

# LAND AND LIBERTY

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THE TAIL OF RENTER NUTKIN

RUSSIA : 80 CITIES SAY "YES!"

QUITRENT IN SOUTH AFRICA

"UN"DEVELOPMENT THEORY



# LAND

AND LIBERTY

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## EDITORIAL

### THE

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### COSMETIC SHOW

EDITORIAL	2
RUSSIAN CITIES Fred Harrison	3
TALKING POLITICS Paul Knight	4
NEWS BRIEFS	5
FEATURES	
FAMILIES IN CRISIS Peter Poole	6
SQUIRREL NUTKIN Richard Bramhall	9
DEVELOPMENT THEORY David Smiley	10
LAND & LIBERTY ESSAY QUITRENT TENURE P.I. Meakin	7
BOOK REVIEW Public Revenue Geoffrey Lee	12

FRONT PAGE: Beatrix Potter's classic story inspires a sequel by Richard Bramhall

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THE WEST'S attempts to help Russia with her reforms are cosmetic in character.

President Clinton's meeting with Boris Yeltsin in Vancouver was a nice exercise in electioneering, designed to help the Russian president over the April 25 referendum. It did nothing to clarify the central problem: how to transform the command economy into a system driven by the market. On this score, western economists suffer from a lack of intellectual courage (but see page 5). They know the answers, but they refuse to draw on their discipline to drag out the one programme that would forge a new social compact and reconstruct Russia's industry on a new basis.

The one policy that would have the most fundamental effect, which would thrust the transformation in the correct direction, is based on a dramatically new approach to public finance. By financing social expenditure out of the rent of land, Russia would maximise investment incentives.

The soundness of that strategy is not disputed. For example, Prof. J.K. Galbraith says of this policy, in his book, *The Affluent Society* (4th edn., p.44):

**"...if a tax were imposed equal to the annual use value of real property ex its improvements, so that it would now have no net earnings and hence no capital value of its own - progress would be orderly and its fruits would be equitably shared."**

Prof. Galbraith, however, confines his recommendations for the reform of western market economies to social welfare programmes, the retraining of workers and educational improvements. These prescriptions do nothing to remove the flaw in the market - the structural fault-line that periodically disrupts production and sends people into the dole queues, no matter how well educated they may be. Why doesn't Prof. Galbraith tell his friends in Moscow to adopt a system of rent-for-public-revenue? Because, referring to the plan advanced by American social reformer Henry George, he says "this, obviously, was a very drastic prescription".

Drastic it may be in the West, where vested interests have to be confronted; but not in Russia, where the implicit rental income of land remains in the public domain, to this day.

The rent-for-public-revenue strategy lurks like a ghost in the economic literature. Its presence continues to be felt, but its materialisation will require statesmen of courage. Yeltsin scraped through the challenge of the referendum. He retains the confidence of most of the Russian population for the time being. He must now be put to the personal test: challenged to forge ahead with the one economic strategy that would revive the fortunes of his people, this time on the basis of economic freedom.



# 80 RUSSIAN CITIES DECLARE FOR GEORGISM

EIGHTY Russian cities have resolved to reform the system of public revenue. They want to abolish taxes - and raise their revenue from the annual rental value of land.

This decision followed a 3-day conference in Moscow co-organised by the Union of Russian Cities - which represents the 100 largest administrative cities - and the London-based Centre for Incentive Taxation, our sister organisation, and prime mover of the conference.

A Co-ordinating Committee has now been formed to prepare a formal approach to the Supreme Soviet. The committee was created by Alexandre Krivov, the top civil servant in the Ministry of Construction and Town Planning, and Deputy Valery Kirpichnikov, who is President of the Union.

Leaders in the Supreme Soviet have already indicated to the town of Sasnov Bor that they would look with favour on any request to alter the system of city public finance. The Union's overwhelming endorsement of this strategy now places the policy of rent-as-public-revenue on the larger political agenda.

OPPOSITION must be expected. The conference, on April 27 - 29, was addressed by Sergey Shatalov, of the Supreme Soviet's Committee for budget, plans, taxes and prices.

He said they had rejected this tax plan for several reasons. One was that it would raise prices (inflation, today, is running at over 2,000%). The other objection: the tax reform would make it difficult to integrate Russia into the world economy. American economics professor Nic Tideman, who is now in Moscow, has agreed to study the committee's objections and prepare a report.

But city officials displayed few

qualms about the plan, after listening to speeches by financier Ronald Banks, former Director of Lands in Hong Kong, Richard Clarke (UK), land assessor Ted Gwatney, New Hampshire politician Richard Noyes (USA) and, from Cape Town, real estate expert Peter Meakin. They were backed up by Bob Williams, representing the government of British Columbia, Canada.

THE RENT approach to public finance must be seen in the context of Russia's larger problems.

## Decentralisation

Cities did not enjoy any local autonomy, during the Soviet era. Mr. Kirpichnikov is now campaigning for devolution of power from the centre. He warns that, although there was supposed to be a distribution of power between the tiers of authority, "in fact we still have the old centralised system in our country".

Control over public finance will be a key plank of the strategy to liberate cities from Moscow's bureaucratic control.

## Economic Revival

The state of the economy is also crucially related to the land-rent strategy which advocates claim would accelerate capital formation and job creation. Said Mr Kirpichnikov: "The existing taxation system does not stimulate the economy, and the world experience shows that land relations can help a lot in this connection".

## Sound Planning

Kirpichnikov was backed by Alexandre Krivov, who fears that newly rich businessmen, who earn large sums "through speculation", would buy the best land sites. The approach to payments for land was a serious problem. He did not know what kind of

civilisation would evolve in the post-industrial society, but he was sure that rental payments should reflect the impact of town planning.

OFFICIALS from 100 cities declared their support for the rent-as-revenue strategy, but the representatives of 20 cities had to leave Moscow before the vote was taken on the resolution. This left 80 cities to sign the declaration, the first major political endorsement of its kind in the postwar years for the fiscal philosophy usually associated with American social reformer Henry George.

The policy was last advocated in Russia by Leo Tolstoy. He failed to persuade the czar to adopt the Georgist programme, but his role in promoting this reform is now being studied again, in a new book - the Russian edition was published in Moscow last month - by David Redfearn.\*

During the final debate, city officials demanded that the resolution should present a sharper account of the rent-as-revenue plan. One Moscow-based specialist who had studied land for two years - he has developed a computer model of the land market - insisted that the resolution ought to spell out the defects of the present tax and land-use system.

Sergei Averiyanov, a representative from Sasnov Bor, emphasised that "the rent of land is sufficient to pay for the costs of running the city". A report on Sasnov Bor - the 5-man study team included Prof. Mason Gaffney of the University of California and Dr. Francis Smith, Director of a Venture Centre for unemployed people in Manchester, England - was published and circulated to the cities.

\*David Redfearn, *Tolstoy: Principles for a New World Order*, London: Shephard Walwyn, 1992, £9.95.



# Your Votes in Their Pockets

PRESS commentators responded to Italy's referendum with unfortunate implications for British politics. As we all know, by now, the political system in Italy is rife with corruption. Senior politicians are accused of using their public positions to line their pockets. The outcry led to the proposal for a reform of the system for electing governments, of which there have been 51 - all of them coalitions - since 1945.

On April 19 the voters, expressing their disgust with politicians, voted 82% in favour of replacing the system of proportional representation (PR) with a system of majority voting for the senate.

The public debate that followed linked corruption and unstable government with the method of electing parliamentary representatives. This was conveniently timed for John Smith, the leader of

Britain's Labour Party. Labour has been in the wilderness for longer than its MPs care to recall, and an advisory commission has now endorsed PR, the attractions of which would be to encourage people to align themselves with Labour in the expectation of a popular alliance in Parliament with the Liberals.

