BOB CLANCY

LAND and LIBERTY

MAY-JUNE 1985

UK 80p; USA $1.50

The Making of a Site Value Tax: P.43

7858

LAND and LIBERTY

Established: June 1894

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ISS No. 0023-7574
Vol. XCII
Nos. 1,092 & 1,093

Annual subscription:
U.K. & Sterling area: £5
USA $10, Canada $11

Oriental Clues

PROTECTIONISM is acquiring a powerful hold in Washington D.C.

Lobbyists want President Reagan to curb the import of foreign goods.

If the Administration succumbs, it will deal a terminal blow to the jobs of millions of people throughout the world.

In particular, a defenceless Third World – struggling to meet debts incurred under the pressure of the energy crisis – would suffer. Their attempts to industrialise would be undermined.

But that is not to say that free trade, by itself, is a sufficient policy for achieving higher growth rates. The best path, in fact, is the one exemplified by Japan and Taiwan – the fastest growing economies in the last two decades.

The major reason for their success was the set of tax policies that they adopted when they transformed from rural to urban economies.

The secret was the decision to socialise a high proportion of rental income. This had two major effects.

- Tax revenues were pumped through the public sector into new roads and the stimulation of scientific and technological research – providing the essential back-up to the modernisation of the private capitalist sector.
- The land market did not become the plaything of speculators. Land owners who had to pay high land value taxes found it difficult to keep land in an underused or vacant state, while awaiting others to undertake the investments that would push up the value of their properties.

As a result, both economies exploded onto the world stage: Japan in the 1880s, Taiwan in the 1960s.

Now China is doing the same.

The socialist experiment having failed, Peking is flirting with the virtues of free enterprise.

In future, people can save money and turn it into capital. They can employ labour, and enjoy the rewards of risk-taking.

But land – for the time being, at any rate – remains in the public domain.

Collective farms having failed in productivity terms, tillers of the soil are now allowed to work land on a private basis.

Rent – whether in cash or kind – is paid to the community for the privilege of using the resources of nature.

This transformation in economic ethos has paid off. Peasant performance – measured in productivity – is now outstripping everyone else's.

Imagine the world in 15 years time. China, if she stays on course, will reach the stage at which Taiwan (within binocular distance of her mainland) finds herself today.

The big difference, of course, is that China's impact (because of her huge population) would be a million times greater.

But whether China *can* achieve her full economic potential will depend on whether she makes the mistake made by Japan in the 1890s, when landowners managed to shift the tax burden off rent and onto wages and profits.

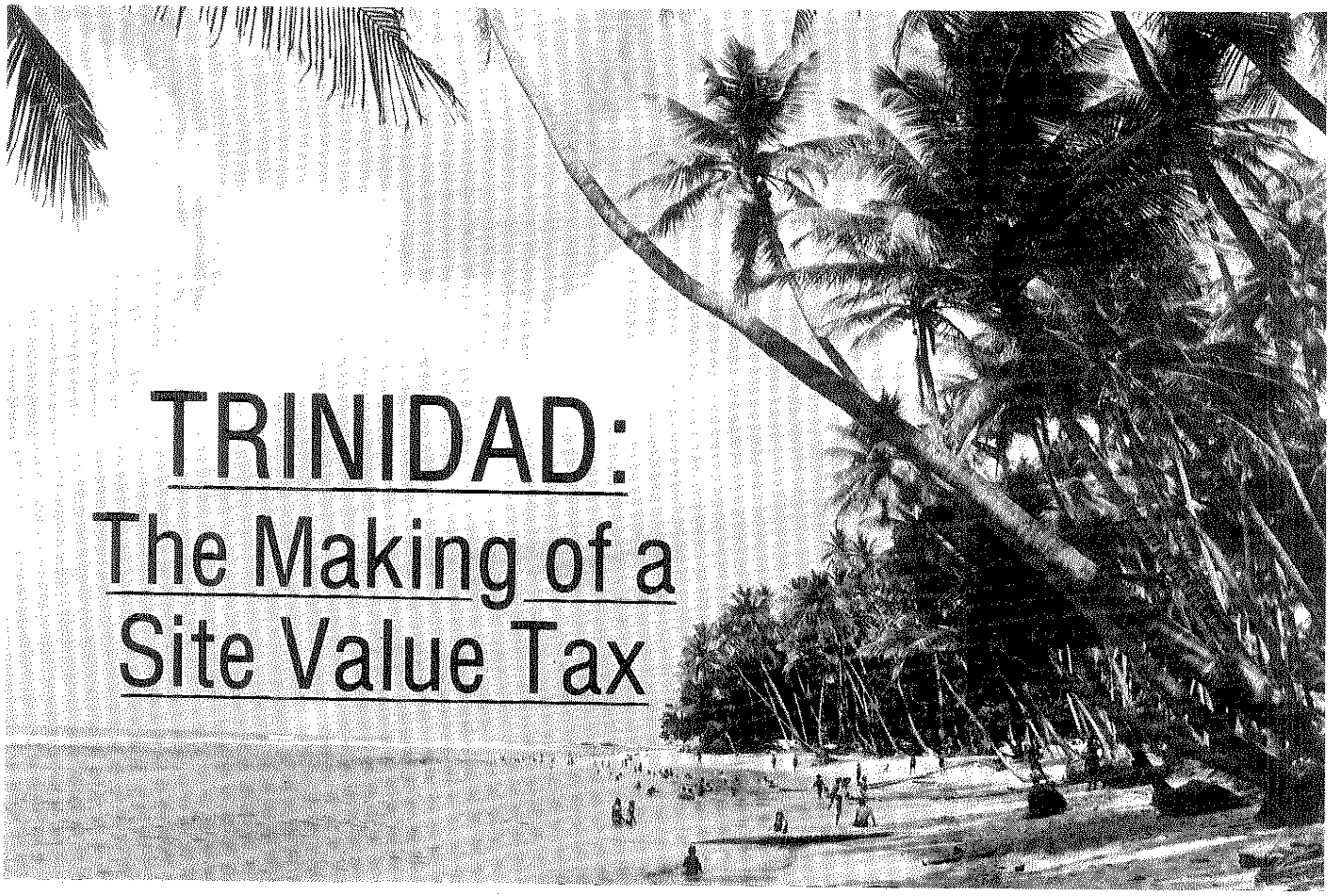
Even so, many Japanese workers and employers still enjoy the benefits of attitudes and institutions that evolved under the benign influence of land value taxation during the formative decades of industrialisation.

President Reagan, then, ought to resist the demands for protectionism by pointing out to American industrialists the benefits of free trade.

The switch to a new fiscal policy, alas, drawing on the historic lessons of Japan and Taiwan, is a responsibility that falls squarely on the shoulders of the President.

Underemployed Western economies today would undoubtedly benefit from this reform (see page 49).

Do the political leaders have the courage to meet the challenge head-on?



TRINIDAD: The Making of a Site Value Tax

Experiment with a new model?

TRINIDAD and Tobago is close to a decision to radically reform its property tax.

The decision to tax site values and exempt buildings would be an economic experiment of enormous significance to all job-starved countries.

This nation would be the first oil-rich exporter to directly capture a slice of the oil rent revenue that has been funnelled into the land market over the past ten years.

Land values soared in OPEC countries when the cartel forced up the price of petroleum in 1974. This income remained largely in private pockets, because property taxes were not structured to capture anything like a significant proportion of the new values.

Trinidad and Tobago, at the southern end of the Caribbean, was among them.

In the mid-'70s, the steady inflow of petro-dollars disguised the impact of the out-of-control land markets. The slump in revenues over the past three years, however, has left labour markets reeling under the influence of high rents and shrinking employment prospects.

TRINIDAD

CURRENCY: U.S.$1 = T.T$2.40. U.K.£1 = T.T.$2.60.
AREA: 1,980 sq. miles.
POPULATION: 1.2m.
PER CAPITA income (1982): $16,019 (U.S.$6,675).
GDP at factor cost, 1984 (estimated): $20,156m, of which oil and gas industry contributed $4,954m.
GOVERNMENT revenue, 1984 (estimated): $6,649m, of which oil and gas industry contributed $2,088m.
INFLATION rate: £12.9%.
FOREIGN exchange reserves: $3,037m.

FRED HARRISON, who has visited Trinidad and Tobago, reports on plans for a remarkable experiment in tax reform

And with protectionism now finding favour in Washington, the rest of the world cannot rely on the USA to drag the global economy out of the recession.

So some harsh decisions have to be made to restructure domestic economies, to over-ride the obstacles to capital formation and job creation.

The monetarist experiment as pursued in Britain has clearly failed to cauterise the haemorrhage in the jobs market. We now need an alternative model, and Trinidad could now lead the way.

GEORGE Chambers was Trinidad's Minister of Finance during the frantic years of the 1970s.

He witnessed at first hand the way in which oil rents were funnelled into the private sector. He became Prime Minister in 1981, giving him the power to lead his Cabinet towards a new model of economic development.

A major speech by one of his Ministers last December disclosed the intentions of the Port-of-Spain government.

The plan to reform the property tax was outlined by Senator Anthony Jacelon, a Minister in the Ministry of Finance and Planning.

He addressed a seminar on site value taxation which was organised by the Association of Professional Engineers.

The Valuation Division, he revealed, had begun to value all sites in the country. This is a necessary preliminary step, because the site value tax is based purely on the value of the site irrespective of the value of capital improvements on it.

The existing property tax, with its very low rates, falls on the combined value of land and buildings. The assessed values are far below current market values.

Said Senator Jacelon: "If, under the present system, the tax were to be imposed on actual rental values, it would not be an exaggeration to say that the landowner in most cases would probably have to pay ten times as much as he or she is now paying".

