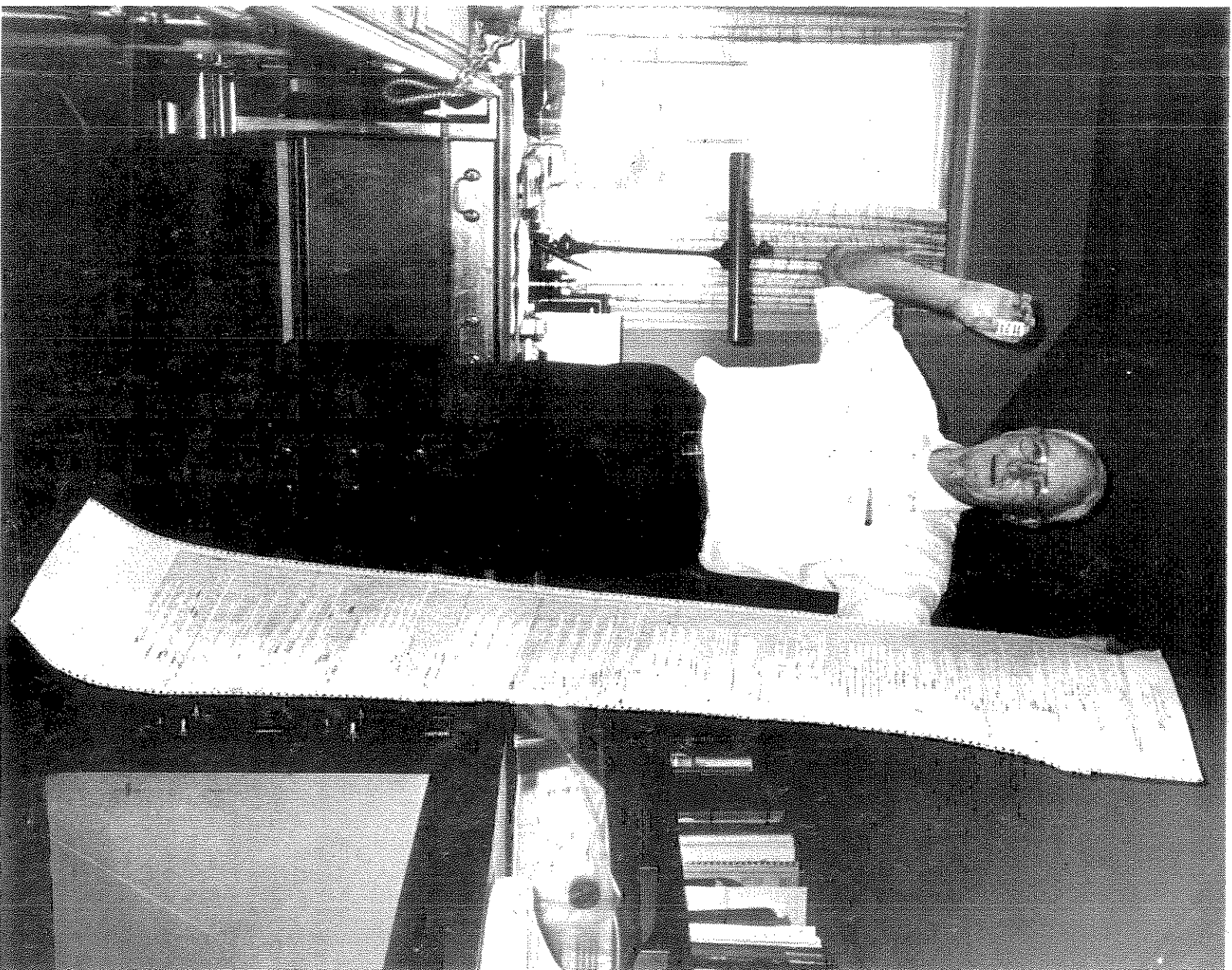


LAND and LIBERTY

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**SPECIAL
REPORT
CRISIS IN US
FINANCIAL SYSTEM**



LAND and LIBERTY

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THE APPRAISAL profession in the USA is under attack. Our cover picture shows McCloud B. Hodges Jr., a critic of the way appraisals are conducted. Too often, he says, real estate values are calculated by methods which are so subjective that the appraisers might just as well have arrived at their numbers by rolling dice. Far better, he says, to use scientific, computer-based appraisals based on a system of discounted cash flow. Mr. Hodges holds the printed-out data that went into the appraisal of one building on which he is currently working. *See Page 87.*

DEEP DANGERS

THE TRAUMA now being inflicted by the land market on Britain's manufacturers is an object lesson for everyone.

In England, the problem manifests itself in house prices. A survey by the Confederation of British Industries (CBI) in the south-east has proved that firms are curtailing their investment plans because they cannot attract workers.

Is there a shortage of labour? No, Britain counts her unemployed workforce by the million. Why is there a problem then? People cannot afford to relocate in areas where there are jobs for them, because of the speculation in residential land.

The other side of the same problem is to be seen at work north of the border, in Scotland, where the CBI is articulating complaints about the Uniform Business Rate (UBR).

This is one of the reforms introduced by Premier Margaret Thatcher, who has abolished the residential property tax (which will push up land prices). She resorted to this action because her economic analysts did not correctly diagnose the source of the problem: the structure of the property tax.

That is why people will now have to pay a Poll Tax, and companies will pay the UBR, levied at a uniform rate nationwide.

THE PROBLEM with rates - old and new (in the guise of the UBR) - is that it falls indiscriminately on the value of both land and buildings. This means that investors are penalised for committing their resources to improving land (new buildings, fixed plant, etc), instead of being encouraged to do so by having the tax removed from the rewards of their investments.

The other problem, highlighted in Scotland most recently, has nothing to do with the property tax *per se*. The failure to revalue property regularly means that the taxing authority is not able to sensitively (and fairly) respond to changes in the relative prices of property over time.

Hence, for some, the rise in the tax was relatively high. They had benefitted from the windfall gains of rising property prices. For others, the relative decline in property prices meant a drop in rates.

For political reasons Mrs Thatcher exploited the outcry from those who have enjoyed large increases in their property values. She introduced the Poll Tax.

Some leading valuers believe the new system of raising revenue for local governments will collapse within a few years. At that point, the experts ought to be ready with a comprehensive plan for a tax that is directed exclusively at land values.

NO-ONE in Britain can now doubt that the land market is in urgent need of reform.

In the past, each recession was preceded by land speculation which favours the *rental* form of investment - simply stated, getting money for nothing - against the entrepreneurial form of investment.

Britain is now deep into a re-run of this vicious process. So is Japan, and Australia and Finland. We do not doubt that history will repeat itself in the form of a depression. If we are right, industrialists ought to be leading the debate that has as its ultimate objective the smoothing out of the damaging troughs of the business cycle.

This can only be achieved by reforming the tax system. We need to reduce taxes on wages and profits, and compensate by increasing taxes on rental income. In that way, we would not only encourage incentives at work but also negate the incentive to speculate in land.

Land is the best long-term asset into which one can invest one's money. That's obvious. But this propensity to seek refuge in an asset which, in the wrong hands can be used to retard economic growth, ought to be neutralised. It serves no rational, productive purpose in a capitalist society.

LAND speculators have used crooked appraisers to help them get rich. The corruption has undermined the viability of hundreds of savings and loans associations (S&Ls) – the equivalent of Britain's building societies.

This makes the prospects of an economic crisis far more serious than commentators generally suggest when they emphasise the huge Federal deficit and the Third World debt.