John Smith, who is not keen on the idea of having to share power, is likewise wary about switching from the first-past-the-post system. He needed a cogent argument for opposing change. The Italian referendum provided that argument: who needs a PR system that results in corruption? And hasn't the first-past-the-post system given Britain "stable" (Tory) governments for 14 years (turn a blind eye, of course, to the instability of four million unemployed people)?

**BLAMING** the voting system is a double-edged sword. Look at Japan, where one party has ruled since elections were reintroduced after the last war. The first-past-the-post system has provided stability in Tokyo's Diet. Good for public life?

Well, yes, if you overlook the fact that, in the early 1970s, the tip of the corrupt iceberg was exposed when Prime Minister Kakuei Tanaka was convicted for crooked land deals and taking money from a US corporation. Also good, if you don't mind the raft of crooked land deals that have been exposed in Japan these past four years, most of them involving bribes to top politicians - indeed, the Very Top Politicians!

The latest politician to fall from grace is Shin Kanemaru, the "godfather" of Japanese politics who was released from a humiliating three-week detention in March.

Here the largest faction in the ruling Liberal Democratic Party. Kanemaru is accused of tax evasion, arising from the discovery, in his office, of about Y6.7 billion in gold bars, cash and debentures. Some of the gold bars were found under a carpet in his home.

On the basis of Japanese evidence, the lesson is clear. If you correlate voting systems with moral turpitude - ditch the first-past-the-post system! In fact, of course, the voting system has nothing to do with the culture of corruption. Corruption emerges for a variety of social reasons, not the least of which is an unjust economic system that encourages people to seek reward outside the law.

People will respect norms of good behaviour if the laws are perceived to be fair. If they are not, the temptation to make an illicit buck arises. In the Italian south, for

## PR: public relations or proper representation?

example, the home of the Mafia, the economic system has been stacked against the peasant for centuries: which is why, generations ago, they took to the hills as brigands.

Britain has a stable political system; so stable, indeed, that the variations between Labour and Tory governments have been so marginal as to be hardly worth noting.

British democracy desperately needs an infusion of new ideas. The floundering of the Major government in the past 12 months - bereft of ideas, led by some Ministers who are unwilling to accept responsibility for their actions - affirms the urgent need to open the political system. John Major fought and won the last election with the promise to cut taxes and by claiming that Labour would raise taxes. In 1993/4, Premier Major will preside over a £500m. increase in taxation. The Tories also promised to reduce the share of national income taken by the public sector yet government spending will climb to 45.5% this year. The first-past-the-post system denies the democratic majority the power to exercise discipline over that kind of cynical politics.

Ideas - when they threaten the monopoly power of the Establishment - are cynically absorbed. (Witness the way "green" slogans were adopted after the Green Party started to win votes, were emasculated, and then - when the time is safe - are spat out with contempt.)

One day, the Labour Party will be radicalised. That is when it will adopt PR. And a healthier democracy it will be.

**PETER POOL**





# Round the world

## LONDON Lifeboat ahoy!

The Bank of England launched a Lifeboat Operation to rescue banks after the land boom of the early 1970s. Mysteriously, there was no comparable rescue after the boom of the 1980s - until Lord Spens forced the Bank of England to confess.

A rescue was launched in the summer of 1991 to save banks weighed down by loans that property dealers could not repay. But the Bank of England kept its operation secret. The identity and number of banks that were supported have still not been disclosed. Prudent practice, claims the bank, which admits that while the commitment of public funds for support purposes should be disclosed, this "should ideally be done when the danger of systemic difficulty has passed".

So while enterprises were forced into bankruptcy by the market, the financial sector was protected from the reckless decision to lend money to a property market that was driven by land speculation. Victims who were allowed to go to the wall after the bust in the land market include some famous names. Among them:

♦ **William Stern**, who was Britain's biggest individual bankrupt after his property empire collapsed in the wake of the 1973 property crash. He returned to property in the 80s, but his company failed.

♦ **Abbey National**, one of Britain's leading mortgage companies, revealed a loss of £220m as a result of the decision to acquire real estate in 1987.

Barclays Bank was not one of the rescued financial institutions, but its shareholders have paid a heavy

price for the way in which Barclays fuelled the land market with easy credit. Barclays has had to write off more than £4 bn. Mark Deverell, the executive brought in to revise the property-lending practices, has now resigned his post.

Barclays was warned to curb credit to the property sector in 1988 by the Bank of England. It failed to take the advice. Deverell was to be the fall guy. Said a spokesman: "It is true that an awful lot of property lending decisions had been taken before he [Deverell] arrived. The Bank had advised us to cap it, but the problem was that a lot of agreed lending had still to come through under our agreements. Borrowers continued to draw money down after 1988."

## ATLANTIC CITY Trumped by Indians

Bankrupt land speculator Donald Trump is angry because his casinos are coming under pressure from gambling dens on the Indian reservations. Indian tribes receive tax privileges for gaming businesses. Last year, their 67 casinos grossed \$6 bn. Unfair competition, says Mr. Trump, who has taken his complaints to court to protect the profits of his casinos in Atlantic City.

## LONDON Tory property tax muddles

British Premier John Major says that, to prevent another boom-and-bust in the housing market, he wants to encourage more people to become private landlords. But the government is now accused of creating further instability in the housing market. Having failed with their poll tax, the Tories have

reintroduced the property tax - which, say some observers, will depress house prices in London.

Anomalies under the new tax - called the Council Tax - have now surfaced. The millionaire Marquis of Bristol is to pay less for his six-bedroom mansion than one of the gardeners who lives in a grace-and-favour cottage on his estate.

♦ The Queen's fortune dropped by £1.5 billion last year, thanks to the collapse in property values. But she is still worth £5 bn., claims *The Sunday Times*.

## SAO PAULO Liberation

EIGHT hundred landless peasants have marched to a southern town to demand land. The demonstration is to draw attention to the plight of the country's 5 million landless peasant families. Leonardo Boff, the Franciscan theologian who quit the order last year, joined the peasants to argue that, under liberation theology, "When families are in extreme need, Christian tradition teaches us that they have the right to occupy land, for life is worth more than property."

Although the Brazilian government claimed it would introduce agrarian reforms, the landowners have succeeded in undermining that strategy: the government is not budgeting for reform this year.

## AMSTERDAM Sinking but not drowning

The Netherlands are sinking, because of the walls which for 1,000 years have kept out the North Sea. So to prevent the country sinking further, fingers are being taken out of the dykes. A large expanse of farmland is to be allowed to revert

back to the sea in one area, where the hydraulic technology has been so successful that the land has been kept dry - but, as a result of soil compression, the area has sunk by nearly 2 feet in the past 90 years.

## WASHINGTON Letter to Clinton

Bill Clinton has been urged to recommend the land-value tax to President Boris Yeltsin of Russia. The recommendation was in a letter to the US president from Prof. Bill Vickrey, past president of the American Economic Association, and Prof. Nic Tideman of Virginia Polytechnic Institute and State University.

They wrote: "Social collection of the rental value of land in Russia would permit significant reductions in the hyperinflationary printing of roubles and/or reductions in taxes on production. It would also make it easier for potential investors to feel confident that future governments would not find it necessary to resort to confiscatory taxes on capital. For both of these reasons, it would stimulate investment and employment."

## STROUD Stroud with a silver lining

Citizens in this English town in Gloucestershire have turned away from the cash economy, and they now exchange their services by using the "stroud" - a coupon which is used to buy and sell goods and services. It has worked so well that the Inland Revenue now says: "If the income [from strouds] is regular and can be defined as coming from a business, then we will work out its sterling equivalent, which will be liable to tax in the usual way."



