unions. The election, he insisted, was about who could best "manage change".

Labour came to power under Bob Hawke in 1983, when the voters tired of a conservative government that had presided over a boom-slump in 1982. Labour won three elections in a row, but then came the latest boom/bust, which cast doubts on re-election prospects.

CHANGE is what the Australian economy needs, if it is not to repeat the mistakes of the past. But analysts cannot put their fingers on why the resource-rich continent keeps collapsing under debt and depression. The Melbourne-based Land Values Research Group, whose research director, Bryan Kavanagh, tracks the trends in real estate, believes it can explain the underlying trends in the economy.

Kavanagh reports: "Although accurate forecasting is the test of any valid scientific explanation, it is not a characteristic one relates to the study of economics. The Treasury's latest econometric model (TRYM) conjures up endless equations to find out what is happening to the Australian economy."

"But there is no evidence that the federal Treasury, the Reserve Bank, or business analysts, bothered to quantify

the funds that flowed into real estate throughout the 1980s. They majored on figures and indices on the productive side of the economy, but had no interest in the destructive figures on the speculative or rent-seeking side".

There is no excuse for the Labour government being caught by surprise by the recession. As early as May 1984 the Association for Land Value Taxation alerted the country's Economic Planning Advisory Council to the prospect of a serious downturn in the early 1990s. Nobody listened.

The Land Values Research Group has now analysed the trends since then, and the results confirm that "escalating land prices act, even more than taxes, to divert capital and thereby curb effective demand and productive investment - with corresponding implications for economic activity and employment".

Real estate sales doubled between 1986 and the peak in 1989 at \$87.7 bn. Values rose by a factor of 1.84, reaching \$1,021 trillion. Average turnover exceeded 8% of the total value of real estate each year during this period.

A sum equivalent to one year's worth of national income has now been written off the value of Australian property. Because of the massive accumulation

of debt, the market will continue to decline for several years. New South Wales accounted for 40% of real estate sales by value - a surprisingly high rate, relative to the population of Victoria, which suggests a higher private debt level in NSW.

Chart 1 tracks the "asset boom" of the '80s. The Land Values Research Group argues that both the real estate and share markets were unsustainable and were partly driven "by a tax system which scarcely interferes with rampant speculation, yet levies a myriad of fines upon productive activity". Between 1986 and 1989 investors sank \$469 bn into both markets, equivalent to 51% of national income for that period.

"The speculative binge is comparable to those of the 1880s and 1920s, and the sales 'bubbles' which burst are clearly evident," notes Kavanagh. "Unlike the 1920s, however, the share market 'went' first. There was a 550% increase in the volume of share market sales in the three years to the peak at \$66.2 bn in 1988, and a lesser increase of 240% in real estate for the four years to its peak at \$87 bn."

There is a closer relationship between the real estate and share markets than is generally admitted - much of the value of shares being underpinned by real

The Asset Boom: Australian

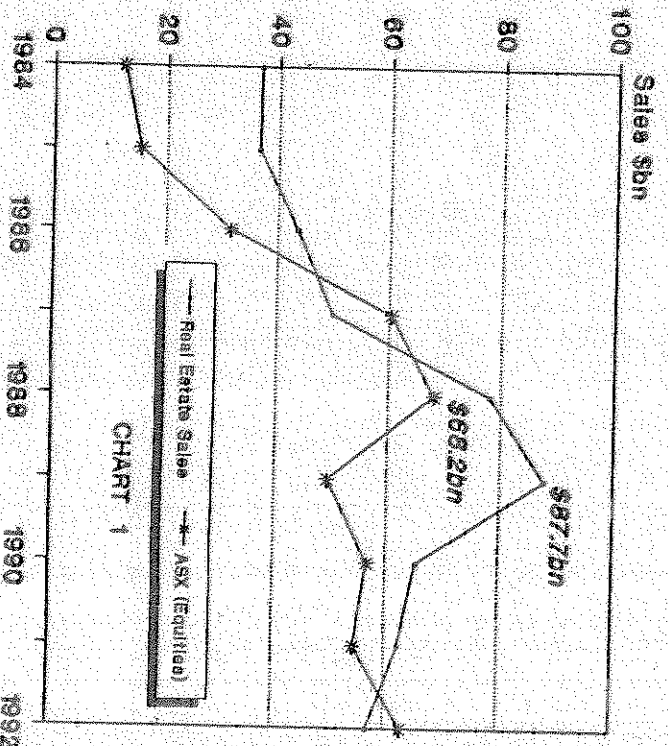


CHART 1

estate. "One market tends to feed off the fortunes of the other until a 'correction' is made," notes Kavanagh. "For example, equities actually outdid the property market in the financial year before the '87 'bust', which then reinforced the property market. Shares have surpassed real estate sales again in 1992, capitalising to about one-third of the real estate market - when they are more traditionally no more than one-quarter. This suggests the future direction of the stock market when it factors the property collapse back into the value of shares'.