Attention usually focuses on the speculative boom in Texas real estate, which has led to the closure of many Sunbelt banks. About 1,500 banks are now in the care of the Federal Deposit Insurance Corporation (FDIC). Another 200 casualties are expected, which includes the 87 that failed in the first six months of this year.

In fact, the speculation has been nationwide, and has as its chief feature the systematic bilking of billions of dollars from defenceless investors. Yet commentators limit their analysis to a criticism of "America's flawed credit system", in which blame is assigned to "the incompetent and the imprudent [who] have been able to bid for deposits based on subsidised credit in the form of the federal government's pledge to bail out insured depositors" (*The Economist*, July 18). No mention here of fraud.

The US government may not now be able to cope with a serious recession, for the Federal insurance which takes the risk out of placing money with S&Ls and banks has created an enormous financial problem.

So far, the cost to the Federal agencies of troubled S&Ls – between 500 and 1,000 are either bust or almost insolvent – has been placed at upwards of \$80 billion. A bail-out would cost

FACT: The Federal Government currently guarantees mortgage loans totalling \$482 bn.

An INSITE investigation spotlights a major cause of the crisis in America's financial system which could seriously undermine the Federal government's scope for action if the economy dives into a recession.

Rotten to the core

THE U.S. BANK CRISIS

	1980	1981	1982	1983	1984	1985	1986	
Banks¹	10	10	42	48	79	120	145	1. Total banks closed or assisted
Problem Banks²	217	223	369	642	848	1140	1484	2. FDIC-insured commercial and savings banks officially considered problems.
Savings & Loans³	4613	4292	3825	3502	3393	3197	3078	3. Number of savings and loans associations

“Faulty and fraudulent real estate appraisals are an increasingly serious national problem. Their harmful effects are widespread, pervasive, and costly. They have seriously damaged and contributed directly to the insolvency of hundreds of the Nation's financial institutions and have helped cause billions of dollars in losses to lenders, private mortgage insurers, investors, and Federal insurance funds.”

Responsibility for this problem

rests with those who perform appraisals or base lending and related mortgage insurance/investment decisions on appraisals they know or should have known were improper or inaccurate. Equally culpable are the Federal agencies that regulate or oversee lending and mortgage insurance/investment activities and programs.”

— *Verdict of the Congressional Committee on Government Operations in its 48th report, p.4 (Sept. 25, 1986).*

“more money than the Marshall Plan” to rebuild war-torn Europe, to quote Donald Shackleford, chairman of State Savings Bank of Columbus, Ohio.

The net result is that the most powerful Western economy is now built on a rotten financial foundation.

A CONGRESSIONAL investigation has identified the scope of the corruption. Leading the campaign for reform is Rep. Doug Barnard, Jr., chairman of the subcommittee on Commerce, Consumer and Monetary

Affairs Committee on Government Operations, who wants to impose tighter controls over appraisers who are supposed to estimate the market value of property. Earlier this year, at hearings into the Real Estate Appraisal Reform Act, he declared:

“What the subcommittee found in the real estate loan portfolios of virtually every failed S&L and in many problem commercial banks, was that faulty or abusive appraisals

Continued on Page 84

were systematically used to deceive bank examiners and to make speculative or even fraudulent real estate loans look secure." He cited examples:

- Investigations into the insolvencies of 33 California S&Ls revealed that appraiser misconduct was directly involved in thousands of defaulted real estate loans and investments that will cost the Federal Savings and Loan Insurance Corporation (FSLIC) \$3.5 bn.

- The General Accounting Office has confirmed that appraisal problems have "plagued" the Federal Government's extensive mortgage loan guarantee programs. In just one year (1986), the Department of Housing and Urban Development (HUD) sustained a \$629m loss, thanks in part to crooked appraisers.

- At hearings into insider bank fraud, Mr Barnard's subcommittee was told that all the cases that were prosecuted in one district of Illinois involved fraudulent appraisals. A U.S. Attorney declared: "At seven recently failed S&Ls, senior officers, working with corrupt appraisers, have falsely inflated the value of securities for loans to finance projects in which the officers had an interest, or could receive kickbacks or commissions. This is a pattern of fraud seen throughout the country in failed institutions."

INDUSTRY experts have provided extensive evidence of corruption. Cecil Rhodes is President of NIA, an organisation that specialises in lender and mortgage insurer risk manage-

FACT: In 40 States, real estate appraisers - unlike barbers and beauticians - are not examined, licensed or supervised.

British banks at risk

FOREIGN BANKS, including some of the British multinationals, may be exposed to the crooked dealings in US real estate.

The stockholders of those banks won't know it, however, because a great deal of the fraudulently valued property is disguised in what is called securitisation - mortgage-backed securities which are commercially tradeable instruments.

Samuel Zell, a shrewd Chicago-based dealer who is actively buying properties in the depressed Houston market - he prides himself on his "gravedancer" nickname - has defined securitisation thus:

"Securitisation converts mortgages into a commodity that blurs the risk to the investor. Whereas government bonds and government agency bonds trade at a risk differential, the risk is clearly delineated and an efficient market follows.

"In real estate mortgages, the amount and quality of information either precludes investigation or requires effort that is unlikely to be undertaken.

"The proliferation of securitisation transactions represent a further move toward the replacement of real estate expertise with the common denominator, a Masters of Business Administration."

The Office of the Comptroller of the Currency (OCC) has confirmed that "Several multinational banks [are] engaged in the mortgage-backed securities business, [but] we do not main-

tain aggregate statistics on this activity and cannot provide an exact number."

The Congressional Committee on Government Operations has criticised the OCC for not looking closer at dealings in these securities. As a result, "loan participations and mortgage-backed securities based on fraudulent appraisals have adversely affected many financial institutions around the country."

Financial institutions willingly bought these securities because they were associated with famous names like Bank of America or Wells Fargo, which acted as trustee/escrow agents for them.

The value of many of the securities, however, were inflated above their market worth by the simple expedient of fraudulent appraisals. In one case, 21 S&Ls nearly lost \$95m by investing in securities which were backed by expensive single family homes, apartments and townhouse condos in Southern California and Texas. The appraisal values of the properties were found to be 2½ times the purchase price.

The S&Ls were saved by Bank of America, which assumed liability. If the Bank had not done so, six of the thrifts would have suffered losses in excess of their net worth.

* Samuel Zell, "Modern Sardine Management", *Real Estate Issues*, Spring 1986, p.3.

ment issues which has completed in-depth field audits of 20,000 mortgage defaults.

He says: "We found ourselves working in an industry with an amazingly large element of organised criminality."

In one case, "a group in Southern California used a simple equity financing scheme involving over 300 properties to bilk various lenders and investors out of a mind boggling \$41m in just four years. This scam was

driven by deliberately inflated appraisals.

"Similar scams have been perpetrated on HUD, the Veterans Association, S&Ls, banks - everyone in the business. Stories like these, where large sums are taken by small, well organised groups, continue to unfold without relief in sight.

"Observers conclude that mortgage fraud is here to stay, because in all cases it is recognised by its beneficiaries -

its perpetrators - as a low risk, extremely lucrative activity."

In another Southern Californian scam, 21 banks and S&Ls lent \$14m on property that a few months before had been bought for \$1m! The appraisal was supplied by a man who had been convicted of fraud in previous appraisal work, according to a report by an investigator for the Orange County DA's office.

APPRAISERS are well rewarded for holding up their end of the real estate racket. Typically, they are paid fees that are twice or treble the usual payment.

It can be money for old rope. In one case, involving the bankrupted Landbank Equity Corporation of Norfolk, Virginia -50% of the investor loans it marketed resulted in foreclosure - appraisers signed large numbers of blank appraisal forms and allowed Landbank employees to insert the value of properties.