# FAMILIES destroyed by the land market

by Peter Poole

BRITAIN is just beginning to come out of the depression caused by the latest phase of land speculation. Government spokesmen are triumphantly pointing to a hardening in the prices of houses in some regions, and interpreting the data as virtuous. To dampen the euphoria, it is worth reviewing what happened since 1985.

An economic crash always follows a period when families are forced out of the housing market. It happened in the run-up to the Crash of '73. It happened in the run-up to the Crash of '81. It happened in the run-up to the Crash of '92.

Time and again, in the pre-crash phase, surveys revealed that house builders did not face any problems with either the supply and price of labour or materials. The price of land was identified as the most disruptive element in the construction process. Governments failed to act, and ordinary folk paid the price through unemployment.

THE FIRST to signal an economic crisis is the construction industry. Between 1989 and the end of 1993, nearly 500,000 building workers will have lost their jobs.

But the social results of residential land speculation are equally tragic. Witness the repossession of homes from families that bought during the final phase of the land boom. Once interest rates were forced up, they were squeezed by an economic vice that forced them out of their homes.

It is this human price - the direct result of an avoidable stream of action in the economy - that receives no attention in Parliament. The stories and statistics leave no doubt about the corrosive impact of socio-economic conditions in Britain today. The effects on children are particularly tragic.

◆ By the end of the 1980s, nearly 3m children were living in poverty, according to the Child Poverty Action Group. Many of them take to crime before they reach their teen years - and they regard their anti-social behaviour as a thrill to be shared with friends. An Exeter University survey found that children as young as 11 years drink to escape problems.

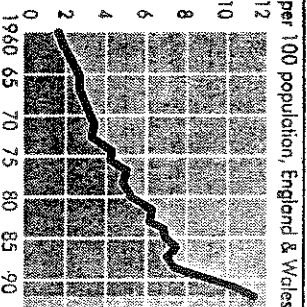
◆ According to the National Society for the Prevention of Cruelty to Children, child abuse is closely connected with "poverty, rootlessness,

family breakdown and disruption."

◆ Male suicides have increased in the 25 - 44 age group. Deprivation encourages women to smoke; this creates a health hazard not only for themselves, but also for their children - a risk of which they are aware, but with which they appear helpless to deal.

We should not imagine that this is a peculiarly British problem. In Germany, the authorities have recognised the connection between unemployment and the resurgence of neo-fascism. And they have drawn a direct connection between the recession and the record number of deaths among

**Notifiable offences recorded by the police**



homeless people living on the streets: 29 people froze to death last winter.

But no matter how long the catalogue of woes, it is impossible to give anything more than a portrait of the severity of the crisis that starts in the destruction of the family and the home, and finds its way onto the streets. And it is a problem that will not go away: the Confederation of British Industries says that the jobless level is unlikely to fall below 2.25m for the rest of the decade.

So until we develop a clear theory of the ultimate cause of economic dislocation, governments will not be able to formulate policies capable of ameliorating the stresses that lurk in

the home. Yet the origins of the problem can be clearly identified by examining the problems of maintaining the house-building industry on an even keel.

Analysts fail to take account of how, when land prices are forced beyond their affordable levels, builders have to squeeze more (smaller) units onto each site. Result: cost-cutting and cramped housing estates. The Tarmac group recently acknowledged that the ratio of houses to sites had been too great, and that it was now reducing that ratio: cheaper land means more breathing space for families in their homes.

IT WAS THE failure to understand this mechanism - that land speculation disrupts the economy - which led to the failures of policy under Mrs. Thatcher's Chancellor of the Exchequer, Nigel Lawson. But was he really to blame? Forecasting techniques betrayed the policy-makers of the 1980s. There is no mystery as to why economists were in the dark about the acid corroding the foundations of the UK economy: their economic models ignore the malfunctions in the land market.

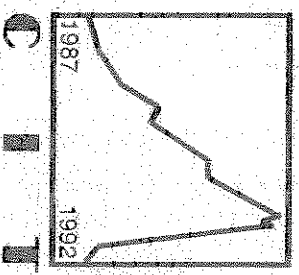
What should now be done? John Major's government has proved devoid of original strategies. Nevertheless, there is no reason why the Tories should not defend the notion of private property and the housing market - providing they take action to correct the structural flaw in the system.

History, economic theory, and the evidence from other countries, show that there is one policy only that can remove land speculation. That policy is a tax on the annual rental value of land. The tax rate must be high enough to remove the propensity to speculate in the selling price of land - in the pursuit of unearned capital gains.



# CENTRE FOR INCENTIVE TAXATION ECONOMIC INTELLIGENCE

EI/38 MAY 1993



## TRIPPING OVER THE TRIPLE DIP

THE SEAL is being set on the character of the next long-run business cycle, which historians will characterise as global.

All the economies in the world (apart from China's) will be synchronised in the upswing phase: see page 2. They are all jockeying for position at the starting line. No-one will be able to steal a head start. In other words: the economic conditions are such that talk of recovery in some countries remains wishful thinking.

The global economy will continue to wallow in recession until conditions are ripe for a uniform - and vicious - sprint for growth. This means investors still have some time to decide which economies/sectors/firms offer the best chance of highest returns, for the latest indicators confirm that all the industrial economies are treading water.

◆ The US Commerce Department's leading indicators plunged 1% in March, the largest drop in over two years. Industrial production is stagnant, and with a standstill in leading sectors such as construction, the US economy is locked in the "triple dip" which injures the prospects of early global recovery.

◆ In West Germany, production in February-March was down 2% from the previous two-month period. The leading research insti-

tutes have adjusted their forecasts, and now expect a 2% decline in GDP this year, with unemployment rising from 7.5% (1992) to over 9% this year.

The German analysts criticise the Bonn government for its intention to raise an additional 60 billion marks (\$38 billion) in new taxes. A similar fiscal strategy in the US - President Clinton plans to raise the top marginal income tax rate from 31% to 39.6% - will serve to smother consumption.

◆ John Major's government - like drowning men on a sinking raft - is clinging by its fingernails to the fragile signs that firmer house prices may signal a turning point. The voters, however, turned massively against the Tories in the recent council elections: they do not suffer from delusions. Major hopes that the economy will benefit from export-led growth. But 25% of Britain's exports go to Germany and France, both of which are in recession. And 15% goes to North America - which cannot keep its own factories functioning (US manufacturers shed nearly 90,000 jobs in March and April).

So what we now see is a convergence of plans among the leading industrial nations (which are following Japan) to gear up for a massive exercise in Keynesian pump-priming. In Paris, Edouard

Balladur's new government is the latest convert to this strategy. Contraction of the French economy is associated with a forecast rise in unemployment to over 10% this year.

This, in turn, will boost inflation, and add to the confusion over policy. Inflation will once again play its covert role in rescuing governments for political ends. Nowhere will this be more clearly perceived than in Britain, which within the next two years will once again lead the inflation league.

The Major government now realises that victory at the next General Election is beyond its grasp, unless it does something dramatic about the 2m households that have mortgages higher than the value of their houses (1 in 5 people with mortgages). With 75% of those people in the first-time buyers category, according to investment bankers Morgan Grenfell, the constraint on consumption - on which the British economy relies for revival - will continue for several years.

The only thing the government can do is re-create the psychology of inflation. This will alter people's perceptions of their financial welfare (leading to more consumption) but it will also raise the price of British exports (thus enlarging the underclass of unemployed people).



# THE MAKING OF THE GLOBAL CYCLE

THE UNITED NATIONS says that the recession is the "worst slump since the 1930s". True, but such a comparison disguises the unique qualities of the economic forces that have now built up.