The failure to revalue property, as prices rocketed over the past decade, will now have to be dealt with in a phased introduction of the reformed property tax.

MEANWHILE, as an interim measure, the government intends to raise more revenue from land.

Mr. Chambers announced in his budget speech on January 9 that the following tax charges would apply:–

Holdings	*Tax per acre*
Under 10 acres	$10
10 – 100 acres	$15
Over 100 acres	$20

The expected yield: $18m, which is insignificant compared with total government revenue. That is why the land tax has to be based on the value of the land, rather than the size of holdings.

This is vital for reasons of equity, economic efficiency and fiscal revenue.

Why, for example, should someone

● George Chambers, Prime Minister

with a small but valuable tract near Port-of-Spain pay no more than a poor farmer with the same acreage in a marginal part of the country?

This was the argument behind one of the criticisms levelled by Len Hackshaw, the President of the Trinidad Chamber of Industry and Commerce.

'Petro-dollars were allowed to leak into private pockets through the real estate market'

At the same time, however, Mr. Hackshaw is mistaken if he feels that a land tax should be restricted to vacant agricultural land.

Such a limitation would deny the economy the dynamic benefits of an *ad valorem* tax on site values.

Fortunately, the Trinidad government's civil servants have spent 20 years carefully amassing the evidence in favour of site value taxation (see report below).

Once the new tax is fully operational, the benefits will be enormous.

Senator Jacelon identified some of these:

● The tax encourages improvements to land, because capital investment is not penalised. This generates new economic activity, and reduces the unemployment queues: 60,000 Trinidadians were unemployed last year (13% of the workforce).

● The tax encourages the optimum use of land, the scarcest of the community's resources. The speculative ownership of vacant land would be discouraged.

Thus, concluded Senator Jacelon, the landowner would contribute revenue to the community in direct proportion to the benefits which he derived from communal activities – benefits which were reflected in the value of his property.

THE EXPERIMENT with site value taxation on Trinidad and Tobago would be of general significance.

The country would not be the first in the Caribbean to switch to site value taxation. Jamaica did so 20 years ago, followed by Belize just two years ago.

These two countries, however, are not blessed with petroleum, the black gold which enriched a relatively few people while traumatising the cultures of nearly all the oil-exporting societies in the Third World.

Countries like Mexico, Venezuela and Nigeria found themselves awash with petro-dollars. Part of this was squandered on many capital-intensive

'When the taxation of land is negligible, speculation is encouraged' – UN report

THE FIRST major investigation into site value taxation on Trinidad and Tobago was funded under the United Nations Programme of Technical Assistance.

It resulted in *Valuation, Land Taxation and Rating*, a report submitted by John Copes in 1963. He noted that there had been an escalation of land prices up to 1962, and he added:

"In that the taxation of land in Trinidad and Tobago is negligible, speculation is encouraged as the owner can exploit the market to the best advantage practically without cost to himself.

"The large increases in values which have accompanied government expenditure on Development Schemes remain untaxed and the beneficiaries of these gains enjoy the benefit of such works without making any additional contribution towards their capital cost or maintenance.

"On sale the gain becomes an untaxed gift of cash".

The report came down in favour of changing the property tax – which was based on the British rating system – to one based on site values. It listed the virtues of this change:

● The benefits derived from local government expenditure are financed in proportion to community value held in the site.

● The tax operates as an incentive, in that improvements to the land do not attract additional land taxation but at the same time increase income tax revenue.

● The tax operates also as a penalty for holding land idle; the taxpayer contributes at the same level whether the site is bare of improvements or not. It pays him either to sell or improve.

● The tax is a just one, for it results in the government appropriating public value in the possession of the owner.

Six years later, the government passed the Valuation of Land Act to enable the value of every site to be ascertained as a prelude to tax reform.

Valuation programmes in 1969, 1972 and 1978 were not concluded, however, and Senator Jacelon, a Minister in the Ministry of Finance, now says:

"It is clear that this situation cannot be allowed to continue indefinitely and the time has come to do something about it".

projects which were a pure waste of money.

A great deal of the rest of the revenue was allowed to leak into private pockets through the real estate market.

Leaders of OPEC countries failed to devise effective development strategies to put their petro-dollars to appropriate use. At the same time, their property taxes were no match for the sound-barrier-breaking rise in rental values.

The result: lop-sided economic structures emerged. These were initially kept afloat by repeated increases in the price of crude oil.

With the world recession, however, that bailing-out process had to stop. That is why so many oil-rich nations are now in deep debt.

Site value taxation would begin the fight back to full employment. It would enable governments to reduce taxes which destroy jobs (see article on page 000), while still raising revenue for socially-necessary expenditure.

The economic expertise is now available: the politicians now have to find the political will.

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AGRICULTURE

The multi-billion £ heist: prince slams farmers

PRINCE CHARLES has upset Britain's farmers by branding them as "greedy", *writes Ian Barron.*

The Prince, who as Duke of Cornwall is one of the country's largest landlords, attributes the loss of natural habitats to greed.

"Fascinating places, wetlands, moorlands and hedgerows have been lost often in response to greed", he told a conference on future land use on April 3.

● Prince Charles

"Food surpluses have gained but the countryside and nation have been the losers.

"In response to stimuli, we have come to look on the land as an almost endless source of increasing income, without too much regard to the old conventional view of giving back to the land".

The Prince's analysis sidestepped the real cause for the switch to extensive farming in Britain over the past 20 years.

Farmers have, indeed, responded to "stimuli": the ever-increasing subsidies garnered by agriculture, which have been translated into higher land values. As a result, marginal lands, which would have been conserved in their natural state – if the free market had operated – have been put under the plough.

Farmers have grubbed up hedges and destroyed the wetlands that nursed rare species: but their actions have less to do with individual greed and more to do with political stupidity.

Successive governments have willingly handed out subsidies to encourage output of food that nobody wants to buy!

AS PROF. David Bellamy, who has gained fame for his TV programmes on botany, put it on the same day as the Prince was delivering his strictures.

"If I was a farmer I would be pretty proud that I had conned £64,000m out of the Government, but I would be very ashamed that I had put half the farmers and half the farmworkers off the land."

Farmers, he pointed out, had accused others of living off social security, but "the wages to buy their Range Rovers and tractors have come mainly from us, the taxpayers. They are the real paupers because they are dependent on national relief."

But if the next King of England entered the debate at that controversial level he would be detonating a constitutional nuclear bomb!

U.S. farm crisis: answers in the soil

QUOTE from *The Economist* (London) on March 9: "The roots of the American farm crisis lie too deep for any government to tear them up.

"During the 1970s, farmers borrowed too much money for land that was too expensive ever to hope to repay the cost of borrowing. The government cannot write off the debt even if it wants to, because America's farmers owe more money than Brazil and Mexico put together.

"The crucial feature of the farm crisis is not low income, but inflated land prices, and each extra dollar of government money will probably make this worse.

"More money would help the current owners of farms and bail out some banks. But in the end it would keep land prices higher than they would otherwise be and prevent newcomers from affording to buy land.

"At a moment when, for the first time in 30 years, land prices are falling towards a point at which new land is worth buying, there is no excuse for this kind of help, even though farmers are being hammered by the mighty dollar and high real interest rates".

An INSITE report HELP! Can't you separate land from building values?

TO TAX LAND, you first have to calculate its pure value.

In other words, the assessors have to separate out the land value component from the total value of the property.

Except for raw land, most properties include an element of capital – from modest road improvements and drainage to skyscraper blocks in the middle of Manhattan.

The exercise in separating these values, however, cannot be done.

That's according to some economists from both ends of the political spectrum.

On the right, for example, is Dr. Donald Denman, Professor Emeritus of the Department of Land Economy, University of Cambridge.

On the left, airing his views in a new book by Marxist authors, is Michael Edwards, who claims that such a valuation exercise is "fantasy".[1]

If these economists are right, of course, many people are in plenty of trouble.

● Merrill Butler, a southern Californian builder and former president of the National Association of Home Builders, is one of them.

He has devised a way to help people overcome the problem of buying high-price houses.

His "Homeowners Easy Land Lease Program" (HELP) works on the basis that the price of land is deterring people from buying their homes.

HELP makes it possible for someone to buy the house, but lease the land. This means they have to raise a smaller mortgage, and the monthly repayments are lower than under a conventional purchase (see table).

Mr. Butler's scheme is not new: this arrangements – which is an attempt to temper the impact of artificially high land values – has been operated in places as far apart as Hawaii and Maryland for years.

It's second-best, but it works.

The important point, however, is this: the scheme works because the parties to the transaction can agree on the price of that part of the property they were buying (the house) and the value of that part which they were leasing (the land).

● Condominium investors would also be in trouble.

The U.S. Internal Revenue Service allows only depreciation of the building, so the more value the investor can shift to the house or condominium unit, the bigger the tax deduction.

In Washington, D.C., many real estate brokers argue (on behalf of their clients) that the land value component of property assessments is too high.

But they would, wouldn't they? In the end, however, investor and assessor agree on the separate values, and so strike the best deal all round.

OPPOSITION to land value taxation is one reason why people claim that pure land values cannot be accurately calculated.

British historian A. J. P. Taylor has recalled one such occasion; the general election of 1910:

"This was an election fought partly, though only partly, on the Liberal idea for the taxation of land values.

"The Tories claimed that the valuation put on the land by the Liberals was much too high and that the taxation they'd have to pay was therefore much too heavy.

"The Liberal candidate, Baron de Forest, the heir of Baron de Hirsch who had built the Orient Line, and himself one of the richest men in Europe . . . issued a statement that he had deposited his cheque for £3m in the local bank and was prepared the following morning to buy all the land of Southport at the valuation the Liberals had put on it.

"Their complaint that the valuation was too high was not heard again".