◆ Victoria's real estate transactions are comprehensively recorded by the Valuer General's office since 1972, which has made it possible to extrapolate sales for Australia back to that year (using the fairly consistent ratio of 25% that exists between Victoria and the whole of Australia). The results are shown in Chart 2, with national income as a comparison.

"Real estate sales moving up from less than 20% as against national income to 30% at the peaks of land booms tend to confirm that speculative periods are at the expense of national productivity," explains Kavanagh. "So, contrary to popular mythology, it seems healthier for the prospects of the general economy when real estate prices are flat, or down - as they are now."

VALUABLE empirical lessons emerge from this analysis. One is that, when real estate sales go beyond 25% as against national income, the economy is on-course for difficult times. That is what happened in 1973 (29%) and in 1988/9 (33%).

But further research is needed that might help to turn economics into a predictive science - if scholars can be persuaded to indulge in relevant investigation.

One area of interest identified by the Land Values Research Group: the similarity of shape of the value of sales, as a percentage against national income, and of the graph for number of sales, which show the value of sales to be extremely numbers-sensitive. So: can a formulaic relationship be established between number and price?

"As ever, the dynamic in the property market was the land component," reports Kavanagh. Chart 3 shows that land prices grew even more quickly (compared with national income) than they did as a proportion of total real estate sales.

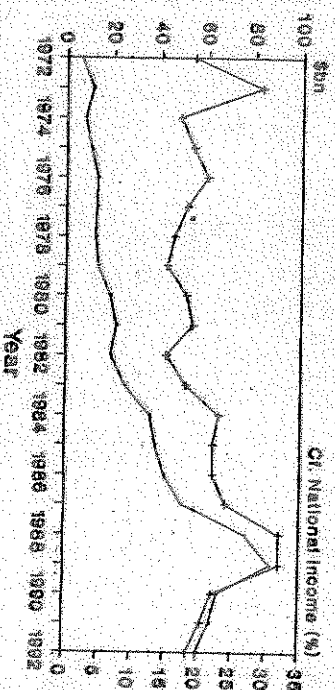
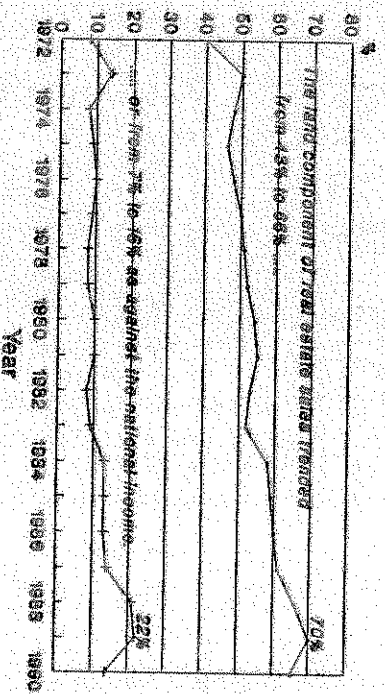


CHART 2



IMPORTANT questions for the policy-makers flow from this analysis.

Would Paul Keating have re-introduced "negative gearing" in August 1987, thereby adding fuel to the inferno, if the Treasury had provided him with this data? Would he have said (as he did in June 1989) that the flow of funds through the late '80s was largely the gearing up of capital stock?

"The figures show the process by which capital has been hijacked for the purposes of speculative rent-seeking in real estate," insists the Land Values Research Group's Kavanagh. "The sheer extent to which capital investment has suffered as a result, appears to lay bare the anatomy of a depression.

"The 200 years since the industrial revolution has shown consistently that every economic recession and depression is preceded by a land boom...but to date we have chosen to ignore this rather obvious fact. By blaming a passing parade of politicians and entrepreneurs for the cycles of recession and depression, we grab at the sensational and miss underlying causes.

"Unless valuers and economists combine to study the 'invisible' half of the economy, to establish what is happening to the rent of our natural resources,

our chance of regulating the Australian economy seems to be on a par with King Canute in controlling the tides. At the threshold of the 21st century, we remain in the dark ages in economic terms."

WHAT NEEDS to be done? In Kavanagh's view, "There is no better time to cut taxation and tax a greater part of the economic rent of our natural resources, to reduce speculative proclivities and return people to work. However, political inertia and a lack of awareness at the grass roots are major stumbling blocks."

A century ago, Australia led the world in the standard-of-living league. That was because the continent was resource-rich, and land had not been monopolised in favour of the few. Since then, the privatisation of rental income has wrought its influence, and Australia is now 13th in the league table - despite the fact that the ratio of population (17m) to natural resources still outstrips other nations.