The distinctive features of the world recession of the '30s have gone down in folklore as "the Great Depression". They were the result not of "natural forces" but of a botch-up by politicians.

The unique feature about the current recession is not that so many countries entered the downswing at the same time: the OECD economies simultaneously converged on a slump in 1973. What is so special now is that the former Soviet nations are also stagnant, and are groping for ways to revive their economies. All of this coming together in the early 1990s means that we have the makings of a historic phenomenon: the first global Kondratieff cycle.

Nikolai Kondratieff was a Russian economist who discerned long waves in economic history. His mistake was to announce that the crisis of the '30s did not signal the end of capitalism. As a penalty for

his contradiction of the Marxist scheme of history, Stalin dispatched him to Siberia, from which he never returned.

The long waves, argued Kondratieff, lasted 54/55 years. His work was further refined by Joseph Schumpeter and others. The results were schematically portrayed (see graph below) by Dr. Francis Smith.

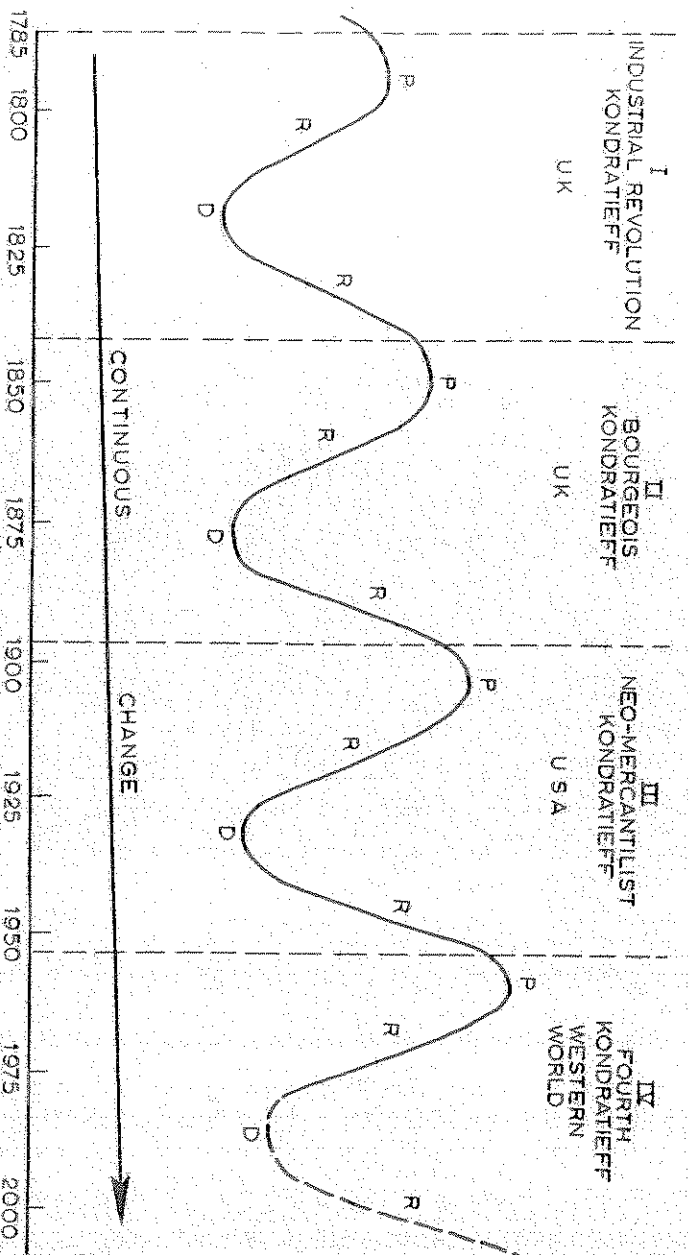
The first cycle began in Britain. Subsequent cycles became more generalised with the spread of industrialisation around the world. The third cycle was dominated by the US, and the fourth was the story of the western world.

Those long swings in activity are punctuated by shorter cycles, ranging in duration from five to 18-years. The shorter cycle is most obviously the result of political manipulation, but economic historians cannot explain the cause of the trends that can be measured

over two decades.

In terms of the amplitudes of the booms/busts, the four Kondratieff cycles have been moderated by the impact of international trade, which has cushioned some of the downturns. A slump in one economy was partially offset by the upswing in another country. World War II, however, truncated historical trends. It forced every economy into an identical economic timeframe. It took 10 years to rebuild the economies - to reach a state of normality - with the result that sustained growth began in 1955. This terminated 18 years later, in 1973, which, in turn, guaranteed the next major downturn in 1991/2. (Using the Kondratieff cycle, Dr. Smith - writing in 1980 - predicted that the latest recession would not bottom out until 1994.)

This brings us to the distinctive feature of the next Kondratieff



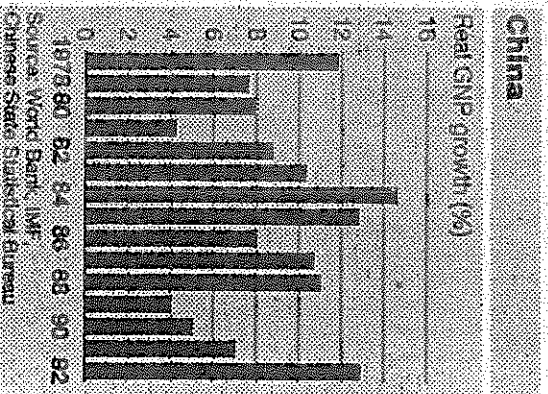


cycle. Since WWII, half of the industrial world has been cut off from international trade. The Soviet and Chinese empires were sealed behind iron and bamboo curtains. Those barriers have now come down, which means that all the world's economies are synchronised on an identical growth path.

Providing the ex-Soviet economies correctly marshal their energies in the market, the new upturn will be powered by a collective burst of energy never before seen in the history of industrial society. Russia alone, with her market of 160m people and a research and development capacity that could rival any country in the world, will add stupendous possibilities to world trade. Unfortunately, however, because of the synchronisation of the world's economies, there will be no compensating upswing in one country to offset the downturn elsewhere. Boom/bust amplitudes in the next long wave of activity will therefore be greater than ever before.

THE ONE exception to the synchronisation is China. She began her first modern 18-year cycle in 1978 (tracked in the Financial Times' bar chart). There was a mid-cycle downturn in 1986, but the benefits stemming from the adoption of the market mechanism in China's coastal regions continued to roll in, producing an annual growth rate now touching 14%.

But policy-makers in Peking are now panicking, and are struggling to control the expansion of credit which is fuelling the escalation in fixed asset investments. China is experiencing a classic building boom provoked, in the main, by the pursuit of rent. Despite its leasehold system of tenure, China has not learnt that what



matters is not who owns land, but who pockets the income from land.

In global terms, China is out of synch. with the other economies. According to the US news magazine *Business Week* (May 17), in its cover story on China: "There seems no stopping their momentum". Wrong. China will suffer a major recession in 1996 (see EI/36). Elsewhere, entrepreneurs may like to know that their investments will be at risk during the global mid-cycle downturn in the year 2,000, which will be followed by the next Big Slump in 2,010. During those two crises, despite

**NIGEL LAWSON,**  
**Ex-Tory Chancellor:**

*"Well, errors are always made, there's nobody who doesn't make mistakes.. But I think it's an illusion to suppose that, if mistakes are avoided - we're talking about mistakes by government now - you won't have recessions. I believe and have always believed... that the economic cycle is a fact of life. There have been these ups and downs throughout recorded history, not just in this country. Throughout the world, there always have been, there always will be."*

the size of her economy, China will not be able to offer a countervailing effect.

READERS will be familiar with EI's principal tool for sketching the economic outlook for the next Kondratieff cycle.