For some deals, Landbank advised the appraiser of the amount needed to cover the loans they wished to advance - which again relieved the appraiser of having to do any work. The casualness with which some appraisers discharged their responsibilities is illustrated by cases in which they submitted their reports - on which the loans were supposed to be based - to Landbank after the loan deals had been closed!

Crooked appraisers have also affected credit unions, which at the end of last year held federally-insured assets totalling \$162 bn, 27% of which was tied up in real estate. Michael Riley, Director (Examination and Insurance) of the National Credit Union Administration, cites two cases:

CASE 1 A credit union advanced loans on property which was later found to be

FACT: the number of appraisers operating in the U.S. is not a known fact. The number is thought to be around 225,000 to 250,000.

over-valued by 40%. Loss: over \$1m, which contributed to its liquidation.

CASE 2 A New Jersey credit union had within its loan portfolio about \$43m in commercial real estate loans out of a total loan portfolio of \$50m. The market value of the property was \$8m less than the money that had been advanced. The union was liquidated.

Cases such as these have led to a dramatic run on the National Credit Union Share Insurance Fund.

The appraisers have not suffered. In the words of Dr Richard Hewitt, President of a financial consulting and appraisal firm from Fort Lauderdale, Florida, who formerly served as a chief district appraiser for the Federal Home Loan Bank Board:

"Not one appraisal professional organisation has had at risk or lost one cent during the past seven years, a period which the FSLIC has for practical purposes been bankrupted, FDIC

greatly weakened and literally thousands of depositors and shareholders financially impaired."

The tab has been picked up by everyone from the banks and S&Ls down to HUD, State governments and - ultimately - the taxpayer.

BUT little attention is given to another category of losers: the families who seek roofs over their heads.

Corrupt appraisals of property values has affected the policies of lending institutions. One of these, Fannie Mae - the largest private investor in mortgages and a major issuer of mortgage-backed securities - has been forced to consider the need for higher down payments.

"When this happens," notes Dale Riordan, Executive Vice President of Administration and Corporate Relations at Fannie Mae, "first-time home buyers find it more difficult to purchase a home because it takes longer to save for a down payment. In the meantime, as we have seen over the last decade, sales prices have increased faster than incomes."

This makes it increasingly dif-

Continued on Page 92 ➤

TRAIL OF CORRUPTION

THE nationwide racket steering in US real estate has its origins in the 1970s with the advent of the money-market fund.

This was a device invented to cope with high inflation and high interest rates.

Investment firms sold shares in a pool of assets - usually loans to large banks. Small investors could own pieces of certificates of deposit that would earn more than their own deposits in banks.

Result: money started flowing out of banks and savings & loans associations and into higher-

yielding investments. Some institutions faced a severe cash crisis.

Reason: Regulation Q, a long-standing Federal Reserve directive which limited the interest that banks and S&Ls could pay their depositors.

Solution: In 1980, Congress passed the Depository Institutions Deregulation Act, which phased out interest ceilings over a six-year period. The intention was to ensure that all depositors, and especially those with modest savings, would receive a market rate of return.

The Act transformed the

financial system, shifting power from the lender to the borrower. The banks were forced to pay more for deposits. So they had to make up those higher costs with higher revenues. This provided the drive to make more aggressive loans.

One outcome was the explosion in junk bonds. Another was the pressure on S&Ls to lend to speculators, which provided an incentive to fraudulently appraise the value of property on which loans were to be made: the larger the value, the more an S&L could lend.

Party has got to end for real

estate racketeers

ANYONE can set up shop as a real estate appraiser, and the United States abounds with trade organisations that provide membership without a close scrutiny of professional or academic qualifications.

Membership provides the appraiser with letters after his name, and members of the public have few means of knowing whether those initials are worthless.

So far, 14 States have passed legislation which addresses the need to certify appraisers. Another 15 States have bills pending in their legislatures, but are awaiting the outcome of deliberations of HR 3675, the Real Estate Appraisal Reform Act of 1987.

Washington insiders expect the sponsor of the reform, Mr Doug Barnard, to withdraw it in favour of State-level action. One man who was cynical about the prospects of action if that happened was Prof. James Graaskamp, Chairman of the Department of Real Estate and

• *WALL STREETS insider deals enriched crooks like Ivan Boesky, right. But their fortunes were small beer compared with the money milked from real estate, according to one authority. IAN BARRON reports from Washington*

Urban Land Economics at the University of Wisconsin.

Speaking last February in support of Federal action, he declared: "Some professional real estate associations control State legislative committees and generally have great influence in the Office of the Governor of each State, so that if they are unable to frustrate HR 3675 by crippling amendments or outright defeat, they will dilute and delay State legislation necessary to put permanent certification



and enforcement into operation at the State level.

"If it were possible to retrace the source and application of all mortgage funds that have gone awry, that brokerage commissions, lender fees, developer profits and leasing commissions, and other profit centres would represent the \$25-50 bn that will be funded eventually by the Federal Government agency insuring the lending institution.

"No wonder so many sectors of the real estate agency fear rigorous appraisals and objective market studies as a test of any transaction.

"The sanctimonious defenders of American tradition argue that lawyers, doctors and accountants are not regulated by the Federal Government, but then those who are hurt by the negligence of lawyers, doctors and accountants can sue for damages, sue to withdraw their licences, and collect from insurance resources that do not include billions of federal dollars.

"Who does the depositor or the out-of-work employee of a bankrupt financial institution sue for damages done by an appraiser?

PACIFIC SAGAS

The following books on land tenure in the South Pacific have been published recently:

R.G. Crocombe (ed.) *Land Tenure in the Pacific*, University of the South Pacific, 1967 (a third completely revised and updated edition). 420 pages.

R.G. Crocombe (ed.) *Land Tenure in the Atolls*, University of the South Pacific, 1987, 246 pages.

Leonard Mason & Pat Hareniko, 1987. *In Search of a Home* (squatters and resettled communities in the Pacific Islands), University of the South Pacific, 260 pages.

Howard Van Trease 1987. *The Politics of Land in Vanuatu*, University of the South Pacific. 313 pages.

All are available from Institute of Pacific Studies, University of the South Pacific, Box 1168, SUVA, FIJI Is.

DICERY!!

HE CALLS it the Macro-cube Desktop Computer. In his advertisements, he describes the computer as "Simple to operate", which has got to be true; it's a set of dice!

McCloud B. Hodges Jr. just could not resist the spoof on his fellow appraisers. He adopted computerised after-tax flow valuations of real estate back in 1969, but many other appraisers stuck with old-fashioned methods.

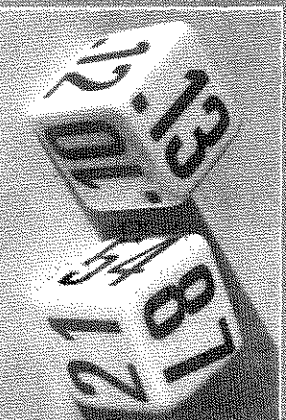
"By focus pocus they take the capitalisation rates of five comparable buildings - calculated by dividing net income by the sales price - and decide that the property they are appraising is worth a certain capitalisation rate. I say their judgements are worth no more than throwing the dice."

To prove his point, he ordered 1,000 sets of dice with numbers on them that would produce a range of capitalisation rates. He marketed them under the guise of *Prefermuesse Philanthropies*, and appraisers were invited to send \$9.95 to a Post Office box in his home town of McLean, Virginia.