Australia's unemployment rate is now the worst since the Great Depression of the 1930s, but there was no evidence, in the speeches from the hustings, that the politicians had yet learnt the lessons of the past.

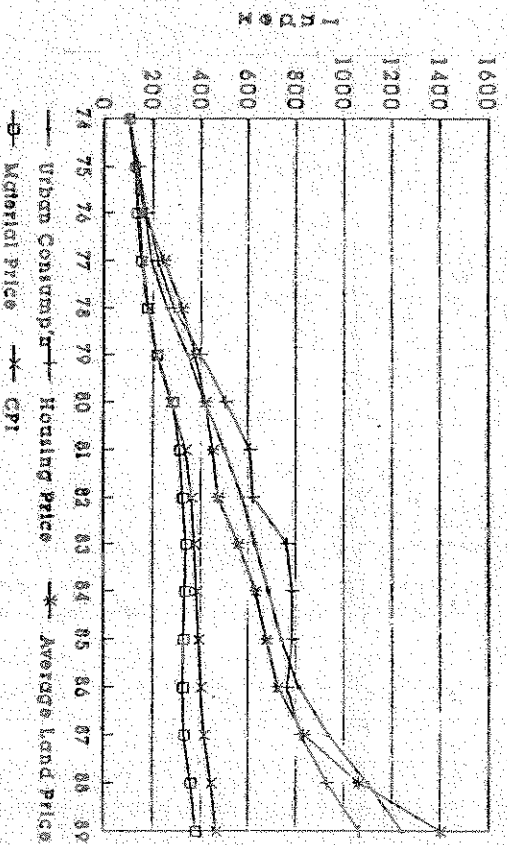
BICYCLE ECONOMY HITS INVISIBLE WALL

MANY ANALYSTS continue to stress the Pacific Rim as the growth centre of the early 21st century. This view is based mainly on despair with the global condition, rather than a rational appraisal of future trends. It certainly makes no allowance for the impact of the former Soviet countries (if they correctly structure their economies). And it does not allow for the fact that the "tiger" economies are now running out of ideas.

Monetary authorities in the US, UK and Australia are watching the deflationary impact of falling land prices in their countries. But they are failing to give similar weight to the crisis in the Far East, which will cripple exports - and which will shape the global economy in the millennium.

The downturn in land prices in Japan (see graph below) is undermining the Japanese banking system. But South Korea has a similar - though not so well analysed - crisis. The facts are summarised in the graph (above).* The story is a painfully familiar one. A boom in land prices in the late 1980s generated a similar rise in house prices (which could not be explained in terms of the cost of construction materials); families felt wealthier, which provoked a consumption boom, which panicked the government into taking action to "cool" the "overheated" economy.

None of this can be blamed on deregulation of the financial system (one of the excuses offered for the crisis in the USA and UK), for Korea's financial system was strictly controlled. Liberalisation

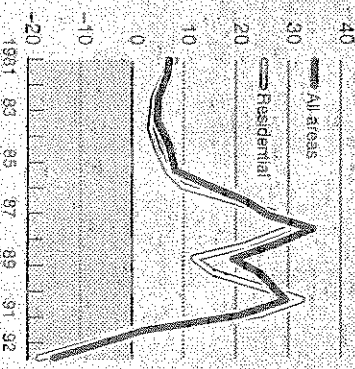


measures were not brought forward until last December, by which time the economy had been severely damaged by land speculation: third quarter growth in 1992 was the lowest in 11 years.

◆ One measure to combat the crisis was to restrict construction (a curb since lifted), which was intended to limit inflation. This merely had the effect of cutting back on the supply of houses, thereby pushing up land prices! Apartments are now beyond the reach of most people.

◆ Shadowing the error in the West, the Seoul government sought salvation in a tight-money strategy. This pushed interest rates to 20%, which bankrupted thousands of companies.

◆ One analyst described Korea as "a bicycle economy - if the average land price rises



speed is too slow, you fall off". The brakes have now been slammed on the economy, and people ARE falling off! The government optimistically predicts a growth rate of 6% this year, against last year's 4.9% (the worst performance since 1980). But with world demand collapsing, this forecast is based on wishful thinking rather than a hard-headed understanding of the mechanics of the market economy.

Capital spending is flat, and South Korea will this year be a suitable case for treatment. Korea's financial system was appropriate for a developing country, but she now needs liberal reforms, that will enable her to move into the production of high-tech products. Without appropriate structural reforms of the economy, however - and particularly in the taxation-and-tenure of land - liberalisation will make it even easier for the land speculators.

The economic doctors have not yet learnt how to catch the tiger by the tail!

* Kyung-Hwan Kim, "Housing Prices, Affordability, and Government Policy in Korea", Asian Information Service Center, July 1991, p.4.

DOMESDAY:

Time to open all the books

Last month Bank of England Governor Robin Leigh-Pemberton complained about the paucity of data on the property market.