Each 54-year cycle is sliced into three 18-year cycles, the architecture of which is determined by speculation in the land market. That land speculation in its modern form should have originated in Britain is not surprising, since that is where the Industrial Revolution - and "capitalism" - originated in the late 18th century.

Can we rely on EI's predictions for the 21st century? So far, EI's forecasting tool has not been outclassed by any other forecaster's model. True, our model does not have the 100 mathematical equations featured in the British government's Treasury model (which the Treasury is now thinking of scrapping, since it failed to predict the boom of 1986/8, or the 1992 downturn that followed, see EI/1 for the correct predictions, which were offered in 1988).

Can governments do anything to forestall the Kondratieff cycle? Or is it a historical inevitability? Britain's former Chancellor of the Exchequer, Nigel Lawson (who presided over the failures of the 1980s) presumably thinks there is little his successors can do: see his fatalistic observation (inset).

In fact, there is a solution to the business cycle. In its historical form, it could be wiped out by the simple expedient of removing land speculation from the economy. But since the policy-makers have not yet learnt that lesson, entrepreneurs would be foolish to work on any basis other than that the cycles will continue until they hear differently from EI!



# OF INCENTIVES AND BRIBES

THE PSYCHOLOGY of the phase of recovery from a depression is dangerous - especially for the owners of public property: you. For that is when politicians begin to cast around for ways in which to attract entrepreneurs to their localities. And their easiest inducement - they do not have to work at it - is to offer scarce public land at giveaway prices.

Most civic leaders do not realise that, in offering land for jobs, they are disposing of their communities' most precious asset at a time when they have no bargaining strength. Britain's municipal authorities have a history of alienating publicly-owned land at below-market prices. The Major government is now considering giving land to Tesco's, a supermarket chain, in return for the construction of hospitals: bet your bottom dollar that Tesco's will get the best of the bargain!

From the investor's viewpoint, the trick is to realise that, in the public domain, cities employ a system of competitive bidding to lure investments. They offered prime sites to entrepreneurs willing to erect bricks and mortar in their localities. The general result is the enrichment of the new land-owners, usually at the severe expense of the public purse.

After the last land boom, the prospect of cheap land is undoubtedly a serious attraction to firms that need to adjust costs if they are to become competitive again in the 1990s. That is why German firms are relocating many of their operations to the Carolinas.

BMW, for example, was lured to South Carolina by the offer of

\$130 million. \$71 million in tax breaks, a free piece of land - taxpayers had to cough up \$40 million for the 800-acre site - for its plant, and an extension to the runway at Spartanburg airport to accommodate cargo planes.

The politicians think that this strategy makes economic sense. It may, for the individual firm that is fleeing a high-cost location. But for the economy, the policy is self-defeating, for the gain in one locality is a loss in another. There is hardly any net gain in the general level of activity. And yet, governments compliment themselves for their smartness. But what are they doing? On the one hand, they offer a "tax break" which is no more than a fancy way of saying they won't take as much of your money as they might have done; on the other, they are giving away land (or its cash equivalent) that does not belong to them - it belongs to the public. Result: a net loss to the public purse.

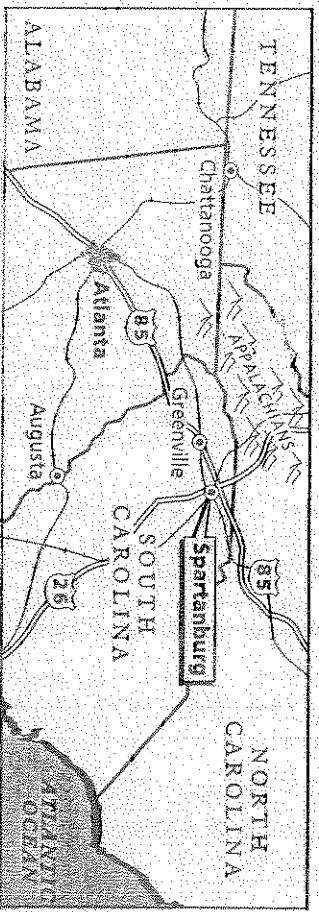
This slight-of-hand, of course, springs from a system of public revenue that encourages those habits that sow the seeds of self-destruction. Look, for example, at the claim by a former president of Korf & Fuchs Systems Inc., which opened a furnace plant in Salisbury, North Carolina. He told the *Wall Street Journal* (May 5): "We

bought more real estate than we needed, but we bought for future growth. And the price was so damn good we couldn't resist."

The "bought-for-growth" explanation is a classic shroud over land speculation: buy cheap, sleep, sell when you can make a killing in capital gain. And who makes the land more valuable in the future? Taxpayers: their earned incomes finance the roads and other public amenities, the value of which is measured by the price users are willing to pay to occupy land.

That's the name of the game, and investors would be mugs not to play according to the rules. Big killings are in the offing in America, where the Clinton Administration is about to venture into the Enterprise Zone business. Despite the dead loss of these attempts to create new jobs during the Reagan-Thatcher era, Clinton is to create "empowerment zones".

Shrewd operators should now identify those localities and buy land at knock-down prices, in the certain knowledge that most of the net benefits of the public's money - which fall into the category of public bribes, rather than "incentives" - will be capitalised into higher land values. The lesson of the 1980s has not yet been learnt: a killing in the land market is the killer of the economy.





# PERPETUAL QUITRENT TENURE

## A 19th century land tax in South Africa

*The sixth of April 1993 marks the one hundred and eightieth anniversary of the start of a remarkable and successful land tax experiment in the remote and unpromising Colony of the Cape of Good Hope.*

*By Peter I. Meakin*

There in the Castle which the Dutch East India Company had built on the shores of Table Bay, the British Governor signed a proclamation declaring that henceforth the inhabitants of agricultural lands in the Colony would be granted perpetual quitrent tenure (PQT).

Sir John Cradock's signature conferred 'security of title' to the mainly Dutch settlers and disgruntled employees of the Dutch East India Company, who had previously worked farms as 'loan places' for various periods of up to forty years. A loan place was defined by the area which a prospective farmer could peg out by riding his horse from dawn to dusk around the place he desired. (Some farms still have circular diagrams).

The purpose of the PQT was to grant certain tenure to the settlers and at the same time secure an income to the Crown for the running of the Colony and the improvement of the infrastructure. The proclamation was a pure land tax and predated Henry George's "single tax" by sixty years. It is noteworthy that Cradock expounded the advantages of PQT to the farmers in great detail. He explained that it was right and proper that farmers enjoyed certainty of tenure because:-

"all improvements of the soil, and all increase in fertility, should indisputably belong to the holder, as his own, and that in the ordinary course of things all his arrangements, as well with respect to the produce as to the land itself, should by the Laws be exclusively secured to him, his Heirs,

Executors, Assigns or Representatives: "Whereas, although the establishment of Loan Leases might have been suitable to the early state of this Colony, when the wants of Government were not foreseen, it now appears from experience, that the Loan Tenure is injurious to that certainty, so essential to the happiness and the interest of the inhabitants, and equally injurious to the public interest, by preventing the holders from appropriating as much of their means to the improvement and extension of Agriculture, as they would do, in case they had no right of re-assumption to apprehend, and might dispose of the Ground as they please, by subdividing the same among their children, letting, selling, or otherwise alienating it in lots, cultivating it in the prospect of remote benefit, by the planting of Timber, etc."

(Proclamation by his Excellency Lieutenant-General Sir John Francis Cradock & c & c., on 6 April 1813.)

Henry George hardly improved on these principles.