● Property investors would also be in trouble if they could not carry out accurate valuations of land.

For buildings wear out, and the capital invested in them is gradually eroded. To maintain revenue, buildings need to be renewed.

According to Norman Bowie, a consultant for Jones Lang Wootton, one of London's biggest real estate firms:

"It is often argued that provision for depreciation is unnecessary, as replacement occurs only when the site value overhauls that of the land and buildings when valued as a single entity.

"This overlooks the simple fact that the value of the land would have increased in any event so that in reality the value of the capital originally invested in the building is gradually being eroded and finally lost.

"To rebuild (or to refurbish) requires the owner to inject fresh additional capital into the property".[2]

To make judgments on when to invest new capital into a building, an owner needs to know the relative value of land and buildings . . . which entails a valuation exercise which some "experts" say cannot be done!

IT SEEMS that the opponents of separate valuations for land and buildings are theoreticians.

Unfortunately, however, they have the ears of the politicians and their civil servants, who can therefore be prejudiced against a two-tier tax system (higher rates on land values than on buildings) on allegedly practical grounds.

For practitioners in the real world, however – from speculators to home-owners, from investors to developers – the valuation exercise is an entirely practical one.

It can be improved, without doubt: the use of computers would speed up the process, and make it more accurate and cheaper to administer.

But for all practical purposes, here and now, there are no sound reasons for claiming that the value of land cannot properly be separated from the value of capital invested on (and in) the land.

1. M. Ball, V. Bentivegna, M. Edwards and M. Folin (editors), *Land Rent, Housing and Urban Planning,* London: Croom Helm, 1985, p.210.
2. Norman Bowie, 'Do property investors allow for depreciation?' *Chartered Surveyor* (London), May 1982, p.581.

HOUSE PURCHASE UNDER TWO DIFFERENT PLANS: U.S.$

	Conventional purchase	*HELP deal*
Purchase price	80,000	56,000
Borrower's qualifying income	37,000	32,640
10% deposit	8,000	5,600
Monthly payments	882	618
Land rent	—	160

● Assumptions: 90% loan at 14.5% rate of interest. The total monthly payment of $778 is $104 less than under the conventional method, which draws more people on lower incomes into the house-buying bracket.

'Pullback' plan to check the land grabbers

IN 1957, Marion Clawson and R. Burnell Held wrote about the U.S. public domain in *The Federal Lands: Their Use and Management.* Since then there have been changes, and Mr. Clawson – perhaps the outstanding expert on public lands – has taken a new look at the situation in *The Federal Lands Revisited* (Resources for the Future, 1983). Mr. Clawson has been closely connected with federal lands, both in and out of government, for nearly half a century.

In the 1957 book it was noted that there were five phases or eras in the history of federal lands: acquisition, disposal, reservation, custodial management and intensive management. The authors presumed that this last phase was here to stay.

But since then another phase has ensued which Mr. Clawson designates as "a period of consultation and confrontation". The changes since 1957 include the following:

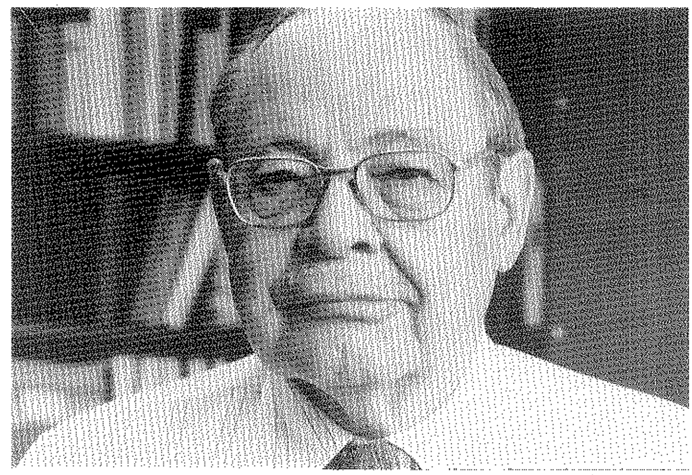
- Greatly increased use of the public lands and revenue therefrom;
- Increasing pressure from conservation groups to preserve wilderness areas; and
- The "Sagebrush Rebellion" – a movement to privatize public lands.

The public domain consists of about 770m acres, almost one-third of the total area of the U.S. Formerly it was nearly 40%, but a large chunk in Alaska was turned over to it when it achieved statehood. So it's a very large area that is under consideration. Total value is estimated at about $500 billion.

Among uses of federal lands are forestry, grazing, mining and recreation. A big increase has been in the leasing of off-shore tracts for oil production. Federal revenues from the public lands were near $22 billion in 1982 and could have been much more if the full value were taken.

THE AGITATION for turning over public lands to private interests reached its height when the controversial James Watt was President Reagan's Secretary of the Interior. The opportunity to force his resignation came when his penchant for uttering gaffes created a national uproar. (Curiously, Mr. Clawson does not mention him in his 1983 book).

Mr. Clawson endeavours to be impartial in presenting the pro and con arguments on the privatization of public lands.



● **MARION CLAWSON:** outstanding expert

Bob Clancy reports from New York

He notes that one of the pro arguments is that federal management of the public lands is bureaucratic and inefficient. This is undoubtedly true – but it is not solely for the sake of efficiency that private interests want to take over the land.

A blunter critique is made in another book, *This Land is Your Land* by Bernard Shanks (published by the Sierra Club). He notes that public lands are already made available to big private interests, free or at very low prices, and estimates that this give-away has amounted to a trillion dollars in the Reagan administration alone.

These interests would like to grab the whole public domain.

While not rejecting privatization out of hand (some could be done selectively), Mr. Clawson believes that public lands still have a place in American life along with private lands and that it is in our long-range interest to guard them and manage them well.

He offers guidelines for future management, including a carefully worked-out system of leasing, with the area and length of lease depending on the land use.

A "pullback" system is proposed where when a lease is offered, part of the area will be open to bidding by another party for a limited time. Mr. Clawson believes this would discourage collusion, encourage competition and prevent public lands from falling into too few hands.

Recreational use of national parks has increased greatly – from about 5m visits in 1920 to about 250m visits annually today.

Some years ago Marion Clawson offered a proposal for recreational public lands which attracted attention but which he does not mention in his book. He seems to have had misgivings about it, but it's worth mentioning.

He referred to "apparent availability" vs. "effective availability" of national parks. Noting that these parks are mostly in sparsely inhabited areas, relatively inaccessible to densely populated areas, he proposed a system of varying charges for the use of the parks depending on their distance from the user. An interesting idea, approximating the conception of rental value and its recouping by government.

Mr. Clawson believes that public lands deserve greatly improved management, with attention to their best use, such that "the values or benefits should be the full value to society of the output." He also asks for continuing research, better information and more public participation in policy-making.

The public domain of the U.S. is an important part of the over-all land situation and deserves continued attention. A few more Marion Clawsons and fewer James Watts might bring us closer to a good public land policy.

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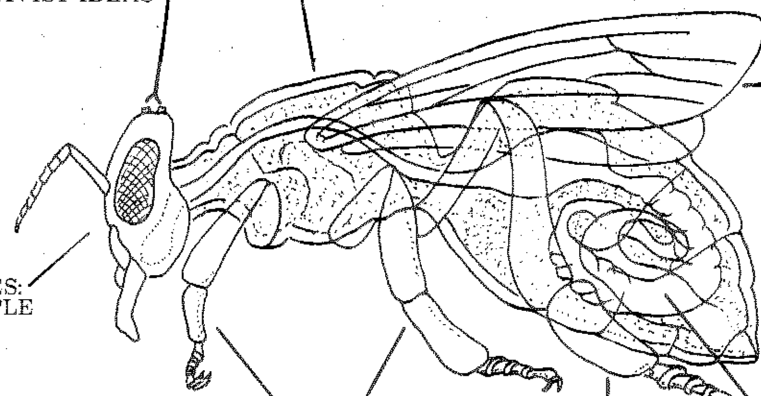

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A PLAN FOR REFORM

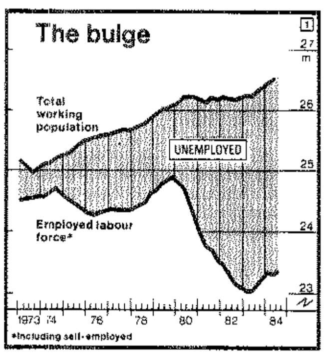
HOW WE CAN RETURN TO FULL EMPLOYMENT

HIGH LABOUR costs are now widely held to be a principal cause of unemployment: hence the talk about the need for wages to fall to "market clearing levels".

The idea is that the unemployed are like unsold fruit on a stall; if the price is reduced, all the stock will go. Professor Patrick Minford of Liverpool University is one of the leading advocates of this theory, and he argues that cuts in the level of welfare benefits would encourage the unemployed to price themselves into jobs.

There is certainly a link between wages and benefit levels, because few people would want to work for less than they could receive in benefit. But other factors also have to be considered, especially since the concept of labour costs obscures the underlying realities.

Wages are normally regarded as a cost of production, and lumped together with the costs of raw materials, fuel and other inputs, under the heading of "expenditure". But this is only an accounting convention, which depicts economic processes from only one point of view.



HENRY LAW

outlines a programme to promote employment in Britain, by cutting taxes on work and replacing the lost revenue with a reformed local government property tax.

A MORE fundamental method of analysis is to consider how the wealth created by a productive enterprise is ultimately shared out.

The distribution is a fourfold one. Part goes to employees of the organisation; this is their net take-home pay, plus pension rights and perks. Another portion goes to those who supply the capital, and a third portion goes to the government. The balance consists of economic rent, which is received by whoever owns the land occupied by the buildings and plant.