The late DAVID REDFEARN wrote his last essay on the secrecy surrounding the records on land ownership and values in England.

THE RIGHT to privacy has long been cherished by the people of England, and is enshrined in the well-known saying: 'We keep ourselves to ourselves'. It is, for example, regarded as the height of rudeness to ask a new acquaintance how much he earns.

It is all the more surprising that, when the State prefaces its demands upon one's personal resources with a request for detailed information about amount and origins of income, marital status, ages of children, other dependants, expenses incurred at work, and so on, there seems to be a fairly high level of compliance.

Requests for information about the holding of land, however, and the benefits that follow from it, have met with more resistance over the past thousand years. Objections to the Domesday Survey of 1086 were over-ruled in no uncertain manner.

Reasons behind proposals for a new Domesday include advantages to private persons, to business enterprises and to land-ownership in general. A further possibility, yet to be recognised, is advantage to the population. The vital importance of the subject - for without land life would be impossible - makes it worth our while to consider it in detail, beginning with the original Domesday Survey.

MUCH HAS BEEN MADE by English historians and others of the civilising influence of the Norman Conquest. This is especially true of writers of the late 19th century, the high watermark

of British imperialism. From the 11th and 12th centuries, they claim, dates the idea of chivalry, the refinement of manners that found its ultimate expression in the concept of the English gentleman, brave to the point of foolhardiness, and jealous of his honour, but generally speaking kind and considerate, especially to ladies.

J.T. Abdy, Regius Professor of Laws in the University of Cambridge, and an authority on the nature and history of feudalism, shared this opinion; but he also took pains to emphasize that the immediate motives and effects of the Conquest led nobody to suspect any such outcome:

"A host of adventurers settled in all directions. The rapacity and brutality of these new comers, ecclesiastical as well as lay, for a long period vexed the land, produced widespread misery, and impressed on the English portion of the community a feeling of hatred as intense as it was lasting."

That the Survey of 1086 was intended to confer no favours on the people at large, but rather to establish on a regular basis the initial policy of plunder, Abdy made very plain:

"In two other excerpts from Florence of Worcester, referring to the years 1084 and 1086, we learn that William took from every hide of land throughout England six shillings; that he caused the great survey over all England to be made, 'whence arose much bloodshed, vexing the country side.'"

In the passage from Ordericus Vitalis (lib. iv. c. 7) the chronicler informs us of the king's revenue, one thousand and sixty pounds a day, of the king's careful and personal inquiry into the affairs of his kingdom, and the accounts of his treasury; above all, of his distribution of lands among his military followers.²

Although the famous Survey could have been, in an age when printing was still to be invented, in no sense a public document - nor would its instigator have wished it to be one - it has of recent years been held up as a model of the kind of project that could usefully be carried out now. There are still, however, powerful interests at work - the ultimate successors of William I's 'military followers', but freed from the conditions of tenure originally imposed by him - who would go to some lengths to maintain the old tradition of secrecy.

HOW POWERFUL these interests have been, and possibly still are (though the proliferation over the past century of movements with land reform on their agenda has caused them to assume a lower profile), is illustrated by a pamphlet from 1660, when the Restoration Parliament set about lifting the burden of taxation from the shoulders of the wealthy landholders, and placing it on those of the poor in the shape of customs and excise duties:

"This island...is...governed by the influence of a sort of people that live

plentifully and at ease upon their rents, extracted from the toil of their tenants and servants, each... of whom within the bounds of his own estate acts the prince... They sit at the helm in the supreme council; they command in chief at sea and land; they impose taxes and levy it by commissions of the same quality. Out of this rank select we sheriffs, Justices of Peace and all that execute the authority of a judge; by the influence of which powers they so order all elections, to Parliament or otherwise, that the whole counties follow their respective factions, and the commonly in the votes are managed by them as the horse by his rider."

Political power of such overt magnitude and scope did not survive the various Reform Acts from 1832 onwards, and it is impossible to say, with anything approaching the precision of the pamphleteer of 1660, what form it assumes today. Chances are available, nevertheless, such as a broadcast conversation in 1988 between Sir Alec Douglas-Home (Prime Minister, 1963-4) and Ray Gosling of the BBC. The Douglas-Home family was recorded in 1977 as holding 48,000 acres in Lanarkshire.⁴

Gosling asked whether the ownership of so much of Britain still gave the owners an 'automatic entrée to run the country too'. Douglas-Home thought that this was an exaggeration, but that 'what one can do is possibly help to influence things in a desirable direction as one sees it'. He went on to say that although, during his 13 years in the House of Commons, he 'probably didn't contribute a huge amount to the place', he felt that 'working away behind the scenes, one sometimes achieves a little bit'.