### CROWN RESERVATIONS

The conditions of the grant of PQT were that it should not apply to lands of more than 3000 morgen (approx: 6000 acres); that the Crown reserved its right over precious stones, gold and sil, ver on PQT (a master-stroke that still applies in South Africa and accounts for the enormous gold and diamond industry) and that it retained its right to make and repair

roads from suitable material situated on the land.

Government also reserved its right regarding land that fronted onto an ocean or river for public purposes. The holder of PQT, in such instances, would be fairly compensated for such improvements that he had made and if the Crown gave up its occupancy it would revert to the original holder and not to others.

PQT land was treated as freehold in respect of judicial decisions and PQT "shall further not be liable for other burdens but those to which all freehold lands are already subject".

The annual rent payable to the Public Revenue in return for this "in the common course of things, irreducible title would depend on the situation, fertility and other favourable circumstances of the land, in no case, however, exceeding the sum of two hundred and fifty rix dollars.

We know that this rent was approximately equivalent to a land surveyors' monthly salary in those days. Surveyors were to be paid ten rix dollars a day to prepare the title deed and the landrost would instruct them and point out the agreed boundaries when farmers made their application for PQT.

PQT holders were free to alienate their interests as if these were held under freehold title and the land could be sub-divided with the provision for heirs or others to take over the responsibility for the payment of the rent. All Title Deeds would be registered and the records kept in the office of Land Revenue.

Cradock ended his proclamation



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## ❖ THE LAND & LIBERTY ESSAY ❖

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### QUITRENT

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on a proud and optimistic note:-

"The whole tenor of the foregoing Regulations will manifest the paternal view His Majesty has taken of this Colony; and, in deeply considering the permanent interest of the Occupiers of Lands, to what extent the Crown has resolved to sacrifice its rights and prerogatives, in order to place property upon that solid and secure foundation, without which fair adventure and speculation cannot arise, and even common industry and labour will lose much of its effects.

"Thus at length is this great measure matured and brought forward. It is the one that has long engaged the attention and anxious wish of each preceding Government, but which could not well admit of conclusion, except in times like the present of unexampled tranquillity, uniform progress in civilisation and good order, and the unbounded prospect of universal prosperity.

"I feel the highest gratification in giving effect to these beneficent and paternal designs of His Majesty's Government; and persuade myself, that the gratitude of the inhabitants of this Colony will be equal to the value of the inestimable gift thus extended to them on the part of the Crown, which by graciously offering to their acceptance a perfect Title to Lands, that enables them to provide for their Children and Descendants, and dispose of them as they please grants to them, in fact, possession of an Estate, and the high character and station of "a real Landholder."

"They will thereby abandon an unworthy Tenure, unfitted to the growing prosperity of the Colony, and only suited to the earliest and rudest institutions of the Settlement; and being thus placed in their territorial possessions, on the same footing as their fellow subjects in Europe, the Cape of Good Hope in future may, with fair pretension, take its rank with other countries.

"And that no Person may plead ignorance hereof, this shall be published and affixed as usual.

"Given under my Hand and Seal,

at the Cape of Good Hope, this 6th day of August, 1813.

"(signed) J.F. Cradock)."

Whilst Georgists would have given Cradock ten out of ten for his land tax blue print, the Colonies' pioneers were not so impressed. Loan farmers were faced with higher rents and largely spurned the advantages of security of tenure.

Indeed the introduction of PQT was seen to be vexatious enough to spur the Great Trek. Thousands of Dutch Settlers voted with their feet and moved to the hinterland out of reach of the British Governors' law and statutes to form numerous Free Republics. The Orange Free State and the Transvaal survived until the Boer War. PQT was evidently not so highly regarded where there was free land for the taking by trekking an ox wagon for a couple of months.

PQT, however, was acceptable to the English poor and destitute who had been forced to huddle in the cities or to poach and steal when their land rights had been expunged by the English Enclosure Acts. The first wave of mostly British immigrants, the 1820 Settlers as they became known, settled under PQT in the Eastern Cape and built up a strong community including founding the cities of Port Elizabeth, East London and Grahamstown.

### REDEEMED QUITRENT

The Title Deed of John Baillie, an early settler, is noteworthy for its simplicity but also for the fact that this quitrent was "redeemed" as registered by the Surveyor General. A redeemed quitrent meant that the Crown relinquished its rent for the payment of a capital sum. The writer has been unable to determine the cost of redemption and conversion from PQT to freehold. Title Deeds that describe a plot as "redeemed quitrent" land are still common in the Deeds offices of the Cape and Natal and often now refer to urban rather than farm lands. This shows

how readily PQT adapted to urban conditions. Cradock's revolutionary land tax was finally extinguished in Act No 54 of 1934 "To abolish certain quitrents and other taxes and certain debts in respect of land". PQT's abolition was no doubt due to the fact that much land had been redeemed and revenue from land was more readily collected by Municipalities who still use a land tax to supplement their rates income.

Whether Cradock's Land Tax will ever be restored to South Africa is speculative but the omens are good-

PQT is much the same as traditional African tenures where tribesmen have the right to occupy land on payment of tribute to their chief. A new land tenure system based on PQT would find sympathy from all sections of the population, provided it replaced all other taxes.

Calculations show that a "racked" land tax should raise the same revenue in South Africa as is now collected, with considerable cost and unpopularity, from personal and company taxes and customs duties.

At least three million South Africans are out of work and PQT would allow them to gain access to land, the source of all life, and sustain themselves by the sweat of their brows.

The net value of commercial farmland in South Africa, after repaying R16 billion of debt to the State, is negligible and agricultural freeholds could therefore be readily converted to PQT as a quid pro quo for writing off this debt.

Right now the Castle where Cradock penned his Perpetual Quitrent Tenure one hundred and eighty years ago is being restored to its original rugged grandeur. Perhaps too when the Constitution is written for South Africa a place will be found for measure which has shown that it will grant to all South Africans "an Estate and the high character and station of" real Landholders.

It would be appropriate to call such a tax "The Cradock" in memory of an undistinguished Governor who nevertheless distinguished himself in the art of land tenure design.



# A FABLE (APOLOGIES TO BEATRIX POTTER)

DAEDALUS, the quirky thinker who used to inhabit the back page of the New Scientist, recently speculated in The Guardian (May 6) about the causes of economic cycles.

Treating monetary systems as analogies for ecological systems, he suggested that a limited number of currencies was analogous to a lack of diversity in species, which lead to lemming-like boom and bust population cycles. Daedalus proposed that stability might come from allowing competition between an unlimited number of currencies.

One has to agree that currency unions certainly have the structural fault of impoverishing the fringe to enrich the centre, but it is not clear that this leads to trade cycles.

PROPONENTS of land-value taxation, however, have always recognised a significant lack of diversity in human species. Greens and the better informed Liberal Democrats know that there are two main sub-species of the human race: "landowners" and the "dispossessed".

We won't find examples of this phenomenon in natural ecological functions, for population levels tend (like the lemmings that Daedalus mentions), to be based on immediate food supplies, finite appetites, the availability of habitat, and the relative impossibility of one individual occupying two ecological niches at once.

In the human economy, however, we have to deal not only with insatiable greed, but also with concepts such as exchange-value, expectation, and the law's defence of property rights. In nature we will not, for example, find Squirrel Nutkin's relatives paying tributes of dead mice and insects to Old Mr. Brown, the Owl, in return for the freedom to gather nuts on Owl Island.

Do you remember what happened in the story? The squirrels sail to the island. There, they "bowlow" and ask "politely": "Old Mr. Brown, will you favour us with permission to gather nuts upon your island?"

In return for the permission, they return with new tribute - a mole one day, seven fat minnows another, a

beetle, honey, a new-laid egg - anything that will appease the Owl on "his" island.

Beatrix Potter transposed onto the animals a human phenomenon. Of course, she does not bother to explain just how landowners acquire the right to exact rent for letting others use what they have not created and may not even use productively (how many owls eat hazel nuts?).