"Just toss your O.A.R. DICE. You can find 36 different O.A.R.s. 0.904 to 1.487, a magnificent range! Your clients/taxpayers/politicians will be amazed. Some will be pleased," trumpeted the advertisement. He sold 600 sets!

The spoof is intended to highlight one of Mr Hodges'

Then You
Need These
O.A.R. Dice
Exceed all D.O.E.
energy saving
standards for
1988.



MACRO-CUBE
DESKTOP
COMPUTER
SHOWN IN
ACTUAL SIZE
SIMPLE TO
OPERATE

* Part of the advertising spiel that led to 600 sales

serious aims in life: he wants appraisers to be regulated by law. Fewer professional organisations, he says, would make it possible to raise standards and effectively discipline the crooked appraisers who bend the numbers to suit their clients.

He recalls that, when the Virginia State legislature considered a Bill that would license appraisers, "25 to 30 people - brokers, realtors, appraisers - were waiting to get in to speak against the Bill."

"Brokers don't have to have any professional training in valuation before they start working as appraisers. You can learn valuation out of a book."

Mr Hodges is now waiting to hear the outcome of Congressional attempts at intro-

ducing Federal regulations. If these are withdrawn in favour of State legislative action, he will throw his weight behind attempts to pass a Bill to regulate appraisers in Virginia.

For then it would be possible to raise standards, says Mr Hodges. His computerised approach to calculating property values "leaves less scope for corruption. It makes it much more difficult to cheat, because the client, the user of the appraisal report, can look at each input and say 'This is wrong'."

Meanwhile, any building appraiser who wants to save himself a lot of mental effort should send \$9.95 to *Prefermuesse Philanthropies*. He will receive a Macro-cube Desktop Computer, which certainly takes the pain out of appraisals!

How often does an appraisal organisation successfully remove the designation of its own member? Who but the Federal Government provides significant insurance for the damages of malpractice by the loan officer and his implicit conspiracy with the borrower and the appraiser?

"The conventional wisdom is that economic progress requires risk taking. The real estate

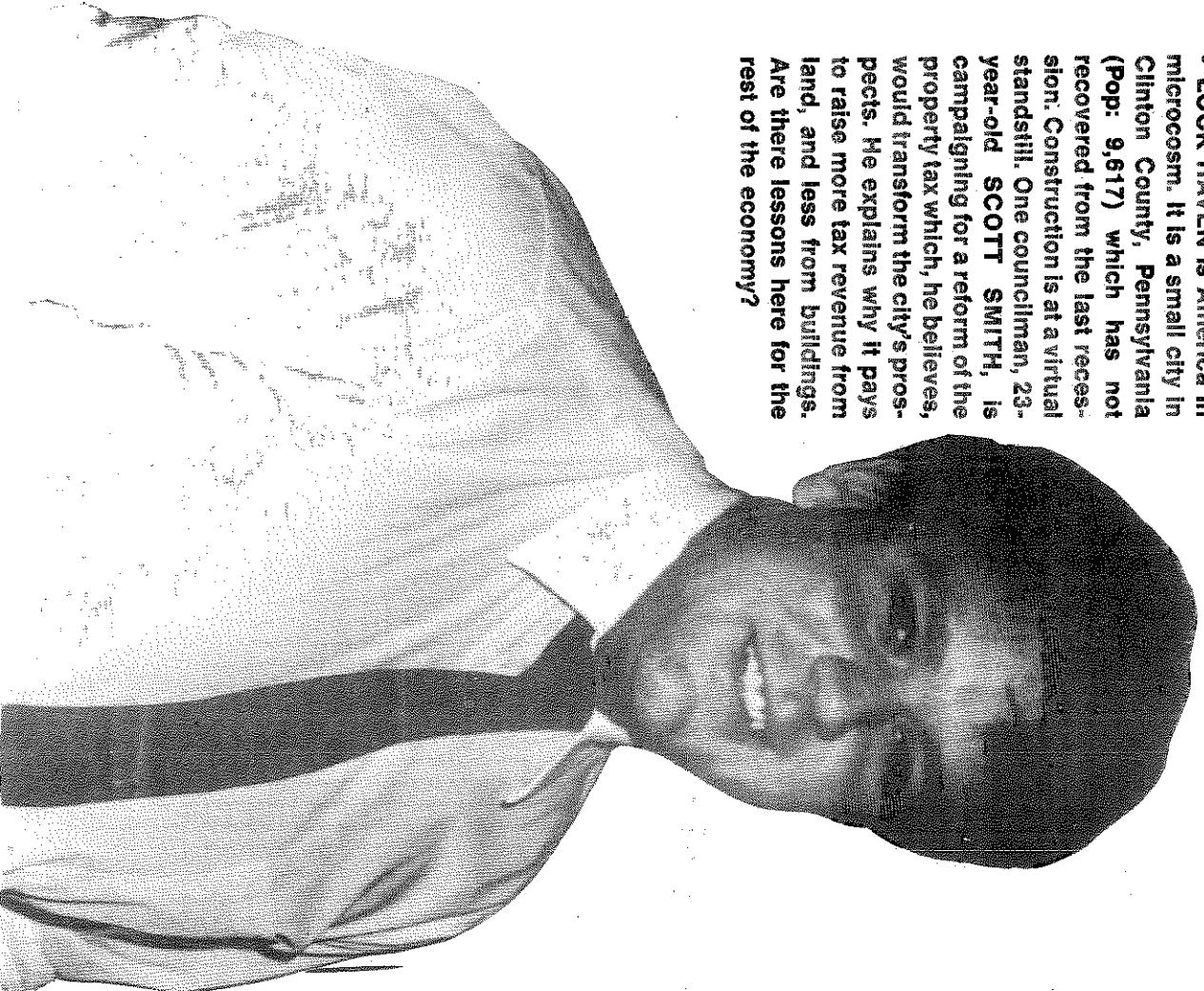
industry lenders want Congress to take all the risks. At the moment the Federal Government lacks the laws and administrative powers to punish even the most fraudulent judgments by loan officers, appraisers and borrowers.

"Another conventional wisdom of American business culture is that those who pay the piper get to call the tune. In real estate mortgage lending, con-

gress and the taxpayers are expected to pay the piper. Therefore, the taxpayer has every right to require real estate appraisal reform by HR 3675.

"The citizen has every right to impose banking rules which promote efficient allocation of scarce capital, which provide safety incentives for savers, and which prevent insider profits more blatant than those in the stock market."

• **LOCK HAVEN** is America in microcosm. It is a small city in Clinton County, Pennsylvania (Pop: 9,617) which has not recovered from the last recession. Construction is at a virtual standstill. One councilman, 23-year-old **SCOTT SMITH**, is campaigning for a reform of the property tax which, he believes, would transform the city's prospects. He explains why it pays to raise more tax revenue from land, and less from buildings. Are there lessons here for the rest of the economy?



Lock or a

BID FOR

OUR CITY is in serious economic trouble. Local politicians have very few tools to effect basic changes in their communities. Besides grants and loans, the tax system is the only effective tool that we can utilize.

The city council has the ability to effect basic variations on the property tax which is currently used, and the tax that levies a higher tax on land than on buildings.

The two-rate tax encourages developers to lower the tax on buildings, and to raise the tax on vacant lots by raising the tax on buildings. Under the present system, vacant lots pay 7.8% of the assessed value of all land (Table I), but contribute just 1.3% of the revenue (Table II).

The flat-rate property tax has been in use for years, and that seems to be the way for keeping it around. It makes no sense, in economic sense, and is particularly so for cities that are in the midst of decline. It is common sense that the tax on buildings, the less constant, will have.