This prompted Gosling to ask whether he was still 'able to carry on working behind the scenes'. His lordship replied: 'Oh, I have a lot of contacts, yes, in all political parties, and I think occasionally one does help with a bit of auto-suggestion here and there.'⁵

The interpretation of these cryptic utterances would require a good deal of preliminary research. One line of enquiry is unfortunately closed; for, in their exemption from any legal requirement to declare major contributions to political funds, landholders are in a class apart.

WHATEVER changes there may have been in the nature of the political power that these people wield in England and Wales, the concealment, at least in detail, of its virtually tax-free basis lasted until the Government return of land-owners, 1873, and John Balcman's complementary and corrective work.⁶ It is noteworthy that these publications divulged, not only the extent of individual holdings, but also estimates of their gross rental value.

It may have seemed safe enough, by 1873, for such revelations to be made; but Henry George's *Progress and Poverty* was first published in 1879.⁷ By the first decade of the 20th century, his proposal for a single tax on the value of land, and the abolition of all other forms of taxation, was a prominent element of the advertised intentions of the Liberal Party in England. All this was to have its effect, particularly on the policies of H.M. Land Registry.

This Department had been established in 1862 to register title to land, thereby making dealings in it simpler and more economical. It has always, however, had its limitations. Even up to 1990, out of an approximate total of 22 million properties, it has recorded only 13 million. Registration is intended, at some time in the future, to be universal. Now, all properties are registered when they change hands, by means of either an amended or a fresh entry, as appropriate. Owners may also have properties registered voluntarily at any time; but the Land Registration Act of 1966 severely curtailed this right, in order that priority of attention might be given to built-up areas.

So much for the quantitative aspect, but the service offered by H.M. Land Registry had two qualitative

defects, only the first of which has been grudgingly remedied, and that recently. Until December 1990, the only person with an absolute right to inspect the entry for a property was the owner himself. Others could do so only with his permission. This presented an insuperable difficulty to would-be enquirers who did not even know the owner's name. Now, however, on submission of a written application in respect of one property at a time, and on payment of a fee in two stages, the enquirer can be supplied with a copy of the register entry and of the appropriate plan, based on the large-scale Ordnance Survey series of maps. When once he has received this information, he can also apply for copies of any other relevant documents mentioned in the register, with the exception of leases and mortgages, which are still confidential.

So we are led on to the second qualitative defect, which is still firmly in place: values may not be revealed, and in some cases, probably the majority, are not even known to the Land Registry. This state of affairs has a curious history. The Land Registration Rules of 1925, when the taxation of land values was part of Labour Party policy, made it obligatory, on first registration or a subsequent change of proprietorship, for the price paid for the land, or its estimated value, to be entered on the register. At the suggestion of the Law Society, the Land Registration Rules of 1976 were framed for the withdrawal of this requirement. These details will now be entered only on the specific request of the applicant.

We have an authoritative but unattributable explanation that this change was made at the instance of people who were buying and then quickly re-selling land, and did not want to tell the new purchasers what they had paid, because this information would hamper their chances of 'a good negotiating line'. To put it bluntly, speculators in land were to be, and still are, favoured at the expense of ultimate users.

Such secrecy in the land market

Robert holds BROADWATER from William. Wigot held it from King Edward. Then it answered for 29 hides. Of these, 9 hides are in William of Warene's Rape and William of Broose has two hides in lordship. What Robert holds paid tax for 6 hides. Land for 7 ploughs. In lordship 2 ploughs; 30 villagers and 4 small holders with 10 ploughs. A church; 3 slaves; 1 mill at 7s; meadow, 60 acres; woodland, 20 pigs. A man-at-arms holds 1 hide of this land. Total value before 1066 and later £15; now £14.

- Domesday Book, 2, Sussex; tr. Janet Mothersill.

acres and gross annual values.

◆ In Denmark, a more sophisticated system of survey and valuation has been, not merely permitted, but initiated by the State. The taxation of 'real estate' (i.e. both land and buildings) has for centuries been an important element in Danish revenue raising; but it was not until 1903 that a regular four-yearly assessment of the value of all properties was established. Then, in 1920, when land value taxation was introduced, a separate assessment of the capital value of the land alone was added to that of the capital value of the whole property.

All this work, which is the joint responsibility of central government and municipalities, has for the past 10 years been computer-assisted. The main advantage that has been so gained is that it is now possible for annual computer updates to be inserted between the main revaluation years.⁸ The information is made publicly available through the medium of Vejviseren, the Danish classified telephone directory.⁹

THE IDEA of some such scheme has been maturing in the United Kingdom over the past decade; and the first sign of official interest in it came

in 1985, when a Committee of Enquiry was appointed to 'advise the Secretary of State for the Environment within two years on the future handling of geographic information in the United Kingdom, taking account of modern developments in information technology and of market need'. The Committee's report duly appeared in 1987.¹⁰

These 'modern developments', known as Geographic Information Systems, and already applied in a fragmentary fashion, would, they concluded, now make it possible to combine, in a comprehensive computer file, data held by the Land Registry, the Valuation Office and the valuation and planning registers of local authorities. Also to be included would be data relating to natural resources, land use, infrastructure such as road and rail networks, and socio-economic data derived from the decennial Census and official reports on employment, health and public expenditure. All this information would be recorded on the computer, not only on a subject basis, but also 'spatially' by means of the coordinates of the Ordnance Survey National Grid and the Irish Grid.