Anthropomorphised Old Brown does just as human beings do - defending property rights with violence and with the threat of a winter's empty bellies for squirrels who cannot pay.

But Ms. Potter does not tell the whole Nutkin story. If she had, Daedalus' question about economic cycles would have been answered. If you are sitting comfortably, this is how she might have continued with the story...

MR. BROWN knew he was on to a good racket, so he steadily increased his demands. He raised the rent as high as the squirrels could pay without starving, and most of their time was consumed in hurting beetles and dormice.

Then, since business was good, the owl bought a neighbouring island. The vendor had cannily observed the traffic in tribute to the first island and nuts to the mainland, and the price for the second island was high. Mr. Brown borrowed heavily to pay it. To meet the interest on his bank loan, he raised the rent a bit more. The squirrels were so overstressed that their eyes lost their sparkle and their tails lost their bounce.

Lacking time, energy and resources, they drowned. Most of the others stopped bothering about the nuts, simply living paw to mouth until the coming of winter finished the food supply. The squirrel population crashed, and that was the end of Mr. Brown's rent.

After several years, "green shoots" returned to the squirrel economy. But by that time, the bank had repossessed the second island, the owl was bankrupt, and he was having to scavenge for himself. Landowners can

suffer too, you see, but they tend to have more to fall back on in hard times, and of course their assets are indestructible.

Eventually a new generation of squirrels built new little boats and came to Owl Island with their tribute. They could only afford the original level of rent, but Mr Brown - thin and bedraggled - was now willing to accept it. And so the whole thing started all over again.

The land-value created by the demand for nuts really belonged to all the animals, not to Brown, who had not created the island, or the nuts, or the squirrels. Only Nutkin, it seems, saw that Old Brown was a thief, and he paid for his independence of thought with half his tail. It may well be that he suffered a more enviable fate than his human counterparts who starve in the gutter or grind out sterile lives in factories to pay mortgages that are inflated by the artificially high price of building land.

But if land-value taxation had been operating in Potterland, Brown would have had to pay a tax based on the use that all the animals (including Brown himself) needed to make of the island. Diversity would have been ensured by Brown needing to see that they DID use it, so that he could collect the rent to pay the tax. Competition between Brown and the bank (the new owners of the second island, remember) would have ensured that rents reflected REAL value, rather than speculative pricing in a restricted land market; and the rent revenue would have paid for a health service and education for all the animals. Industriousness, stability and equality would have reigned, and Mr. Brown would have had to work for a living instead of exploiting the needs of others.

Not such an interesting story, but a much nicer place in which to live, don't you think?

\* Beatrix Potter, *The Tale of Squirrel Nutkin*, London: F. Warne & Co., n.d.

Richard Brautill



# DEVELOPMENT THEORY: FROM CRISIS TO SOLUTION

## A REVIEW OF THE LITERATURE

By David Smiley

ONE HUNDRED years ago *Progress and Poverty* was widely read as Marx's *Capital*. Marxism, from dubious economic theory, proceeded to conquer half the world, and leave a heavy imprint on the other half. Georgism, from impeccable economic theory, proceeded to oblivion.

What explanation can we find for this paradox?

### LEVERAGE

◆ Marxism and its many derivatives have always had the political leverage of massive organised labour. Georgism has not.

◆ Marxist theory is hard for the layman, so Marxists have always targeted the intelligentsia, obtaining enormously influential intellectual leverage. Georgist theory is also hard for the layman, yet we address only a layman base, with negligible results.

◆ Marxism generates an immense literature at academic and popular levels obtaining enormous educational leverage. Virtually nothing of substance, even including Fabian Society works, has followed George's books.

It seems to me that we have failed because we have not used the leverage of the intelligentsia (in universities, professions, and powerful organisations such as the United Nations and the World Bank) whose research and publications ultimately influence the world's political agendas.

### A NEW ORDER?

What is now called "The Old International Economic Order" (OIEO) dates from World War II with the Bretton Woods agreement and the Marshall Plan.

These initiatives removed extreme poverty from the "first world" and successfully drove its economic growth for the next 25 years. That this

growth was shared by the "third world" disguised two contrasting trends. In the first world, growth was convergent: internal incomes became more equal and so did the wealth of nations. In the third world growth was divergent: gaps between rich and poor nations widened.

Then came the oil shocks, crop failures and stagnation of the '70s, the recessions and debt crises of the '80s, socio-economic disorder and confusion, and demands for a new order, a NIEO. It has not arrived, nor are there any signs that it will.

Behind this brief history lies an equivalent body of "development economic theory", confidently growth-oriented at first, then confused by its own stagflation and the collapse of Keynesianism, and by the inexplicable divergence of wealth in the third world. This is the "crisis" we are examining, consisting of all the unanswered questions posed in the literature, central to which is the unanswered question of divergent wealth in the less developed countries, the third world.

Development theory will have to be radically redirected if we are to meet economic efficiency as well as social justice criteria. Paradoxically, technology exacerbates the crisis. From Georgist economics it is also clear that third world divergent wealth is both the symptom and the cause of failure, in both the practice and the theory of development.

### EXISTING THEORY

"Inequality cannot really be reduced so long as property ownership is heavily concentrated" - Seers, 1977.

King (1977) contributes two empirical analyses quite fundamental to the failure of development theory. The first is that social injustice and economic stagnation are

directly linked to patterns of landholding. The second is that the green revolution can actually increase poverty through increases in rent and evictions of tenants.

Sen (1983), in writing an "obituary of development economics", puzzles over the obvious successes of the "tigers" of South Korea, Taiwan, Hong Kong and Singapore without noticing their histories of land reform.

Lewis (1984), in his "search for the engine of growth", is confused on unemployment and the law of rent. King (1977) had already explained the green revolution's propensity to technological unemployment, and the models of Malthus-Smith-Ricardo (Samuelson 1964: 726, 727) explain only too grimly the "rent takes all" results of population growth without technological growth or, by implication, site revenue.

Barke and O'Hare (1984) report that "The realization that land reform could actually increase agricultural productivity... meant that a strong economic objective was added to the original social and egalitarian motives behind land reform".

For Resnick (1985), development theory and neoclassical theory are both in a mess. His paper is a good example of an analysis of the very real problems of former colonialism, landed aristocrats, concentrated wealth, multinationals and commodity production, but one which reveals the weakness of neo-Marxist analysis, meeting the weakness of neoclassical analysis coming from the other direction, in the confusion over what is, and should be, "property".

Myrdal (1987) proceeds straight to the nexus of the problem: "the existing great inequality of resources and power within the underdeveloped countries themselves could be part of the explanation of their underdevelopment", whereas in Japan, Taiwan and South Korea, radical land reform policies helped transform them into economic "tigers".

Todaro's (1989) massive technical comparisons of neoclassical and neo-Marxist theories of development lead to the exhortations with which we are so familiar: to life-sustenance, self-esteem, and freedom from servitude, but with no feasible programme for their attainment. A Georgist analysis



sis of his evidence would reveal, for example, that the problems caused by imperialism and multinational corporations, though not helped by their monopolies of capital, arise primarily from monopolies of land in the afflicted countries, and could be solved by their removal.

Bhattacharya (1989: chap. 6) concludes that "Those developing countries which have introduced reform policies such as China, South Korea and Taiwan, have achieved genuine economic development, while most other countries, such as Chile, Brazil, the Philippines and India, continue to have large numbers of people living in poverty, unemployment and underemployment and unequal distribution of wealth, even though they may have achieved high rates of economic growth".