The flat-rate property tax of 7.8% makes it possible for people to hold land out of use for years.

When I analysed the tax records, I found a disturbing anomaly. At 15 cents per buildable vacant lot were assessed half the value of the developed lots. This means that the owners of vacant lots are being subsidized by those who use the land.

In the first ward, which is primarily commercial, vacant lots make up 7.8% of the assessed value but pay 0.7% of the tax revenue. In the third ward, which is mainly

Table I ASSESSED PROPERTY VALUES, Lock Haven (PA)

	Land	%	Buildings	%
	\$ (m)		\$ (m)	
Residential	4.71	54.6	31.3	64.5
Commercial	3.24	37.6	17.1	35.2
Vacant lots	0.67	7.8		
	8.63	100.0	48.4	100.0

Table II PROPERTY TAXES paid in Lock Haven, 1986

	\$	%
Residential	242,023	60.6
Commercial	152,188	38.1
Vacant lots	5,012	1.3
	399,325	100.0

Table III THE TAX BURDEN: \$

	Single rate Tax
Land	60,454
Buildings	338,879
	Two-rate Tax
Land	229,728
Buildings	169,435

Table IV BUILDABLE VACANT LOTS

Ward No.	Square Footage	%
First	601,740	23.8
Second	89,009	3.5
Third	742,582	29.4
Fourth	344,821	13.7
Fifth	746,503	29.6
Redevelopment	440,362	-
	2,995,017	100.0

Haven — Hope City welfare backwater?

TWO-RATE TAX

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vacant lots make up 10.5% of land values but pay just 1.7% of the property tax.

The fifth ward, having the lowest total land values and the highest percentage of vacant lots, pays the lowest amount of property tax. The entire ward pays \$42,669 in property taxes. Residential properties pay 83% of that total, and commercial properties pay about 14%. Vacant lots, which account for 20% of all land values, pay 2.6% of the tax bill.

WHAT would happen if the city's land were assessed at the same level as other properties? The owners of buildings could have a tax reduction of over \$3,150.

If the city were to adopt a two-rate property tax of 3.5 mills on buildings — cutting the rate in half, to encourage construction — it would have to raise the rate on land to 26.6 mills to maintain the current level of revenue. The redistribution of the burden would be as shown in Table III. In that case, the net reduction on the owners of buildings would be over \$11,000.

Property owners who have buildings, either homes or factories or stores, are subsidizing the owners of vacant land to the tune of \$11,000.

If Lock Haven wanted to have no tax on buildings, the millage on the land would have to be raised to 46.2 mills, which would generate about \$400,000, or what the city currently receives. The two-rate property tax would provide a variety of benefits.

- Encourage construction and the rehabilitation of the city. The cost of building a house or factory would decrease.
- Over 80% of homeowners would receive a

cut in their property tax, which is a reward for investing in the city.

- The vacant Piper factory would be more attractive to entrepreneurs, because the property tax would be cut by one-third which is worth over \$10,000. This complex could be the key to the economic future of Lock Haven, and the tax cut would certainly make it more attractive to a potential buyer.

- The two-rate tax presents a mixed picture for the business community. Many businesses would save money, and many would pay more. But remember that all property owners can take advantage of the benefits of the two-rate tax. Incentive taxation benefits the owners who invest in buildings, and penalizes those who choose to use land poorly. In our business district, many of the upper floors of shops are under-used: if they were occupied by professional people like doctors and dentists, the opposition to the two-rate tax from retailers would be diminished.

- Pressure would be applied to the owners of vacant land to use their sites to capacity.

THE TWO-RATE property tax is an idea whose time has come for Lock Haven. It has a rock solid record of increasing construction in cities around the world, and in the Pennsylvania cities like Pittsburgh, Harrisburg, Scranton, New Castle, Washington and McKeesport.

Lock Haven is slowly losing all private investment and is quickly turning into a long-term welfare city whose sole existence is dependent upon state and Federal grants.

A two-rate property tax would not be the sole answer to Lock Haven's economic problems, but it would play a key part in an economic development strategy.

- When Mr Smith's proposal to reform the property tax was put to the council, it was defeated 3-4. The vote followed what he calls "misinformation through the local newspaper, which printed a list of people who would pay more; there was no information about the 80% who would pay less in taxes." He promises to continue the campaign for a cut in the tax on capital improvements on land.

Answer to

prayers of homeless

NO MATTER how much money and well-meaning effort is directed at solving "the housing problem," ultimately there is no way of realising the ambition of a decent home for every household in Britain. This is because a structural defect in the economy guarantees the perpetuation of slums and homelessness.

Why, after 200 years of industrial production, in which we have learnt to manufacture as much wealth as we want, have we failed to keep up with the demand for housing? The answer is simple. No matter what the level of *need*, and no matter how successful we may be in raising living standards for some people, an intrinsic fault in the system periodically creates bottlenecks which choke off the efforts of the construction industry to supply affordable homes.

The irrational aspects of the housing market identifies the points of friction which lead us to a practical solution.

- Hundreds of thousands of houses stand empty while people beg for shelter. This paradox is clearly at variance with all that we are taught about the rationality of the marketplace. How can the owners of those houses afford *not* to earn an income from them? Put another way: why don't they have an incentive to sell the houses if they don't want to occupy or rent them?

- Periodically, the nation is assailed by speculative fever. People treat their homes as assets on which to make unearned profits. This would not be a problem if speculation generated the results described by economists, who argue that speculation ultimately encourages an increased supply of the article in question, and so reduces prices. The reverse happens in the housing market: speculation encourages a reduction in the supply and forces up prices.

So the construction of housing, instead of being a smooth process responding to the needs of a growing population, becomes cyclical. Cycles terminate in slumps and Britain is now heading for such a dark chasm.

The major cause of the con-

struction bottleneck is the land market, which is the start and the finish of the problem. It must be so, for there is no shortage of demand for housing: no technological obstacle to constructing enough buildings to meet everyone's needs; no shortage of a willingness to build new homes; no shortage of space on which to locate those structures.

Yet hundreds of thousands of families are condemned to waste away their lives in environmentally impoverished surroundings, simply because we have failed to neutralise the monopolistic characteristics of the land market.

Land is in fixed supply. As prices rise, so there is a powerful tendency to further restrict its supply – the better to push up prices even higher! Result: builders realise that prospective homeowners, on current wages, could not afford the prices which would have to be charged, taking into account the phenomenal increase in the price of land (in the South-East, today, an acre with planning permission is running at £1m).

Two things happen. Mass builders try to compensate for the price of land by opting for even higher-density construc-

tion, and paring down the quality of their houses.

As a result, fewer people can afford to buy or rent homes. A larger proportion of disposable income is used to pay the rent or the mortgage (which means that fewer consumer goods are bought – think about the knock-on effects for the manufacturing sector and the employment prospects of workers).

Eventually, as builders use up their land banks – and currently they hold stocks that will last them for another 20 months – they discover that it is impossible to get the raw land that they need, so they go out of business. All this helps to push the economy into a tailspin....

Based on our study of the cycles in land values we predict that the output of new homes will peak in 1990, even though hundreds of thousands of people would like to quit their slum-like quarters in favour of decent accommodation. The housing cycle is a leading indicator of what looms for the rest of the economy. About 18 months after the peak in housing construction, the economy goes into a recession. If history repeats itself – and our studies tell us that it will – the current cycle in land values will terminate in 1990,

WASTELAND WOES

THE Civic Trust last reported on urban dereliction in 1977. Today they alert Britain to the problem yet again with a hard hitting and well researched report: *Urban Waste Now*.*

Stephen Joseph, the author, sets out why and how wasteland is a problem what action has taken place over the past ten years, and what should be tackled now.