Despite the ever-decreasing cost of services relying on computers, the Committee considered that such a scheme would be more acceptable to the Treasury if the private sector were to be involved as much as possible in both financing it and doing the actual work of data processing. It now seems likely that this will happen.

Then, in November 1991, Capital & Counties plc, a leading U.K. property developer, announced their sponsorship of a feasibility study, to be carried out with the cooperation of Wolfson College, Cambridge, into the creation of what they term a modern Domesday Book - Domesday 2000. If the kind of information referred to in the report of the Committee of Enquiry could be fed into a suitable data base, and integrated for purposes of retrieval, it should be possible, they consider, for a 'potential investor' - they are thinking of investors, it would seem, rather

is evidently against the interests of those who actually produce the nation's wealth. It is, however, in the short-term interests of those who, by means of the law-given power to appropriate rent, are enabled merely to benefit from the increment to locational advantages without contributing to the production of that wealth.

INTERESTING contrasts to this miserly attitude are to be found in two other countries.

◆ In Scotland, at least two surveys have been accomplished by private individuals, notably by Dr Roger Millman of the University of Aberdeen. His method, as he applied it to Perthshire and the Crofting Counties, was to mark estate boundaries on 1-inch Ordnance Survey Sheets, and to prepare a separate index card for each estate, including the name of the owner. What deserves particular emphasis is that Millman then deposited these documents at the Record Office, Register House, Edinburgh, where copies could then be bought. No official secrecy here! This open-handed policy enabled John McEwen⁴ to extend Millman's work, and elaborate it to the extent of including

than users - to be presented with an array of sites from which he could choose one that would meet his requirements.

Even if by 'investor' they mean 'user', what would be the ultimate generalised result of ensuring that every site is put to its best possible use, and every user has the best possible site for his purpose? Why, simply that production and exchange would reach their highest level of efficiency, insofar as this can be effected by correct geographical location. The economic rent, therefore, or the unearned return to landownership over and above the return necessary to induce use, would be as high as this method could make it. The owners of the land would benefit collectively from publication of up-to-date market information about their holdings, just as some of them now benefit individually from present secrecy.

Since the promoters of the scheme, by their very choice of a name for it, invite comparison with that of William the Conqueror, it must be said that what they appear to have in mind is an improved means to an unimproved end. The whole idea, however, would wear a different aspect if it could be applied, in conjunction with Henry George's tax on the value of land, to the socialising of the economic rent, which in fact represents the earnings of society as a whole. It would then be possible for industry and commerce to be relieved from their present burden of taxation; and for economic problems that have consistently plagued mankind whenever and wherever land has come to be regarded as private property to be relegated to the pages of past history. Wolfson College and Capital & Counties plc would then have earned themselves a high place on the list of mankind's benefactors.

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QUAKER LAND VALUE GROUP

Dr Roy Douglas
talks on
"Land and Justice"

on Saturday, 17th April 93, at 1.30 pm in the Quaker International Centre, Byng Place, London W1 (opposite Dillon's Bookshop; Tube Station: Russell Square).
Meals and/or accommodation can be booked in advance at the Centre: tel. 071 387 5648.

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Whose is the Land?, a booklet by Jack Richards giving an account of the policy of the Quaker Land Value Group is available (£1, inc. p&pp), from The Clerk, 33 Christopher Close, Norwich, NR1 2PQ

Letter to the Editor - BOTTLING THE AIR

Sir, "Don't you know that if people could bottle the air, they would?...there would be an American Air-Bottling Association...they would let millions die for want of breath, if they could not pay for the air."

- Robert G. Ingersoll, ca. 1892, in Roger E. Creeley (ed.), 1983, *The Best of Robert Ingersoll*, Immortal Infidel, Buffalo: Prometheus Books, p. 79.

Times have caught up with Ingersoll. Ronald Coase, prominent Chicago economist, says polluters (whom he calls emitters) have as much right to emit as victims (he says receptors) have to breathe clean air. It doesn't matter, says Coase, how we assign property rights originally: as long as there is a free market it will all work out. But, since people have invested in polluting facilities, and since property must be respected...you see whither he is drifting?

And was he laughed to scorn? Au contraire, he was lifted on the shoulders of his adulatory peers and made into a demi-god (which tells you something about his peers). Having risen on wings of theory the idea found its way into practice, and today The South Coast Air Quality Management District awards "offset rights" to those with strong track records of pollution. New polluters have to buy "property rights" from old ones.