Bhattacharya clarifies what he means by wealth: "In pre-capitalist developing countries, land still represents the principal form of wealth and the main source of economic and political power and prestige". In confirming his comment to pre-capitalist countries he quite clearly has not read *The Power in the Land* (Harrison 1983).

## TOWARDS A SYNTHESIS

Even from a brief survey, it is already clear that there is a crisis in development theory, that this crisis is related to the increasing divergence of landed wealth in the third world, but that no new synthesis has appeared out of neo-Marxist and neoclassical analysis.

It is also clear that the divergence of wealth is a distributional, not a production problem, that it hinges on the degree of concentration of land ownership, that land reform is therefore an inevitable component in its solution, but that there is "considerable confusion surrounding the role of land reform in economic development" (Bhattacharya 1989: 141).

This confusion, then, is the nexus of the crisis, the resolution of which can only be outlined here.

ONE LINE of research is suggested by Resnick's unconscious exposure of the complementary weaknesses in neo-Marxist and neoclassical analysis.

From the vantage point of the 1990s it is now clear that private ownership of industrial "property"

(capital) in the first world has greatly increased the production and distribution of wealth, whereas concentrated private ownership of agrarian "property" (land) in the third world has greatly inhibited both. Marxist theory cannot explain the first, neoclassical theory cannot explain the second. But a synthesis of these two is impossible without an economic dissection of "property" into unimproved land, and capital improvements; and a corresponding ethical dissection of "profits" into land rent (which should be taxed back into the community which creates it) and interest (which should belong to those who supply the improvements).

Another line of research is suggested by the startling evidence that not only labour inputs (population explosion) but capital inputs (the green revolution) can increase rents, hence debt, unemployment and poverty. Maybe the problem is the surplus product called "economic rent", and rights to its appropriation. This suggests the need for a much longer research focus, back to Ricardo and his law of rent, and to the Site Revenue programmes of Henry George (1979).

But it also suggests the need for, and a much wider research focus on, not only third, but first and second world land economists. For example, for the first world (but not exclusively) Samuelson (1964: 541) claims: land rent "can be taxed heavily without distorting production incentives". For the second world, in a letter of advice on economic reform to the Soviet president, signed by three of the West's Nobel prize-winning economists, Robert Solow et al (1991) warn: "It is important that the rent of land be retained as a source of government revenue". For the third world, King (1977: 18) reports: "An approach to agrarian reform currently receiving much attention is land taxation. There is a body of theory with considerable following amongst economists which holds that land reform could be brought about automatically by indirect methods such as tax reform, thereby avoiding the high costs of conventional land redistribution programmes".

Returning socially-created land values (by land taxation) to the community which created them, instead of to landlords who did not, achieves

the social justice which is now high on the agenda of development reform. But unlike redistribution, it is neutral to economies of scale. And unlike expropriation, it does not disturb property rights, it simply imposes rental obligation. So, with rents of 50% of produce not uncommon in the third world, there are clearly substantial economic benefits as well. Therefore these new community revenues could be expected to solve the other problems of sanitation, health, education, etc.

Finally, the new economic independence the peasants would enjoy might reduce population growth, and provide alternatives to dependence on western aid, loans and multinationals.

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# BOOK REVIEW

## PUBLIC REVENUE WITHOUT TAXATION

by Ronald Burgess  
Shepherd Walwyn, £18

IN THIS thought-provoking book Ronald Burgess argues the case for the abolition of all taxation and its replacement by the collection of a naturally occurring public revenue. Public revenue, in Dr. Burgess's terms, is a modified version of Henry George's single tax. Whereas George looked at the land question from a moral point of view, i.e., land is a gift of nature, should not be privately owned, but should be made available to those prepared to pay the rent for it to the community, Dr. Burgess views it in economic terms. The community creates land value by public expenditure and should recoup its costs from the resulting public revenue. He is careful to distinguish between privately created wealth and that which results from work by the whole community. Before going into a detailed explanation of his proposals, Dr. Burgess analyses the reasons behind the failure of present economic policies. Policies that cause our recurring slump to inflation cycles and often create a terrible combination of both of these miseries - "slumpflation".

He argues that the so-called Keynesian school in its demand-side economics ignores the spirit and much of the theory of Keynes. Keynes never took the view that demand always calls for its own supply, and high volume public spending as a policy prescription owes more to Beveridge than to Keynes. The reality of such a policy, Dr. Burgess points out, is that high levels of public spending necessitate high levels of taxation, which may need topping up by borrowing - a sure recipe for accelerating inflation.

Equally, the Chicago monetarists' supply-side theories have led to failure, although in a different way. By cutting public spending and controlling the money supply their policies

can squeeze inflation out of the system but only, it seems, at the cost of a return to large-scale unemployment.

Mrs. Thatcher's attempts to reduce the public sector by privatisation did not even manage to lower public spending. The new supply-side policies started in 1979 when tax revenue appropriated 38.6% of net national product at market prices. A decade later tax revenue was taking 40%.

Ronald Burgess points to this high level of taxation as a key reason for the conspicuous lack of success of both theories. In 1945 Colin Clark demonstrated, and Keynes agreed with him, that when government tax and borrowing exceeds 25% of the net national product, inflation becomes inevitable. Effective attempts at counter-inflation lead equally inevitably to increased unemployment. Demand-side and supply-side policies are incapable of eradicating inflation and unemployment at the same time.

Taxation, according to Dr. Burgess, is a principal cause of both inflation and unemployment, and a substantial part of his book is devoted to showing precisely how this happens. Drawing on the theories of Adam Smith, Ricardo, John Stuart Mill, Alfred Marshall, Keynes, Milton Friedman and Colin Clark, he stretches out his researches to include the work of Francois Quesnay and the Physiocrats, Henry George, St. Thomas Aquinas, Enrico Barone and Paul Leroy Beaulieu. He points out that the development of Keynes's general theory of employment leads to the conclusion that an open trading economy will be most prosperous only when all taxation is abolished.

It was the Physiocrats, also advocates of the abolition of taxation, who pointed out an alternative, natural source of public revenue. Alfred Marshall identified what he called a "special tax" and Henry George spoke of a "single tax". Ronald Burgess develops and refines these ideas.

The place where this public value manifests is as part of the rent of land, or "situation value" as Alfred Marshall

called it. No one can produce land, so land of itself has neither a public nor a private value. Its public value is created by the provision of roads, sewerage, drainage, water supplies, street lighting, a police force, a fire brigade and so on. Without these services the land will be of little value in a developed society. With them the land becomes highly desirable and commands a sale price or rent which in the UK goes to the freeholder. If we acknowledge that most of this site value has been created by public investment then, argues Dr. Burgess, logically we must agree that it should be returned to the public.

Ronald Burgess concludes with a chapter showing how this value can be collected as public revenue, repaying the community for its capital and current expenditure - which of course includes the costs incurred by the government itself in providing a stable environment for economic activity. He regards this change to be an essential prerequisite for solving the major social and economic problems, including inflation and unemployment, that are today often endemic.

Dr. Burgess suggests a gradual switch until all taxation is abolished and government income comes entirely from this new source. Public revenue under this system will be, by definition, sufficient to cover all necessary public expenses. There are also considerable environmental benefits - urban sprawl would be curtailed and pollution would cease to be profitable.

Present-day orthodox economics has found no solution to contemporary problems and unless it shakes itself loose from the shackles of traditional ways of thought, it never will. As Keynes himself said, we are usually the slaves of some defunct economist. In his own case the so-called Keynesian school are slaves to a misrepresentation of Keynes.

Public Revenue without Taxation is a work of major importance and demonstrates a practical and dynamic solution to our economic crisis. More than this it points away to give humanity a truly just society in which people may live as free individuals enjoying fully the fruits of a rich and self-sustaining world.

**GEOFFREY LEE**