There is still much to do despite some grant aid to urban development corporations, garden festivals and local activity.

All over Britain, the report says, land is going to waste, lying idle, unused and derelict.

With the help of on-the-

ground evidence from many local amenity societies and other environmental groups the report illustrates the problems of prolonged vacancy, associated with dereliction, danger and decay, a scarce resource wasted while greenfield sites are being put under pressure.

The report reveals that 62% of the surveyed sites were privately owned or small, often being held out of use in the hope of gaining planning permission.

Just how much of Britain is lying wasted can only be estimated, but powerful pressures - from housebuilders, high-tech industries and major retailers - tend to push

development sites rather than towards urban wasteland.

The Civic Trust calls for improved information on the nature and scale of the problem. Local planning authorities, for example, should be required to prepare and publish regular land audits of all vacant, unused and derelict land, both public and private, in their areas.

The government's register of publicly owned surplus land should drop the

minimum size criteria of 0.4 ha (1 acre) and the public's right to request that sites be included in the register, and disposed of, should be given full publicity.

A full public register of all land titles should be prepared, embracing ownership, date of purchase and price. The impressive list of suggested solutions includes tax incentives.

The Civic Trust is an independent agency promoting higher standards and management in the environment. It is to be congratulated on this excellent report.

JULIA BASTIAN

followed by a depression in 1992.

With the best will in the world, there is no way - under present conditions - that we can finally consign the housing problem to the dustbin of history. Ask the Japanese: their trading surplus has attracted tens of billions of dollars in extra disposable cash. Far from being a blessing - enabling hard-working, thrifty workers to acquire decent homes - the money has been a curse. It has been sumped off by the land market, so that workers are even worse off. Japan now has the highest land prices - and some of the worst housing - in the world.

In Britain, successive Labour Governments tried their best to deal with the land problem by taxing capital gains, acquiring development rights, regulating the market. The owners of land merely sat tight and awaited better political climes.

There is one solution only: a high, annual tax on the current market value of all land, irres-

pective of whether it is being used or not.

If landowners had to pay a tax on the unimproved rental value of their sites they would not leave houses standing empty for years on end while desperate parents prayed for roofs over their children's heads.

If the tax was high enough, the incentive to speculate would be diminished if not wiped out: so owners would not withhold their sites from the market even while builders struggled to make their prices match the pockets of their prospective customers.

This is the only way to destroy the monopoly power of the land market. Empirical studies, based on an examination of those cities that levy heavier taxes on site values than on the value of buildings - eight cities in Pennsylvania, most towns in Australia - confirm our predictions. Idle urban land is brought back into use. This restricts sprawl, conserves the green belts and reduces those wasteful costs of infrastructure that are

associated with leapfrogging developments.

It is too late to do anything about the current business cycle. Through its impact on the supply and price of houses, the land market has already begun to distort the labour market, force people heavily into debt and persuade Nigel Lawson, the Chancellor of the Exchequer, to raise the cost of borrowing money (which inhibits entrepreneurs from investing in new capital and creating new jobs).

Today, 70% of house builders say that the supply and price of land is the major constraint on their ability to produce new houses. The price of land is heading towards the heights that were last seen in 1972/3 and 1979, when prices peaked just before the recessions of 1974 and 1980. The government, by abolishing the residential property tax, has added to the momentum: land prices will receive an extra fillip at the turn of the decade, and place Britain on course for the Crash of '92.

THE CORE of Raymond Crotty's book is a story well known in Ireland but largely unfamiliar elsewhere.

In 1986 the governments of countries in the European Community decided to press for further unification. To make these proposals effective, domestic legislation was required from the various member-states. The politicians agreed that this legislation should be submitted to their respective Parliaments and passed into law by the end of the year.

In the Republic of Ireland, the Bill proposed for that purpose was duly submitted to the Oireachtas by the governing coalition, which was dominated by Fine Gael, Fianna Fail, the principal opposition party, did not like the Bill much, and could probably have thrown it out; but that would have precipitated a General

Election, which FF did not want.

So they did not challenge a division on the Bill, which duly passed the Oireachtas.

To complete its passage, however, ratification by the President was necessary. For constitutional reasons, the President could not sign the Bill before 23 December, but was required either to sign it by Christmas Day or else to refer it to the Supreme Court.

RAYMOND Crotty is a private citizen, not a politician. He considered that the Bill was not merely ill-advised but unconstitutional, and sought to have it referred to the Supreme Court. As the President of the Republic was manifestly unlikely to do anything of the kind on his own initiative, Mr Crotty and his friends sought legal advice. In the end, proceedings were brought before a Judge on Christmas Eve. These resulted in an interlocutory injunction against the President signing the Bill. Thus ratification could not take place by the date proposed.

The question now was whether the injunction could be made permanent. The matter was referred to the Divisional Court in February 1987, and the injunction was discharged. The one remaining hope was to appeal to the Supreme Court. An appeal was lodged, the Supreme Court granted a stay on dismissal of the injunction; but the objectors were only given a very short time to prepare their case. In the end the Supreme Court decided, by 3 votes to 2, that the

BY ROY DOUGLAS

injunction should be restored. The objectors had won.

Yes, the objectors had won the battle, but not the war. In the meantime, there had been a change of government in the Republic, Fianna Fail was in office, and Charles Haughey was Taoiseach.

The only way in which the constitutional position could be altered was by a Referendum. So the FF government ordered a Referendum. All the big guns in Irish politics, and the bulk of the media, were brought to bear for the change. A substantial majority of the electors did not vote. Of those who did about 70% acted as their disparate advisors recommended.

Poor Mr Crotty, whose courage and initiative had played such a large part in not merely holding up the proposals but showing that their supporters were violating the Constitution, still awaits his ruinous bill.

That is the central theme of the book, and it is well told. But it is not the whole of the book, nor even the bulk of it. A large part is an account of Mr Crotty's own life and thoughts. There are many flashes of inspiration and important, but unfamiliar, ideas. That part of the book is highly discursive, and does not tie up very closely with the Irish constitutional story. Yet the thoughts which the reader will take away may influence his own ideas

United defeat

in many ways. Here are three examples:

- "There was much in common between the failure of the Irish to secure a livelihood in Ireland and the widespread, growing and worsening poverty of the Third World. Fewer people get a livelihood in Ireland now than at any time in the past 250 years. More people in the Third World now experience worse poverty than ever before."

- "Every country that had not been capitalist colonized develops, regardless of whether it is market oriented (USA) or centrally planned (USSR); Western (Germany) or Eastern (Japan); large (Canada) or small (Singapore). Every one of the 140 or so former capitalist colonies, containing in all some two billion (sic) people, underdevelops, although some of these – those in Latin America – have been independent for a century longer than Ireland, and some of them are centrally planned (India and Tanzania) while others are market oriented (Kenya and Indonesia)."

- "It costs an employer in Ireland now £4.08 to place an additional £1 net of PAYE and PRSI deductions in an employee's pocket. Of that residual £1, the state takes another 15p in VAT. Thus to enable a worker to buy goods and services for which producers receive 85p, an employer.... must pay the worker almost five times as much."

Important ideas, each deserving a book of its own.

Philadelphia's two-rate tax battle takes an equestrian turn

SADDLE-WISE



• *COMMITTED: George Collins, left, James Tayoun, Dan Sullivan, Jacob Himmelstein, Steve Cord*

By PETER POOLE

SEND me back my Four Horsemen, was the appeal from campaigning councilman James Tayoun when he launched a new bid to reform the property tax in Philadelphia.