This view departs from the conventional one in important respects. First, payments to workers are not seen as a cost of production but as a *share* of production. Secondly, it shows that Corporation Tax and rates (the local authority's property tax) are not the only claims made by government on the wealth that is created; pay-as-you-earn (PAYE) income tax and National Insurance contributions must also be regarded in the same light, the distinction between "employers' contribution" and "employees' contribution" being an artificial one since both come out of the same pocket.

The idea of "gross pay" is an illusion. PAYE income tax appears to be a tax on income based on the "gross pay" figure, but we all know from personal experience that we designate as "wages" only that which is available for us to spend. In reality, gross pay is a purely notional amount, and once tax has been computed, it becomes the liability of the employer. As proof of this, we need only note the number of business liquidations that are initiated by the PAYE authorities.

Effectively, we have a payroll tax disguised under the appearance of employees' income tax and National Insurance contributions. These are all payments which have to be met from the wealth created by the enterprise. Not only is it a burden carried by the employer, but it is one that takes no account of the employer's ability to pay. There is no relief even when a firm goes bankrupt, because the Inland Revenue goes to the front of the queue of creditors.

The destruction of industry

The consequences of this are very serious. Industry which would be viable but for the taxes is destroyed – including, for example, a proportion of Britain's supposedly "uneconomic" coal pits which were the focus of the protracted strike in 1984-85. We have an artificial margin of production imposed by the tax system.

In the public sector, payroll taxes masquerading as taxes paid by employees lead to the revolving money syndrome. The cost of providing services to the public is thereby inflated. Well over a third of the money which local government receives from central government is promptly returned as staff PAYE and National Insurance contributions, at great administrative expense.

The effect on employment is insidious. The concealed payroll tax means that gross labour costs are more than 50% higher than take-home pay. This tax surcharge (illustrated in the graph), is often referred to as the "tax wedge". It means that if the worker is to be left with £50 take-home pay, the gross cost to the employer will be £75 or more.

This makes it difficult for British firms to compete in world markets, and makes nonsense of suggestions that cuts in welfare benefits would help to cure unemployment. The tax wedge would prevent workers from pricing themselves into jobs without pricing themselves out of existence at the same time. This is the principal reason for inflexibility in the labour market.

The initiative for pricing workers into jobs will have to come from the government, but attention must focus on the tax wedge rather than on cutting welfare benefits.

At present, employers have every incentive to get rid of their workers, and there is a barrier against fresh employment. From the point of view of an unemployed worker, it is as if the bottom rungs of the employment ladder have been sawn off.

But if the tax wedge could be made to disappear, the minimum price of labour would immediately drop by one-third. We would then discover what was the "natural" rate of unemployment. Unfortunately, the tax wedge cannot simply be wished away. National Insurance alone raises £22bn a year. Nothing short of major tax reform will solve the problem. On March 19, the Chancellor of the Exchequer, Nigel Lawson, tried to reduce the burden of National Insurance contributions for the lowest paid workers. Unfortunately, the changes he proposed may represent what two professors at the London School of Economics called "a significant deterioration in work incentives for the low paid".[1]

Towards tax reform

In principle, taxes should reflect the ability to bear the tax. In the private sector, businesses which would be viable in the absence of the tax should be allowed to remain viable after they have paid their tax. In the public sector, the tax system should avoid the unnecessary circulation of funds between government departments and between central and local government.

Initially, the tax system should be changed to dispel the present illusions. It would make little difference if PAYE and National Insurance were re-named "Payroll Tax" and openly charged to the employer. Such a change could readily be introduced, with personal allowances being replaced as necessary by changes in the benefits system.

This arrangement would be similar to the practice which already exists in parts of the clothing industry, where workers receive net wages for piecework. Tax is grossed up and paid by the employer according to formulae agreed by the Inland Revenue. Collection is simplified and, psychologically, tax-free wages have the advantage that, with no deductions, effort is fully rewarded.

Replacing PAYE with a payroll tax would also help to banish the notion that wages can be anything other than what is actually paid to workers. It would then become clear that payroll taxes completely disregard the ability of the employer to pay the tax. This would open the way for real tax reform.

Anyone embarking on real tax reforms must first learn the lessons of history. Taxes have been the cause of much strife and insurrection. Wat Tyler's rebellion was sparked off by a Poll Tax, and Charles I's troubles began with a tax called Ship Money. Protests about a tax on tea were the fuse that set off the American War of Independence, and Ghandi gathered mass support by defying a Salt Tax imposed by the British.

Ill-conceived taxes have had disastrous consequences. In 1797, the British government introduced a tax on clocks and watches. It was repealed after a year, but in the meantime it ruined the thriving Clerkenwell clock and watch industry.

Another classic error was committed by the Arab sheik who introduced a tax on date palms. On the face of it, this might have seemed a reasonable application of the "ability to pay" principle – after all, the richest men had the most trees. Unfortunately for the sheik, the farmers (like all sensible citizens) arranged their affairs so as to minimise their tax liabilities. They cut down their trees. Thus the sheik remained short of cash, and dates became scarce.

The old Window Tax worked in much the same way: the theory was that the size of a house could be measured by the number of windows. In practice, people often bricked them up.

THE GENERAL rule is that taxes diminish their own base. A familiar example of this is the disincentive effect, which is illustrated in the extreme case by the apocryphal story about the early days of Soviet Russia.

A party commissar was visiting the collective farms to estimate how much wheat each should send to the nearby towns.

"How much can you grow?" he asked.

"A hundred tons," replied the head of the collective.

"And how much do you need to feed the comrades?"

"Ten tons."

"Very well," said the commissar, "you keep the first ten tons, and I'll take the rest."

This arrangement left the comrades with an effective marginal rate of tax of 100%. Human nature being what it is, they did not bother to grow much more than the ten tons that they needed for themselves. Had the commissar

● VACANT sites such as this one – an area just four miles from London Bridge, which lay idle for 15 years – help to keep rents artificially high and people out of work. Much is said about workers pricing themselves into jobs, much less about getting landowners to price idle property into use!

been shrewd, he might have taken seventy or eighty tons, and allowed the farmers to keep anything more. This would have been much like charging a rent. The commissar would have been assured of his supply, and the farmers would have been paying a zero rate of tax once the "rent" had been collected.

Thus do we find the dustbins of history overflowing with misconceived and harmful taxes. But there is no reason for us to be complacent about our own tax system, for as we have seen, taxes may not be what they seem. Income tax is ostensibly paid by workers, but it is effectively a payroll tax, paid by the employer and serving as a powerful disincentive to employment.

MINDFUL of these cautionary tales, we can begin to think about tax reform. Taxes have to satisfy numerous criteria, of which the following are the most important:-

- **The tax should not discourage the creation of wealth**

The influence of taxes on economic activity is often obvious, as we saw when Nigel Lawson introduced VAT on fish and chips: there was a drop in sales.

But taxes frequently have more subtle economic effects. So-called "neutral" taxes turn out, on closer examination, to have a generalised debilitating effect on trade and industry; it is like lubricating a machine with glue. Neutral taxes also bear hardest at the margin, a fact well known in the oil industry where marginal oilfields cannot be exploited unless the tax regime is favourable.

Much of Britain's regional aid policy serves only to counteract the harm done by a tax system which takes no account of geographical disadvantage.

- **The tax should be fair**

Fairness in taxation is an extremely contentious issue. Books could be written on the subject, yet, curiously, it seems to be little discussed. It is generally assumed that our present taxes are basically fair. Are they?

Taxes on income deprive workers of the fruits of their labour, and taxes on spending rob consumers of the purchasing power of their money. There is a basic unfairness about local authority rates,[2] which penalise those who improve their premises but reward those who allow their property to stand idle and derelict.

A fair tax must leave workers with the full fruits of their labour and allow capital to keep its full earnings, since capital is but stored-up labour. Fairness demands that taxes should be related both to ability to pay and also to benefits received from the community; this latter point is commonly overlooked.

- **The tax should be difficult to avoid, and efficient**

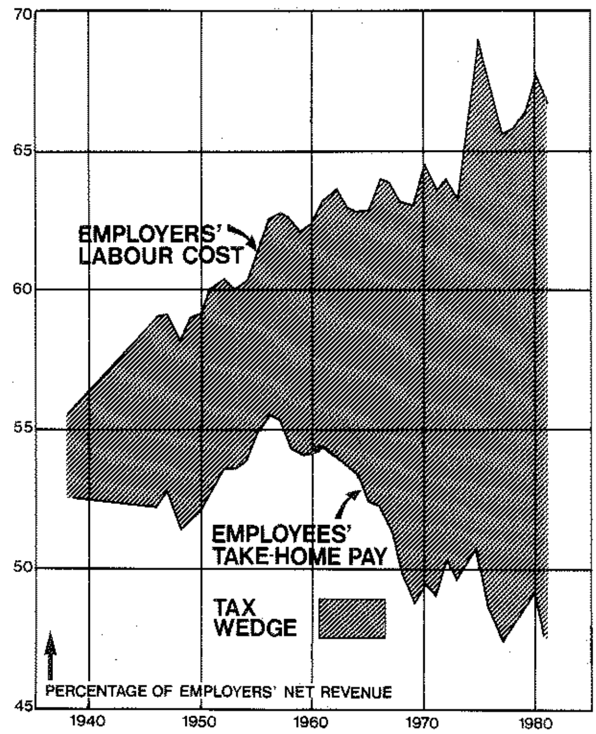
An efficient tax is one which costs very little to collect in relation to its yield. The efficiency of our taxes varies. Development land tax is reputedly the least efficient and was abolished by the Chancellor in his 1985 budget.

Income tax paid by the self-employed costs 6% of the yield, PAYE income tax costs about 2%, and local rates cost about 1.5% in administration. Some excise duties are very efficient, with collection costs of around 1%.