In effect, we don't fine people for polluting, we pay them to stop: vice is rewarded. If you have been a good neighbour, and voluntarily stopped before, too bad, no offset right for you: virtue is penalized. I have offered not to emit millions of tons of nitrates and sulfates, too, and underbid the big refineries by 50%, but that doesn't cut it: to cash in on this, you must already have been abusing your neighbours.

Pursuant to Coase we should no doubt award the Ukraine a perpetual right to have periodic melt-downs at Chernobyl, rights which could then be sold to Uganda or Paraguay or other LDCs wanting to modernize with a melt-down or two.

And those who want to breathe? Coase says they, too, should buy that right from Ancient and Honourable polluters, by buying and retiring offset rights. (They are only "environmental activists," after all, an eccentric lot.) For this they gave him the Nobel Prize. You see, old Ingersoll was on the mark. Nothing is too absurd once we accept trespassing, leeching, and sponging as principles of establishing property rights.

Mason Gaffney,

Professor of Economics, Riverside, California.

BOOK REVIEWS

THE FATE OF HONG KONG

by Gerald Segal

Simon & Schuster, £16.99

THIS SMALL BOOK packs a great deal into its 211 pages and covers a much wider field than the title suggests. It provides much factual data - mainly economic - relating not only to Hong Kong but also to the other territories on the Pacific Rim which have an interest in, but little influence on, Hong Kong's future. It provides a timely survey of the social and economic framework within which Hong Kong will move from British to Chinese sovereignty. It is well researched and keenly thought through.

Two words stand out - 'fate' and 'pragmatism'. The use of the former particularly in the title is unfortunate since it implies some form of collapse before the case has been examined. As the author himself states in his conclusions, it could equally be argued that the transfer on the terms of the Basic Law presents Hong Kong with a great new opportunity to fulfil its role as the essential *entrepot* for South China and beyond during the next 50 years.

The use of 'pragmatism' is wholly appropriate. It has been - and one hopes still is - the watch word for both Hong Kong and China. Chinese people - and particularly those in the South including Hong Kong - are masters at adaption to circumstance, and they have the ability then to mould those circumstances to their own advantage. As the author states: "optimists would argue that it is precisely a Hong Kong-type mix of pragmatic professionalism in politics and economics which might be a 'Confucian'-type future for China..."

In this connection one would have wished for a more in-depth study of China's road back from the Cultural Revolution and the events leading to the tragedy of Tiananmen Square in 1989 which had so major an impact on sentiment in Hong Kong and on world opinion.

The author discusses at some length and with much insight the immigration policies of the countries which have an interest in population movements from Hong Kong in the years leading up to 1997 and beyond. This study covers a wide field - including Australia, Canada, the United States and Japan in addition to Britain, Europe and the near-by smaller states. It could have been observed that the 'brain drain' whilst a loss to Hong Kong provides welcome space at the top for the upwardly mobile, well educated young people of Hong Kong not available in countries with

RICHARD CLARKE

a more static population.

One might also have wished for some views on why Hong Kong and the other Pacific Rim 'Tigers' have been so economically successful. A search for common factors would have led to a comparison of the policies of the various territories relating to land. The Government ownership of land in Hong Kong and its determination to ensure its appropriate use in both the private and public sectors have been significant factors in that territory's success. Similar factors apply in other 'Tiger' states, and if such policies are adopted by China the outcome could have a major impact on its own economic development in the next century.

The author has no doubt that the future of Hong Kong lies with China, but he develops this view further by drawing attention to the difference of approach of the authorities in Peking and those in Guangdong, South China. He says "the fate of Hong Kong depends as much on Peking's relations with Hong Kong, London or any other part of the globe". There has always been tension between the central authorities in Peking and other parts

of China, and Guangdong has gained most from the success of Hong Kong and, with the development of Shenzhen, welcomes a closer association with Hong Kong. Peking is more cautious and views too close a relationship with suspicion.

Having reviewed the debate on the democratic issue and particularly the first direct elections to the Legislative Council in 1991, the author concludes: "The people of Hong Kong had been given a chance to demonstrate that they really wanted an independent political voice, but they chose to stay at home." He adds: "In the end, democracy was not on offer...and it seemed that most Hong Kong people understood that reality." To be fair the author should have contrasted the 140 years of appointed British Government with the provisions of the Basic Law leading to a fully elected Legislative Council within six years of resumed Chinese Sovereignty.