The Pennsylvania city turned down a two-rate tax earlier this year, which would have reduced the tax burden on many owners of developed properties (see *Land & Liberty*, Sept-Oct, 1988, p.68).

Mr. Tayoun, a restaurant owner who is determined to keep the initiative, now wants to educate his fellow councilmen on the virtues of placing a higher tax rate on land values.

Addressing the Council of Georgist Organisations at Atlanta, Georgia, on July 29, he declared: "We are in economic chaos. We have a shortfall in the budget, which must finally be balanced. We will have to go back next year with another tax increase, and the year after that.

"Over the last seven years, property tax assessments were increased to the point that people who were paying \$400 for a small house in a dingy street are now paying \$800-1,200. These were hidden taxes paid each year."

Mr. Tayoun informed the Mayor, W. Wilson Goode, that he was going to the Atlanta conference to lay his plans for a new campaign on the two-rate tax, and told him: "I am going to tell them that you are definitely

committed to this, and he said 'I am'." Said Mr. Tayoun: "I honestly think we can do the job. We have got the information to sell the policy."

When the policy was debated earlier this year, Mr. Tayoun received the support of four tax reformers: George Collins, Director of the city's Henry George School, accountant Jacob Himmelstein, Steve Cord, Director of the Center for the Study of Economics, and Dan Sullivan.

"Give me my Four Horsemen," appealed Mr. Tayoun. "Give them the money to work with, and our first battle will be to get the school district squarely behind the two-rate tax. That would pick up four councilmen.

"We can take this city. You would not only be taking the city of the first class, you would be taking the entire state of Pennsylvania, because once Philadelphia goes the state goes.

"But I need my Four Horsemen. I don't want to go on radio and television shows, so I need their help. And we have got to stop the broad-brush smears against the land value tax.

"I want the Bill passed by the council before we get into serious discussions about the budget in January. I have no fear we can make it go."

• *After the conference, Mr. Tayoun swung into action. The Bill to establish a two-rate tax which reduced the burden on buildings came before the council on October 15 as part of a 5-year financial plan for the city.*

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fiicult for first-time buyers to get a toe-hold in the property market. "We have already experienced a decline in home ownership among American families," Mr. Riordan points out, "particularly in the prime home buying group of 25 to 34 years old."

In the 1970s, fraudulent appraisals were disguised by

the high rate of inflation.

If borrowers could not meet monthly payments, they could sell their homes at a profit and pay off the loan without suffering foreclosure. This was one

reason why the climate of speculation in residential properties flourished: people "traded up" to higher-priced houses, all the time struggling to pay their mortgages which rep-

resented a growing proportion of their incomes. The struggle paid off: the investment return on their homes was enormous.

That stack of cards tumbled with the deflationary period heralded by Ronald Reagan. This gave rise to a phenomenon that has frightened the lending institutions: people literally walking away from their homes.

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PROPERTY sales on Britain's off-shore tax havens have slumped since the Thatcher government reduced the top income tax rate to 40%.

Guernsey is an island close to the French coast, which like neighbouring Jersey has relied heavily on tax exiles for its prosperity as a financial centre.

In the past, the demand for homes pushed up house prices. So to protect locally-born people a two-tier system was created, in which foreigners were excluded from occupying part of the housing stock.

Since Chancellor Nigel Lawson's last tax-cutting budget the sale of the Open Market homes - those available to non-islanders - has slumped. Estate agents report that houses in the mid-range of £300,000-450,000 are "very difficult to push".

In June 1987, 22 Open Market homes were sold - almost half the total for the first six months of this year. Between January

TAX HAVEN IN A SLUMP

PAUL KNIGHT reports from Guernsey, the 24-square mile island (pop: 58,000) which until this year has been a haven for tax avoiders.

and July this year sales amounted to £15.5m, compared with £20.6m over the same period in 1987.

This supports the claim by Norman Lamont, Financial Secretary to the British Treasury, that a tax rate of over 50% has the

disincentive effect of encouraging people to "shelter their income".

In the past, the tax shelter has enriched Guernsey landowners who sold properties to mainlanders seeking a haven for their money. But the favourable tax regime under Premier Margaret Thatcher has persuaded some rich people to remain in their mainland homes!

FACT: *Guernsey's income tax rate is 20%. There is no Capital Gains Tax, Inheritance Tax, Corporation Tax or Value Added Tax.*

FACT: *Guernsey's property tax rates have not been increased since 1948. An average Open Market house worth £250,000 (\$437,000) is liable for a property tax of £175 (\$300) per annum.*

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Explained Mr H.L. Van Varick, Executive Vice President of American Savings Bank of New York:

"This often happened when a homeowner saw a neighbour's house selling for less than the outstanding principal balance on his own house, so the sac-

RISK-FREE JACKPOTS

TROUBLED savings and loans associations have become the only gamble in town where the odds are stacked in favour of the punters.

Because of Federal insurance - depositors are covered for every cent up to \$100,000 they invest in S&Ls and commercial banks - a crisis-torn institution is forced into a situation where shrewd insiders can spot a risk-free chance to make money. This is how it works.

A weakened S&L is forced to pay above market rates to attract the deposits it needs to

keep going. Because it particularly needs long term money, it offers premium rates for deposits of a year or more.

Two Californian S&Ls recently offered 1.5% more than their rivals, which then drove up the rates throughout the local deposit market.

Money brokers spot these opportunities, and invest sums of around \$90,000 a time for clients. But that is only the half of it.

The brokers buy long term deposits carrying the premium rate in the

hope that the S&L will go bust before the deposit matures. Since the Federal taxpayer covers the principal and accrued interest - and the money is paid out - so the depositor enjoys the long-term rate of interest and receives his money back early.

It's a game in which money is paid to depositors to cover their risks - yet there are no risks!

• The two California S&Ls depositors received \$1.35 bn (£750m) after Federal regulations closed them down in June.

trifle of making monthly payments appeared to be too great."

A row is now on in Washington, DC, over who pays - and how. Danny Wall, chairman of the FHLB Board, asked the House of Representatives to pass a resolution which would give the FSLIC the power to raise money through the issue of loan notes.

The notes, which have been issued to raise money to bail out the foundering S&Ls, have not been well received by the financial institutions because of the lingering doubts about FSLIC's own long-term solvency. Some Federal Home Loan Banks - the lenders of last resort to the S&Ls - have refused to accept FSLIC notes as collateral for cash advances.

The politicians are split on what to do. The Reagan Administration regards the

IN THE United States a large number of people do not enjoy rights of citizenship, because the laws infringe true political liberty and eliminates the potential for widespread economic well being.

Constitutional and legislative law suppresses the most fundamental birthright we have as human beings, that of equal access to nature.^[1] *This has been accomplished by force and fraud, in total disregard for moral constraints.*

Claims to exclusive ownership of nature cannot be justified when we as individuals are beneficiaries of a bounty we had no part in producing. Even the value-free analyses of the economist recognizes that nature has a zero production cost, its economic price having nothing to do with the expenditure of human labour. And yet, the law sustains claims to nature, in effect allowing title holders to extract wealth from others in return for access.^[2]

Political power thus possessed translates into economic power, and through some convoluted logic, titles to nature are grouped with the fruits of productive labour as "private property". The end result is a society in which citizenship based on equality of opportunity is impossible and the creation of a large, impoverished class of people is inevitable.