In addition to these amounts, which are the costs to government, there are also the compliance costs incurred by taxpayers. PAYE income tax appears to be efficient because a large proportion of the costs of administration are borne by employers. The self-employed pay the costs in accountants' fees. With local rates, the compliance cost to the taxpayer is minimal unless there is a dispute over valuation.

- **The tax should be certain and should fall on the ultimate payer**

A certain tax is one where taxpayers know in advance precisely what their liability will be.



UK LABOUR COSTS AND TAXES

Many taxes are passed on and it is often impossible to establish who actually bears the burden. Income tax is perhaps the best example, as there is good reason to believe that the burden has been passed on to employers whose workers have sought to maintain the purchasing power of their wages; Adam Smith predicted that this would happen.

Attempts to mitigate the undesirable consequences and essential unfairness of the present tax system have inevitably created loopholes for the ingenious to exploit. This has led to further distortions in the economy, and uncertainty too, as taxpayers can never be sure what their tax liabilities will be.

The least bad tax?

Judged by the foregoing criteria, none of our present taxes shows up in a very favourable light. But there is one form of tax which has at least the advantages of being cheap and simple to administer, and almost impossible to avoid. This is the property tax, which will be familiar to British readers in the guise of local authority rates.

Of all taxes, the property tax can be regarded as the least unsatisfactory. Once the valuation list has been prepared, billing and collection is simple, and rarely disputed.

Almost certainly, the reason why local rates are so unpopular in Britain is because, for most people, they are the only tax which has to be paid directly out of pocket. Contrary to popular belief, rates are quite well related to ability to pay; for 50% of British households, the tax is between 2% and 3% of income, and for 80% of households, it claims between 1.5% and 4% of income.

With commercial properties, the position is, however, far more complex. In the long run, property taxes are passed backwards onto landlords, as the market takes them into account in rent negotiations. The converse applies with equal force. In Britain's rate-free Enterprise Zones, other things being equal, rents are higher than outside the zones by precisely the amount of relief from property tax! This is a practical example of the working of Ricardo's Law of Rent.

There has been growing unrest in recent years because British property taxes have been subject to sharp annual rises, due to a combination of central government policy and local government profligacy. This has squeezed businesses between a growing burden of local authority rates on the one hand, and, on the other, rents with upwards-only revision clauses in their leases.

Rising rates have, then, become a serious burden for business. But given conditions of reasonable stability, they would have less effect on the economy than almost any other tax, and there is no reason in principle why a much higher proportion of public revenue should not be raised from this source.

In Britain, if all local government spending came from rates, the rate support grant could be abolished. This would save the exchequer about £20bn a year, about 60% of the revenue raised from income tax.

If, however, more tax were to be raised from the rating system, the real defects would start to tell. The most serious is that rates penalise improvement and enterprise. A derelict site is not taxed at all; nor is an empty factory. And lower rates are payable on an old building with obsolete machinery than on a well equipped new one. This is, to say the least, unsatisfactory.

Removing the disincentive

One way to overcome these problems would be to change the basis of the valuation to the rental value of the site alone. Buildings and improvements would be de-rated, thus removing the disincentive effects of the present system. A wider base would be used, with all land, whether in use or not, being brought into the tax system. Valuation would be based on the assumption that the site was at its maximum permitted use.

This method of rating is entirely practical, and is in widespread use in the United States, Canada, Australia, New Zealand and Denmark. A rate based on site values is a form of land value tax and as such, it has a number of desirable characteristics:

1. Taxes on land cannot be passed on, so the burden falls at the point of incidence.
2. In striking contrast to all other taxes, the land value tax stimulates the economy; this is in part because vacant land has to be brought forward for development in order to yield the rent with which to pay the tax.
3. Enterprise is encouraged because the marginal rate of tax is zero.
4. Locational disadvantage is taken into account, because land values reflect this.
5. Margins of production fall at their natural point because marginal land has, by definition, no value and is therefore not subject to taxation; businesses at marginal locations would remain viable because they would be operating free of tax.
6. Rents and land prices would fall to competitive levels, because the tax would encourage the owners of buildings and land to ensure that they were priced into productive use.
7. The tax would not diminish its own base because land cannot be shifted to a tax haven. Indeed, new public investment in infrastructure raises the value of sites which benefit from this expenditure, thereby increasing the tax base.
8. The tax would be fair, since valuations would be market values, which accurately reflect the potential of the land to yield the rents with which to pay the tax.

LAND VALUE taxes are also fair in a broader sense. The market value of a piece of land is the value of the natural advantages of the site and the public services that it enjoys. All of these are provided by the community; an individual landowner cannot increase the value of his own land.

Because public spending on infrastructure such as roads, railways, sewers, flood protection, etc., is quickly reflected in land values, the land value tax would serve as a clawback mechanism to ensure that the fruits of public investment were recouped by the community.

Administratively, the site value rate would operate in exactly the same way as the present local property tax, although valuation would be much easier as it would no longer be necessary to inspect buildings and check occupation.

Values would be obtained from current market evidence; even in built up areas, vacant sites change hands quite often, and there are formulae for extracting the value of developed sites.

Within each local authority area, the rate would be set at a single uniform poundage for all categories of land, including vacant land. Billing would be organised in precisely the same way as at present. Responsibility for paying the tax could fall either on occupiers or freeholders; in either case, rules would be necessary to provide for apportionment between tenants and freeholders where the freeholder was not receiving the current market rent from his tenants.

A national tax reform

The introduction of site value taxation could be the cornerstone of a major programme of national tax reform.

In the first stage, the present valuation would be abandoned and replaced by a new one, based on site values. The second step would be to phase out the government rate support grant, and replace it by a national site value rate equalisation scheme.

A uniform national land value rate precept would be levied to provide the funds for equalising finance from those areas where land values were high to those where values were low. The precise formula for allocating funds would be for government to decide, but the overall result would be to transfer resources from the more prosperous to the less prosperous regions of the country, reducing, and possibly eliminating the need for the various forms of regional assistance.

The change from rate support grant to a national site value rate equalisation scheme might be spread over, say, five years. By this time, the national exchequer's saving of £20bn a year would enable the Chancellor to abolish some of the taxes that are ruining the economy – starting with the jobs taxes which are keeping millions of people out of work.

1. Tony Atkinson and Mervyn King, 'Working . . . but trapped in poverty', *The Guardian*, March 22, 1985.

2. British local rates are a property tax based on the value of land and buildings taken together. Vacant and agricultural land is not subject to rates, and vacant buildings are allowed partial exemption. Rates are levied by local authorities and cover about 48% of the cost of local services such as schools, police, highway repair, refuse collection and libraries.

The cornerstone for a major reform of national taxation

SOCIALIST China has embarked on a momentous legal exercise. The legislature is currently arguing over a new law on inheritance, the details of which will fundamentally affect property rights. The social and economic institutions of a quarter of the world's population is undergoing a metamorphosis. Crucial for their future prosperity is the law of land tenure. Under chairman Deng Xiaoping, free market principles are being adopted in the countryside. Peking, however, could make serious mistakes if it does not think through its current problems. For example, under the Central Committee's circular labelled Document No. 1, 1984, land can be transferred from one household to another. There is a risk that this could lead to a private market in what is supposed to be socialised land. If this happens, it would both offend the socialist philosophy and seriously retard the growth of a free market industrial sector based on capitalist principles.

● Communist Party Chairman Deng Xiaoping

FRED FOLDVARY reports from San Francisco:

Land tenure deal boosts output

THE "Weekly Letter" of the Federal Reserve Bank of San Francisco offers economic news, analysis, and statistics on diverse economic topics, with emphasis on the U.S.A. but also on world-wide issues.

The issue of Jan 18, 1985 by Hang-Sheng Cheng is on "China: A Visitor's Report". Of special interest is the observer's views on the moves towards a freer market in China. Observation that a reduction in trade restraints leads to greater prosperity has been well demonstrated in China. But what about the land?

The new policy is to distribute land to farmers through long-term leases, depending on the number of persons in each household. The farmer pays economic rent in kind by turning a fixed amount of produce over to the state. The amount is subject to negotiation between the farmer and the authorities. Any surplus beyond this is kept by the farmer to consume or sell in the open market.

This constitutes a type of land reform, reversing the previous socialist policy.

Land is leased from the community, but for a fixed rent rather than by the sharecropping system of paying a percentage of the crop. This leaves a great incentive for the farmer to increase production and enjoy the fruits of his labour.

The new land-tenure system has fuelled a surge of productive effort in the farms in China. There are now many "10,000-yuan (about US $4,000) households". Farm income now compares well to that of urban labour.

Chinese farmers now enjoy the best of all worlds: land is available at market rents, free from any speculative excesses, and there is liberty to produce for the market.

The movement towards a free market economy still has a long way to go. Many commodities are still controlled by the state and many prices are still rigidly subsidised. A dual exchange rate system has caused much confusion and has created a black market. China still has a "ponderous bureaucracy". Price controls cause shortages, and political clout is necessary for business success in many cases.

However, much progress has been made over the last four years. Hang-Sheng Cheng concludes that the "Chinese economic reform is undoubtedly the world's largest controlled economic experiment", and "the world holds its breath in watching the manoeuvre".

SPECULATION: suckers bilked in get-rich-quick scandals

LAND SCAMS have hit the nation's headlines.

● In **Los Angeles,** the prosecutor called his case the largest land fraud in U.S. history.

Two men, a Californian lawyer and a Dutch real estate promoter, pleaded guilty to bilking 6,000 investors out of as much as $2bn.

The investors, hoping for quick profits, handed over the money for land investments that were presented as tax shelters.

The scheme was said to involve undeveloped land in Utah, Texas, New York and California. None of the money has been recovered.