Regarding Britain's position, he writes: "Britain has an interest in keeping the Hong Kong problem off the front pages..." "there is little to be gained but aggravation in holding on to Hong Kong". He implies rightly that in the long run, Britain's relations with China are far more important than those with Hong Kong. Yet the author states that the appointment of a high profile politician as the last Governor of Hong Kong was "generally greeted with approval" and in an article dated December 8th 1992, in the International Herald Tribune he takes a positive stand backing the Governor against Peking despite the 'aggravation'. He seems to have forgotten the Chinese rejection of the 'three-legged stool' idea advanced by Mrs Thatcher and dealt with so clearly in the first part of his book.

I took the opposite view to the appointment at the time, and all that has occurred since has confirmed my view. Whatever the outcome of the next 4 years - and the author sets out both optimistic and pessimistic scenarios - the Basic Law provides a clear route to much wider representation of the people of Hong Kong in their own affairs. It provides, *inter alia*, that the next Chief Executive shall be "a permanent resident of the Region...who has resided in Hong

Continued on p12 col. 2.

A CLASSIC ANALYSIS OF POVERTY

Inside the Third World, 3rd Edition,
Paul Harrison,
Penguin, Harmondsworth.

In the thirteen years since the first edition of this book was published, it has been reprinted no fewer than fourteen times. This rise and rise to the status of a classic best-seller should occasion no surprise. It will probably be a long time before we see another guide to the Third World whose coverage is so comprehensive, which describes so graphically the dire conditions in which the mass of the people live, and in which the author shows such perception and understanding of the origins and causes of those conditions.

Between 1975 and 1980, Paul Harrison travelled through eleven countries of Asia, Africa and Latin America, seeing for himself what he calls "the anatomy of poverty". His odyssey took him to, *inter alia*, Bangladesh, where landless labourers struggled to support wives and children on wages of 33 pence a day; to Sri Lanka, where tea plantation workers - typically families of five - lived in dark cells 10ft square; to Colombia where, in a nightmare world of disease and insanitation, he saw a family of nineteen living in a two-room shack, existing on maize soup and rice.

In Brazil, he saw a typical community where, because of a large labour surplus (ensured by keeping vast stretches of land under weeds and shrubs), the landlords were able to obtain workers for a level of wages that forced them, and their families, to exist on a diet of nothing but cassava flour. And all over the Third World he saw bright, shiny cities, their glittering skyscrapers, graceful flyovers and desirable residences contrasting starkly with the unsavoury shanty-towns on the outskirts where the poor camp in squalor, disease and neglect.

In Africa, he noted the decline in the traditional system of land tenure under which "a man cannot own the land because he did not make it", and the insidious growth of private ownership which brings in its train "social polarisation, increasing degrees of inequality and grinding poverty among those without adequate access to land." In Asia, he saw the same process at work with "Private property in land... (leading) almost automatically to increasing inequalities and the emergence of landlessness, even with a static population." In Latin America he saw the legacy of the conquistadors who, long ago, "replaced an egalitarian communal system of landholding with large estates and landless labourers."

Seen through the eyes of Paul Harrison, the Third World to-day is an endless documentary of man's inhumanity to man. But there can be no doubt that the author "tells it like it is", making this book essential reading for anyone wishing to understand the "whys" and the "hows" of the shameful fact that one fifth of the world's population live in hunger and poverty; or, as Harrison puts it, "on the very edge of existence."

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they can invest in privatised enterprises. Many of them, desperate to overcome the impact of roaring inflation, have resold their vouchers for around R4,000.

The professor was obviously dismayed by the Yeltsin Government's policies. For example, he said, "enterprises will receive land in return for paper, because the vouchers don't mean anything: it is just paper given by the government to everybody, there's nothing behind the paper."

He wants a stop to Yeltsin's plan to privatise land until, for example, "we have a theory of how land rent should be determined under market conditions. The practical mechanism to determine the land rent doesn't exist here, because we have no land market."

The ominous future for Russia, if property rights to land led to the re-creation of a class system, was not lost on the professor. He warned:

"As soon as we come back to private ownership of land, taking into account the differences in the regions within Russia, the consequences will be very terrible. It is possible there will be the continuation of the Peasant Wars we had in the civil war 70 years ago."

HONG KONG: continued from p11

Kong for a continuous period of not less than 20 years." So Hong Kong will not again have to suffer a failed politician who, but for the loss of his parliamentary seat, would have had no thought of Hong Kong let alone a role in its fate.

The author refers many times to the Far Eastern Economic Review - a respected and well informed Hong Kong weekly - so it seems appropriate to conclude this review by a quotation from that journal. In January 1984, before the Anglo-Chinese Joint Declaration, it stated "If Hong Kong is still free and prosperous after 1997, it will not be because of any agreement signed by Britain and China in 1984. It will not be because the people ruling China at the end of the century have their own stake in the survival of an autonomous capitalist enclave on their country's south coast...there can be no such thing as a moneyback guarantee for Hong Kong." This is still the case.

* Richard Clarke was for many years Hong Kong's Director of Lands, Surveying and Town Planning.

B. W. BROOKES