France in the 18th century, Ireland in the 19th and

REFERENCE POINTS

1. *L. A May 1983 report by TOWN & COUNTRY (p.176) indicates: "About 3 percent of the population, or 7 to 8 million people, own 55 percent of the total land, and a full 95 percent of the 1.3 billion acres of privately owned land in this country. "Our reaction to similar statistics in "third world" societies is to call for land reform, while most of us are unable to see any connection between the concentrated control over nature and the large numbers of unemployed in the industrially-advanced countries.*
2. *The cost of acquisition of territory has come with a tremendous cost in human lives and the destruction of produced property. History is a story of land grabbing through three primary means - force, fraud and theft. By*
3. *what right did the monarches of Spain, France or England issue grants of land occupied for thousands of years by another race of people? The aboriginal tribes, for their part, had no concept of selling titles in the earth; theirs was a collective (if exclusive) form of control at least with equal access provided to all tribal members.*

The right of all people to share in the bounty of the earth is the basis for the so-called "Law of the Sea" developed to harvest the sea bottoms. The United States has thus far refused to sign the treaty because private interests are opposed to paying leasing fees to the United Nations (which would then be distributed internationally on the basis of population, according to one version of the treaty).

Stolen hearts

need repair

Russia in the 20th provide the historical experiences of upheaval against landed aristocracies. Marx himself finally recognized that landed monopoly power was at the root of monopoly capital; and, as one should expect, it was the landless peasantry of Russia - and not the worker proletariat - who brought Marxist-Leninism to that society.

Only when denied access to nature did the landless resort to labouring, if they could, for money wages - a narrowing of options that increased their vulnerability to the peaks and troughs of the new plague, "business cycles," as well as the oppression of "robber baron" greed.

FRAMING this issue in terms modern Americans can appreciate has been made very difficult because the concentrated control of nature has been fused with a similar degree of control over industry and finance. Despite this fact, the majority of Americans continue to believe there is plenty of opportunity for almost anyone to rise to the top. Those who have benefited do not understand what is, at bottom, the cause of their advantage.

The wealthy, even those who have struggled from poverty to get there, quickly forget their past and join those who herald the status quo. In fighting off attempts at reform, they have used wealth to gain political power and, when their interests are threatened, rally the population to support anti-democratic and anti-republican policies in both the domestic and international arenas.

Alongside "nationalism" we have as a consequence

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notes as "money-good". But senior Congressional politicians have strong reservations. One of them described support for the notes as issuing "the Federal Government's gold credit card".

Observers are beginning to

FACT: S&Ls, now down to 2,770, are the principal lenders in a home mortgage industry worth \$1.3 trillion (million million).

note that, in the face of a major economic crisis, the crooked deals in real estate could limit the scope for remedial action. For the constraints on action now not only include the Third World debt's impact on US banks, and the budget deficit on the Federal government, but also the huge amount of lenders' money tied up in the 511 insolvent S&Ls which are still trading and notching up new losses at

the rate of \$1 billion a month. Congress is reluctant to launch an industry-wide lifeboat operation, now, because of the costs involved. George Gould, the Treasury's Under-Secretary for Finance, says the Reagan Administration is "not in the mood for a budget-busting bail-out."

But the next president, Bush or Dukakis, will not be able to sidestep the financial timebomb.

experienced "nativism," "recism," "knee-jerk anti-communism," and, currently, "protectionism." For both the privileged and the politically powerful, the idea that the earth is the birthright of all mankind is an extremely dangerous one. If accepted, one must also conclude that the sovereign state itself has no moral basis for legitimacy.

In terms related to immigration policy, for example, justice requires that the very concept of immigration be discarded. All territorial movements by people must be recognized as mere migrations. Thus, any restrictions imposed (other than for health or safety reasons) infringe upon the fundamental right of access to nature.

Political citizenship under such circumstances is an empty promise. And compared to the injustice of denying each his birthright, all other obstacles to citizenship pale into insignificance.

Our economies have evolved through the use of force to institutionalize monopolistic and morally bankrupt claims to the earth's natural bounty. A good deal of political theory in support of this arrangement has been little more than a rationalization of privilege.

Justice requires that an equitable system be implemented to share out the value of nature.

Sovereign states must end privilege and protect the right of all people to freely interact. This would be achieved by using the competitive bidding processes of the market to determine which individuals are granted access. Governments would act as agents to collect the revenue for deposit into a global fund, earmarked for periodic, equal distribution to all. [3]

The present system penalizes people for being born to the wrong parents in the wrong places. This raises the parallel issue of our responsibilities toward one another in society, and in the larger community of mankind.

Here again, justice must be the objective. My actions must not infringe upon the liberty of others. Taking legitimately acquired property from others obviously exceeds the moral bounds of my liberty. And yet this moral prohibition is inconsistently reinforced by our laws.

Liberalism has, in fact, taken us beyond the primary role of government to prevent criminal infringements on liberty; the liberal agenda has included a wide range of policy initiatives that specifically create privilege by licensing what can be done and by whom.

It should be self-evident that such licenses are inherently monopolistic; and, as day follows night, command prices in the market place because of their monopolistic character. In the same fashion, titles to nature are inherently monopolistic and titleholders benefit in the same way. No individual can create these economic values; aggregate needs generate an economic price in licenses just as they do for nature.

We see this most clearly when artificial limits are placed on the number of licenses issued (as for taxi medallions or liquor stores), so that those who have political influence or, more rarely, get there first, secure a tremendous advantage in the marketplace — an advantage

the quality of their labour did nothing to create. If justice is to be served, then, my responsibility to others in society must be not to infringe upon their liberty and to compensate them for any privileges or licenses by which I benefit.

Extending these principles of citizenship to the family requires a gentle hand on the part of government, for the family is a less resilient microcosm of larger social, political and economic units. The state must take a very cautious approach in its intrusion on family life or risk further damaging a survival-directed equilibrium that injustice has already nearly destroyed.

The appropriate level of government responsibility is most difficult to establish where the interests of children (and other "incompetents") are involved. I would suggest that those unable to provide for themselves through no fault of their own must receive greater protection under law than is necessary for normal, healthy adults.

Acknowledging the need for a "normal" degree of disciplining of children by parents, for example, adults (and to a somewhat lesser extent, incompetents) must be held accountable for physical and mental abuse of others. In saying this, I also suggest that our experience demonstrates that centrally planned and administrative programs infringe on liberty.

A reasoned response is to establish a needs-based voucher system (funded by revenues from the above-mentioned "global fund" but carved out to the greatest extent possible by private agencies). In my view, this would be the most efficient and most equitable method of providing societal support to people in need.

WE ARE also struggling to deal with the problem of children having children. There has been almost no attempt made to reconcile teenage pregnancies with the moral, legal and financial responsibilities logically attached to fathering a child.

We are in the midst of a human tragedy, not only for the individuals directly involved but because our humanness is at risk. It has been our concern with the future, our attention to planning and our imagination of that which is beyond our grasp that contributed most to human progress.

Not only are fewer cultural and intellectual skills being passed to the newest generation, the sense of responsibility people have had toward one another through family association and the community is disappearing. The social costs associated with these and other financially-dictated changes in family life have not been fully assessed.

I see a strong connection between the rising incidence of crime, drug abuse, alcoholism, and violence and the concurrent breakdown of family and community. In terms of what can be done, we must concentrate on the structural injustice I have identified. The societally-produced value of nature must be collected and distributed in equal shares to each citizen (directly to competent, and in trust for incompetents).

This would provide considerable additional family income to help parents devote more time to the nurturing of family and participation in community, while eliminating the advantages long enjoyed by the privileged who have — by their control over nature — stolen the heart and soul of citizenship from most people.