● In **Houston,** a businessman bought three apartments for about $12m. His appraiser then valued them at twice their true worth.

The businessman's associate bundled the inflated mortgages on the apartments into securities which were then sold to savings banks and other investors.

Bank of America was one of the victims. It's the nation's second largest banking corporation (assets: $121 bn). The bank wrote off $95m to cover the cost of buying back failed securities that it had a role in delivering to investors.

A crooked mayor

● Meanwhile, in **Atlantic City,** former mayor Michael Matthews received a 15-year prison sentence for taking a bribe.

FBI undercover agents paid him $10,000 to expedite the sale of city owned land. A dummy company pretended it was interested in building a casino.

Said Federal Judge Harold A. Ackerman: "The people of Atlantic City thought they were electing a mayor, not a crook".

American dream

● Gullible land dealers ought to go to the theatre more often. They might have saved a lot of money if they had caught David Mamet's *Glengarry Glen Ross* last year. The play was summarised by *Time* magazine in these terms:

"The American dream is a swindle, an overpriced parcel of Florida swampland peddled by shark-eyed salesmen."

Mamet's play won him the Pulitzer prize.

Heavenly deal on earth!

ANGLICAN rector Thomas Bowers unleashed fury four years ago when he announced a plan to earn his church a fortune.

He wanted to lease the land adjoining St. Bartholomew's Church (above), on the corner of 50th Street and Park Avenue, to British developer Howard Ronson.

Ronson wanted to build a 57-storey office block on what he then called "the best site on earth".

New Yorkers – from the church's congregation to the city's conservationists – put up fierce resistance, even though the church expected to receive half of the site's rental income of $9.5m p.a.

The rector wanted to spend the money on his welfare programme – which he thought was more important than the church's "community" building, a 1918 Byzantine-style edifice of rose-coloured stone which would have to be demolished.

Church officials have now unveiled a compromise plan, a 47-storey building of brick and limestone.

The developer will pay the church a rent of $17.5m in the first five years, and $21.5m in the second five years of a 99-year lease.

High land values downgrade the home environment

FEDERAL officials have been unable to help builders in a dozen communities to make significant savings in construction costs.

The vast majority of savings made so far are the result of increased densities – building more and smaller homes on less land.

The high cost of land has acted as a break on construction, depriving people of the chance to improve their home environments.

To try to side-step this obstacle, zoning regulations have been downgraded. These now allow narrower streets, and they eliminate requirements for sidewalks and rights of way.

Manhattan's magic site

THE LARGEST undeveloped tract in Manhattan has been described by New York developer Donald Trump, 37, as "the greatest piece of land in urban America". The West Side acreage had a price tag of $95m, which Mr. Trump agreed to pay. The vendors bought the site five years ago for $45m.

Rent controls cut tax revenue

TENANTS in New Jersey claim that their protection under rent-control ordinances are being chipped away.

Landlords have replied by arguing that a large number of decontrol ordinances revealed that municipalities had tried to correct some problems caused by rent control.

One of these was a decline in the taxable value of rental properties, which resulted in a corresponding rise in the tax burden on private homes.

How states can reap benefits

QUOTES by leading campaigners for a two-tier property tax (as reported in *The Christian Science Monitor*):

- "Very low land taxes encourage monopolistic holdings of large tracts and induce owners to keep their land out of productive use".

– *Stan Rubenstein, executive director of the Center for Local Tax Research, New York.*

- "Taxing the location value of land at a higher rate than improvements will serve the same purpose as breaking up of large property holdings through direct government intervention, and [it will] enable the states themselves to reap benefits that now go to private landowners".

– *Steven Cord, professor of history at Indiana University of Pennsylvania.*

AROUND THE WORLD

New plan to rescue global economy

LEADERS of the Big Seven industrial nations held their economic summit in Bonn this month.

Their talks were against the backcloth of the global crisis – rising unemployment, depletion of resources, deterioration of the living environment, *writes Paul Knight.*

Before them was an alternative agenda submitted by TOES, The Other Economic Summit which met for the first time last year.

Partly sponsored by the World Health Organisation, TOES is made up of experts from around the world representing organisations such as Friends of the Earth, the Schumacher Society, and the U.N. Association.

Director Paul Ekins said in a letter to the leaders that solutions would not emerge from conventional economic growth. Problems demanded "a new global and local perspective and a new determination to liberate the potential of people working self-reliantly for the development of their own communities".

TOES outlined ten first steps towards such a redirection of policy, which included land reform. The report on its 1984 conference urges that land value taxation "is vital if people in both developing and developed countries are to be able to take control of their lives and their work and break out of the debilitating cycle of dependency and deprivation."

Vacant land values crush mighty Daon

THE MIGHTY Daon Development Corporation has finally succumbed to the world recession, *writes Ian Barron.*

From modest beginnings in 1964, it expanded to rank among the top handful of real estate companies in North America.

It weathered the 1974 property slump by buying land cheaply, but by 1981 the carrying cost of its vacant land was proving an enormous burden.

By then, the Vancouver-based company owned 2,092 acres under development, 12, 721 acres for future development and 11,400 acres under option for purchase.

The slump in values, and rising interest rates, left the group with a C$1bn debt. Land sales in the U.S. raised over C$150m last year, but the company's principal shareholders have now capitulated.

Shares which reached a high of C$13 were sold to Bell Canada Enterprises for C$3, ending the independence of one of the most remarkable real estate ventures in the postwar years.

- **NEW CALEDONIA**: President Francois Mitterrand of France has not been able to stem the civil disorders in this French colony in the South Pacific.

His 12-hour flying visit did nothing to quell the anxieties of European settlers, who oppose the growing demand for independence.

The Kanaks, who are now relegated to 10% of the land they owned before the French took over in 1835, want sole control of the islands.

Ten thousand settlers fear that independence would mean having to give up the island's rich cattle-grazing land to the 55,000 Kanaks, who have been forced to live on sparse mountain slopes.

- **ECUADOR**: Trade unionists have been marching in protest against rising prices. Febres Cordero's right-wing party gained power last August: he campaigned with promises to curtail land reform.

- **BRAZIL**: Quintino, a farmer turned gunman, has finally been ambushed and killed by police.

The outlaw had been roaming the jungle for five years, and he is reported to have killed dozens of big ranchers and their hired gunmen.

To the landless peasants and small farmers trying to eke a living on the margins of Brazilian society, Quintino was a hero – the symbol of the fight for land.

- **NIGERIA**: In future, landlords whose tenants commit armed robbery or other serious crimes may be charged as accomplices, says a spokesman for the Lagos police. This is the latest move in a bid to curb a rising tide in crime.

- **THE PHILIPPINES**: Villagers on the island of Mindanao are being relocated in new strategic hamlets by the army.

This is the latest move in the fight against communist guerrillas, and it reflects the tactics used by the United States in South Vietnam.

But farmers in Laac, an area that has been particularly affected by the forced relocations, suspect that the real reason is that the army want to take over their lands for new plantations.

- **SOUTH AFRICA**: President Botha, in trying to change his country's apartheid image, now says that the 10.1m Africans who have the right qualifications and who live in cities, can have freehold title to land. This move is linked with the proposal for new political "structures" which will give the Africans a say in their own affairs "up to the highest level".

A Tax Plan for Farmers

AGRICULTURE'S major problem is financial, although the environmental consequences of farming methods, including animal welfare and pollution, are putting British farmers under added pressure.

● Although net farm incomes have increased considerably since the war, farmers' incomes have – in real terms – decreased in the last three years. A recent survey shows that in that time, with inflation at 13%, farm incomes have increased by only 8%. And real farm incomes are likely to continue to decline as curbs on production, similar to those on milk, are applied to other commodities in surplus.

● Bank borrowing by farmers has increased in recent years – over the past year, by 18% to approximately £4,744m. This represents only 6.9% of total farm assets, but 25.6% of the working capital.

This high level of borrowing is supported by the high price of land, and many farmers are worried that the banks may foreclose if the price of land falls as grants and subsidies are withdrawn.

● Farm rents have increased since Britain joined the European Economic Community (EEC), from £6.5 per acre in 1973 to £27.5 per acre in 1982 – and have continued to rise despite the fall in farm incomes.

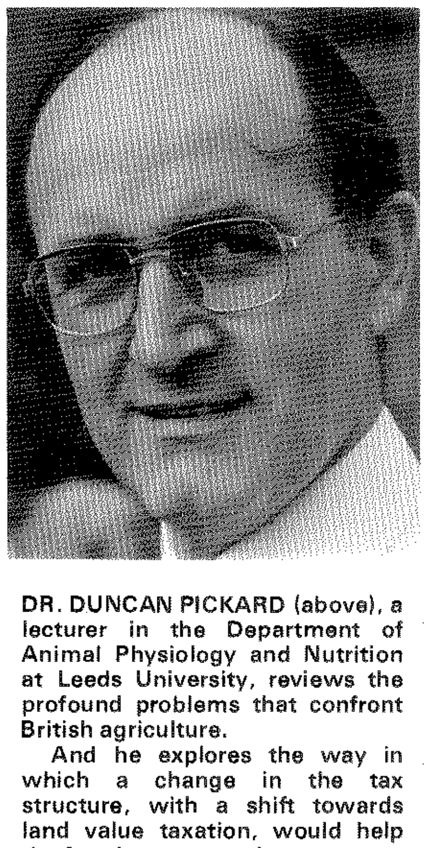
● The detrimental environmental effects of increased agricultural production, such as pollution from fertilizers and sprays, the removal of hedgerows and trees and the ploughing of moorland, have reduced public sympathy for farmers.

This means that their chances of obtaining further financial support are poor.

● Despite the huge amounts of money which currently subsidise farming (estimated at between £9,000 and £12,000 per farm, in 1979), farm incomes continue to fall – especially those of small farmers.

More than 40% of all farm holdings are less than 20 acres and the EEC's Common Agricultural Policy (CAP) was intended to favour the smaller farmer. But it is well known that the larger the farm, the greater are the benefits derived, because to obtain a capital grant for a development costing £50,000, with grant available at 20%, only a farm large enough to finance the remaining £40,000 is capable of accepting the grant.

In 1982, only 3% of the smallest farms received grants, compared with 73% of the largest farms. With subsidised product prices, the large farmers who produce most, obviously gain most in subsidy. Since 50% of the output comes from 13% of the farms, it is not unreasonable to assume that 13% of the farmers receive 50% of the subsidies.



DR. DUNCAN PICKARD (above), a lecturer in the Department of Animal Physiology and Nutrition at Leeds University, reviews the profound problems that confront British agriculture.

And he explores the way in which a change in the tax structure, with a shift towards land value taxation, would help the farming community.

Dr. Pickard runs his own 30-acre farm in Yorkshire.

These large amounts of subsidy have a detrimental effect on the rest of farmers because they result in higher land prices and rents.

IT IS DIFFICULT for farmers to comprehend that they are no better off financially. Production continues to increase. But – since most of the grant and subsidy money paid has become capitalised into land prices – there has been a large increase in fixed costs due to rent and interest on borrowed money.

The average price of land in 1972 was £224 per acre; in 1982, it had risen to £1,254 per acre.

Initial increases in land prices were fuelled by the increases in guaranteed prices for farm produce, but the rising market has been its own impetus for further rises, as financial institutions and farmers have pushed the price far above that which would provide a return on capital, even with the present high yields and prices.

A leading firm of chartered accountants recently reported that "it is virtually impossible to produce a farming budget which indicates a proper commercial return on all of the capital employed".

The high price of land is indirectly responsible for the reduction in net farm incomes, despite increased yields and product prices. This effect has been quite different for different types of farmers. Averages give no idea of the range and the figures for bank borrowing indicate that the average amount borrowed is close to £20,000 per farm, but many farmers borrow no money, and others are heavily in debt.

● Those in greatest difficulty are the tenant farmers who have seen rents increase much faster than their incomes. High rents tend to generate pressure to borrow more from the banks for buildings, machinery, fertilizers, etc. When output prices fall, these farmers cannot finance the borrowing and without the benefit of land ownership, are most vulnerable.

● The second group are the owner-occupiers who have recently purchased their land at inflated prices. They have the illusion of owning their land, but are, in effect, tenants of the bank or mortgage corporation. We refer to their mortgage repayments as 'rent-equivalent'.

● The third group are the owner occupiers of long standing, most of whom have inherited their farms. Whilst in the best position of the three, with lower fixed costs, the high price of land does cause considerable problems when transferring the farm to the next generation. A 200-acre farm, with livestock and equipment, is probably worth more than £500,000. Despite generous allowances against capital transfer tax, elaborate planning is needed to avoid leaving a sizeable bill for tax.

● The fourth group are the would-be farmers who cannot make a start

in farming with the high price of land, rent and interest. A virtual monopoly in land ownership exists when the only people who can buy land are those who already own some.

IN 1972 the average farm size was 112 acres. In 1983, it was 125 acres. The number of farms fell from 288,000 to 235,000 over the same period. This must have led to a further decline in rural employment.

The expressed intention of the CAP – to encourage people to remain in the country – is having the opposite effect.

When curbs on production of other commodities than milk are enforced, farm incomes will continue to decline. Most of the increase in farm incomes over the last 40 years has come from increases in output, not from increases in the real price of farm produce. If output cannot continue to increase, profit margins must decline.

The high fixed costs in agriculture mean that the first to be affected will be the tenants, and then the owner-occupiers with high borrowings.

When the financial institutions see no prospect of land prices increasing, they will tend to sell rather than buy, and land prices will fall. Unless land-owners are prepared to accept lower rents, many tenants will be unable to remain in business.

One way for the landowner to increase the value of his property, in the light of falling prices, is to convert it to a freehold and sell with vacant possession. Some landowners would welcome the departure of their tenants so that the farm could be sold at the highest price, in the familiar fashion of splitting it into several small lots.

The recent purchaser of this farm does at least have the option of selling some or all of his land, to reduce the financial burden.

WHEN FARMERS realise that curbs on production, either by quotas or by price reductions, are inevitable, perhaps they will see that the real cause of their difficulties is the high price of land, brought about by the very grants and subsidies they seek and by the privileged treatment of landowners for taxation purposes.

As gross incomes decline, bankruptcies will increase and land prices will fall. There will be a tendency for landowners who were unfortunate not to have sold early enough, to retain their land in the hope of an increase in the future. The pattern familiar in the 1930s – of derelict farms – will return unless there is a major change in the tax laws.

The farmers best able to withstand the inevitable reduction in gross incomes are the owner occupiers of long standing. They can reduce their input costs and still make a reasonable living. The potential burden of capital transfer tax will also be lifted.

If, as output declines, taxation was changed to encourage the owner-occupation of land, many tenants who face the prospect of eviction and bankruptcy could have the hope of discharging their debts. The gradual introduction of land value taxation would lead to a reduction in land prices and interest rates, both of which would favour the working farmer. The landowner would be encouraged to sell. The large farmer would reduce the size of his holding to that which enabled him to maximise the output per unit area – the present system encourages him to maximise the area of his farm by buying more land.

This would reverse the trend towards bigger farms and increasing rural unemployment, and enable many to obtain land for farming who currently have no chance.

Land value taxation would:

1. Discourage speculation in land;
2. Reduce the price of land to equate with its value for production;
3. Limit farm sizes to those of the most productive units;
4. Enable new entrants to obtain land;
5. Reduce the level of taxation on earnings and capital;
6. Reduce interest rates;
7. Prevent rural depopulation;
8. Discourage urban sprawl on to farm land;
9. Encourage owner-occupation;
10. Promote more responsible use of land and reduce pollution.

Without land value taxation, the problems of high fixed costs will remain. The farmer cannot expect subsidies to continue to rise to enable him to make a living.

The Common Agricultural Policy must change. The aim of Article 39, which states that farm incomes should be increased to equate with those in other industries, is laudable. But the current means by which this is to be achieved can never succeed.

Almost as soon as product prices increase, fixed costs increase too, and little advantage is gained.

Subsidies must be phased out. It would be better to admit that the CAP is really a social policy and give direct cash income supplements to small farmers. Even this would not necessarily improve the condition of the tenant farmer who would almost surely see his rent increase. Land value taxation would ensure that this would not happen, and if properly operated it would remove the need for income supplements.

The necessary policy changes are:

● The phasing out of grants and subsidies; and

● The gradual introduction of land valuation taxation.

Scheme for a Single Tax society

● MOST pre-industrial societies financed their public activities (political, religious and military) out of the economic surplus that we now call ground rent. Is it now possible to establish a tax system based on the Single Tax on land values? In this personal assessment, DAVID REDFEARN asks:

What institutional reforms in the land market would have to be made to implement an appropriate fiscal programme in a modern society?

Land & Liberty would welcome reader response to this viewpoint.

● Pictured below: Henry George

WELL BEFORE his death, at the age of 58, Henry George had produced more than sufficient reasons for his Single Tax, in terms of the natural laws of wealth distribution, the moral justification for property, and the accepted canons of taxation.

If he had set aside his ambition to write a comprehensive science of political economy, perhaps he would also have elaborated a procedure for putting his elegant conception into practice.

That task now falls to us.

Registration and the first valuation would present no particular difficulties, because records of recent sales of land and buildings, and of land alone, would provide a framework on which to hang provisional estimates of the value of land that had not changed hands for some time.

So far so good. But values would continue to alter with shifting social activity, and, if we are right in supposing that the selling price of land is a function of the rent that a user might be expected to pay to an owner, then, with the absorption or rent by taxation, we should not be surprised to find land prices reduced to a vanishing point, or at most, to a nominal transfer fee.

Something in the nature of a step forward into uncertain territory will be required.

AS MATTERS stand at the moment, the measure of the demand for land is either the highest lump sum that somebody is willing to pay for its outright ownership, or the highest annual rent that he is willing to pay for an exclusive tenancy. Even if the first measure is eliminated, for the reason already given, the second is still available; but we would need administrative machinery to apply it.

Here we are helped considerably by the work of a Frenchman, Monsieur V. Précy,* who included a short essay on valuation in a general discussion of the nature of rent and on the importance of securing it for public use.

He was, incidentally, thoroughly familiar with Henry George's writings, and quoted at length the parable of the Unbounded Savannah, which he greatly admired.

In order that there may be no doubt about the details of his scheme, which is based on a system of questions, I will quote him in full.

"The auction will be repeated at least every three years in urban, and every five in rural, areas.

"The auction will be a permanent, standing one. That is to say, a special office containing cards and a register of properties will always be open to receive offers for all the sites in the region. On auction day, at a stated time, the highest of these offers is attested by a special commission. This document constitutes the notice of payment to the present holder of the land. The latter must either pay the indicated rent within a month, or sell his fixed capital equipment by whatever method, and to whom he pleases. After a month, he pays a small progressive fine. At the end of a year, if he has not paid the rent, the Government secures payment by seizing those goods least necessary to the bankrupt holder.

"The holder has a perfect right to take part in the auction. If he considers it necessary, he can suggest a rent lower than those of previous years. He can even claim that his land no longer brings in rent; and if, at the auction, there is no competitor, he will hold his land free of charge until the next auction.

"It is the responsibility of the competitors to divide or combine sites as they please, having regard only to public ways and lands, and waters and forests

indicated beforehand by the Government.

"Competitors designate seizable capital property in the same country as a guarantee of their ability to buy at the current price all buildings and improvements pertaining to the site they hope to acquire. Seven days before the auction, they place in the hands of the Government sums equal to the annual rents they are offering. If the present holder pays, these deposits are returned.

"The occupier signs a lease by which he commits himself to regular payment of the rent indicated by the highest bidder, and to obey the laws and the decisions of a tribunal solely competent to decide on matters concerning the lease and transfer".

TIMES have changed since Précy wrote in 1930. In the place of his register on cards in a regional office, we may well contemplate a national, or even, in the end, an international computer file available for consultation at local centres. It is more important for our present purpose, however, to consider ways in which the full rigour and severity of his system might safely be relaxed.

Précy does not, for example, mention any special treatment for the private householder, though it would be obviously unfair if owners of their own houses could be forced to sell them merely because others, wealthier than themselves, had taken a fancy to the situation. Perhaps domestic properties could be re-assessed by the auction method in cases where house-owners were putting their houses up for sale of their own free will; otherwise from time to time by the traditional method of the professional valuer, who would thus be restored to his full function with a framework of rents instead of prices to work on.

It may be considered desirable in the same way to give the industrialist and trader some necessary security against eccentrically-high bids from outside. It all depends on whether the official element in decision-making – for it seems inevitable that there should be some such element – should take the form of vetting outside bids for their genuineness and realism, or of revising assessments on the basis of trends in the auction market. In either case, it would be as well for Précy's tribunal to be there to ensure that justice was done.

It will be evident from this brief summary of the options as they appear at present that, whatever administrative devices are set up for the full implementation of the Single Tax, teething troubles are to be expected.

Nevertheless, if advocates of land value taxation are to make progress, they must outline the practical things that have to be done. Whatever the difficulties eventually experienced, it is inconceivable that these should be as serious as those that are endemic in a world of import duties, value added tax, income tax, capital gains tax, duties on alcohol and tobacco, motor tax, petrol tax, and whatever else ingenious governments may devise.

*V. Précy. *La rente foncière – son essence, sa loi, sa valeur sociale et financière, et le moyed précis de l'évaluer.* Paris: Bureaux de la Ligue pour la Réforme foncière, 1930.

How to repopulate Scotland

By T. A. ENDE

OF THE 5,000 indentifiable islands in the British Archipelago, about 2,000 are not inhabited. Hundreds of these were inhabited in the past but became depopulated in the seventeenth, eighteenth, nineteenth and twentieth centuries. And yet, many of them are more hospitable than the Falkland Islands, as far as sheep pasture and climate – are concerned.

I make the following suggestions for the settlement of the differences between Britain and the Argentine Republic:–

1. The British Minister for the Environment should survey the habitable islands in the British Archipelago and draw up plans for their development – and the resettlement of the Falkland Islanders under the New Towns Act.

2. The plans should be exhibited to the Falkland Islanders and a referendum held to see whether those who do not wish to accept Argentine rule would agree to be transferred to the British Archipelago and re-settled there.

3. Compensation should be paid by the Argentine Government for disturbance of the Falkland Islanders occasioned by the transfer of sovereignty.

4. A treaty should be entered into between Great Britain and the Republic of Argentina for the joint exploitation of the South American continental shelf and the for the provision of a suitable naval and military base and civil airfield to keep open British lines of communication between the Atlantic and Pacific Oceans.

My suggestion that the islands in the British Archipelago should be repopulated would lead to an enormous increase in their land-value. This would afford an excellent opportunity for creating an experimental economy based on land-values as the sole source of revenue, but it would require special legislation to do this.

No advantage would be likely to be gained unless all subsidies on land-value taxation or rating and all allowances of tax on rent and taxation or rating were abolished.

Labour Land Campaign

A NATIONAL conference entitled 'Land Abuse in Britain – The Socialist Case for Reform' is being held in London on June 15.

The conference is organised by Labour Land Campaign, which advocates the taxation of land values.

Speakers will include MPs such as Tony Benn and Frank Dobson.

Issues for debate include the impact of current systems of land ownership and taxation on industry, employment and the environment.

The organisers can be contacted at 71 Glenwood Close, Harrow, Middlesex HA1 2QN.

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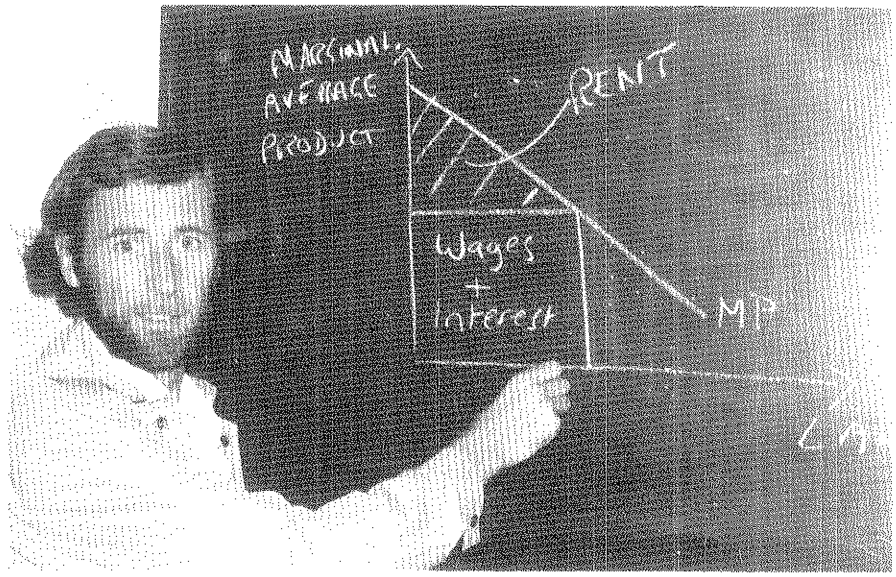
Why taxes ultimately fall on rental income



DR. ROGER SANDILANDS, lecturer in economics at Strathclyde University (Glasgow), explains how the real rental income of an economy is disguised by the tax system.

TAX has been defined as the appropriation by State coercion of the citizen's property. Those who escape the tax net through exemptions are not privileged, according to this view. Rather, it is those who bear taxes who are losing their proprietary rights: all taxation is theft.

True reform, to restore justice, would extend – not abolish – exemptions. And governments should cut their expenditures accordingly instead of "wasting the millions they bully out of us".

Let us agree, however, that there is some minimum level of necessary government expenditure that requires financing. We must then ask not only which incomes or products deserve relief from tax, but also what alternative source of income would best substitute for existing taxes to finance the minimum level of spending.

In my view, the answer lies in a closer examination of the nature of different forms of property over which individuals claim rights. The most fundamental property right, one that should be accepted by all who reject slavery, is the right to oneself, to be a free man; to own oneself.

A corollary of this premise would appear to be that whatever an individual produces should be his property. The labourer produces wealth, and so earns the right to own that wealth, or the wealth received in fair exchange with other producers, including producers of capital goods.

There is, however, one class of asset which is owned by individuals who have themselves neither produced it nor bought it from anyone else who has produced it.

That asset is land in the broad sense defined by economists to include all of nature's free gifts: soil, space and minerals.

None of this was created by man and so it is impossible to justify individual rights over the gifts that nature once bestowed on all.

LAND that was once communal property has passed, through force or fraud, into the hands of individuals who thereafter bequeathed or sold it to others.

When a common thief passes on or sells stolen property, the receivers do not have a legal title to the goods. They are required to return the property to the rightful owners, no matter how innocent or ignorant they may have been of the original crime.

Should we not apply the same principle to the greatest theft of all, the theft of common property from the community?

The return to the community of the gifts of nature could be accomplished by requiring that those who use these resources should pay the community for the privilege. Those who, for example, wish to use valuable space in central London would pay rents to the state instead of to private landowners.

Rebates could be conceded to landowners for a limited number of years to avoid excessive hardship to those who have been heavily dependent on such incomes, or who have only recently bought private property rights in such land for enormous sums.

Landlords who also own buildings or other improvements would rightly keep the income associated with these man-made assets. Separate assessments for unimproved site values and the value of improvements are made routinely, with few major difficulties, in many countries.

Similar principles can apply to the division of incomes from North Sea oil operations: one part is economic rent, and other parts are payments of wages and interest for the labour and man-made capital employed.

When taxes are imposed on labour, capital and production, the supply of each is discouraged. The supply of each is elastic.

There is, however, a natural floor to the after-tax level of wages and interest, and as taxes are imposed the pre-tax level of wages and interest rates rise.

The supply of land and natural resources being fixed, however, rents can and do fall.

In this way, the ultimate incidence of all taxation falls on land rents.

As a result, official statistics that purport to show the share of land rents in national income reveal a quite low share in many advanced, highly taxed economies (about 10% in the UK).

If the tax system were reformed by removing taxes from labour, capital and commodities, however, the share of rents in national income would automatically rise. For pre-tax wages and interest would fall to give the same or higher post-tax incomes for workers and capitalists.

The owners of land and natural resources could then be asked to hand over the rising rents to the state. The payment would not be a "tax", but a payment for the privilege of using assets that are naturally common property, whose value is created not by individuals but by the community. It would provide the state with a natural source of income which, unlike taxes on labour and capital, is paid in return for benefits directly received.

Unlike taxes on labour and capital, the payment of rents to the state is not an "invasion of proprietary rights". It is the restoration of proprietary rights to the community.

Accompanied by the reduction or abolition of income taxes and VAT, it would also be a restoration of true freedom from State coercion and theft.

Published by Land & Liberty International Ltd., 177 Vauxhall Bridge Road, London S.W.1. Made and printed in Great Britain by R. Ward & Sons, Dunston, Gateshead, Tyne & Wear.