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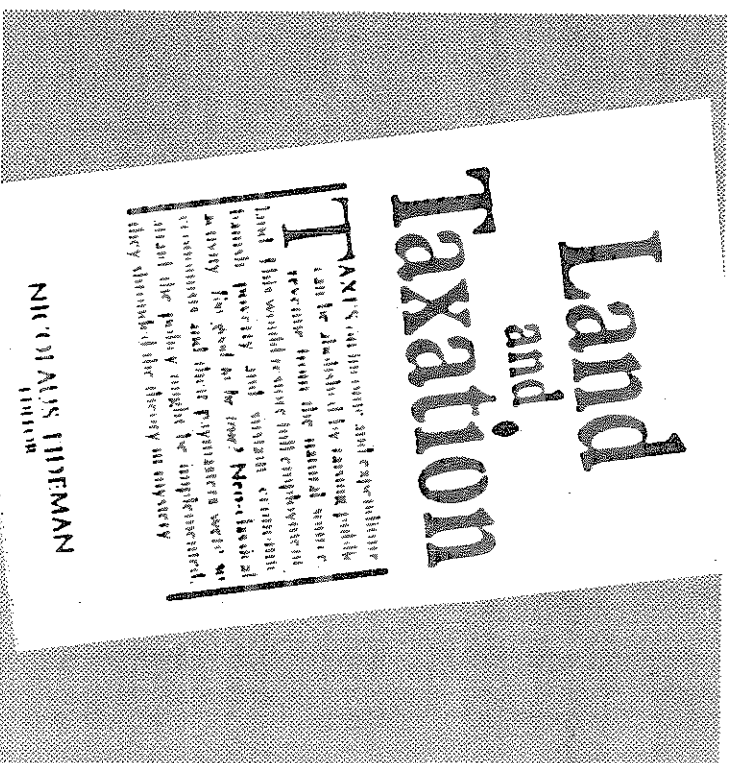
# LAND

## AND LIBERTY

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**ECONOMICS • POLITICS • PHILOSOPHY**

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**BOOKS: THE GEORGIST PARADIGM**

**ESSAY: THE ECONOMIC SECRET**

**POVERTY: DOES LAND MATTER?**

**POLITICS: WHAT ABOUT ETHICS?**

# LAND

## AND LIBERTY

Volume 101 No 1172

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### EDITORIAL

## QUEST FOR A QUIET REVOLUTION

THE BEST revolutions are the quiet ones. The ones that are not controversial, because they are correct; and are smoothly implemented, because no-one was coerced. *Land & Liberty* accepts the need for evolutionary change. But we must understand that the policies we advocate are revolutionary in character.

There is no reason to fear that revolution. For the transformation in the character of society that flows from what is called the Georgist philosophy would be determined by two constraints that are not negotiable: respect for the liberty of the individual and for the democratic process. Without that respect, it will not be possible to resolve the current social conflicts and achieve consensus in the community.

The values that underpin the Georgist prospectus are consistent with the traditions of nearly all the world religions and philosophies. The problem is that, in actuality, society is not governed by those values.

Our concept of revolution is conservative in character. It is achieved by osmosis rather than violence. Even so, the vision of the Georgist society will disturb people who think they will lose. But if sanity is to prevail, the

changes will occur; we must have faith in reason.

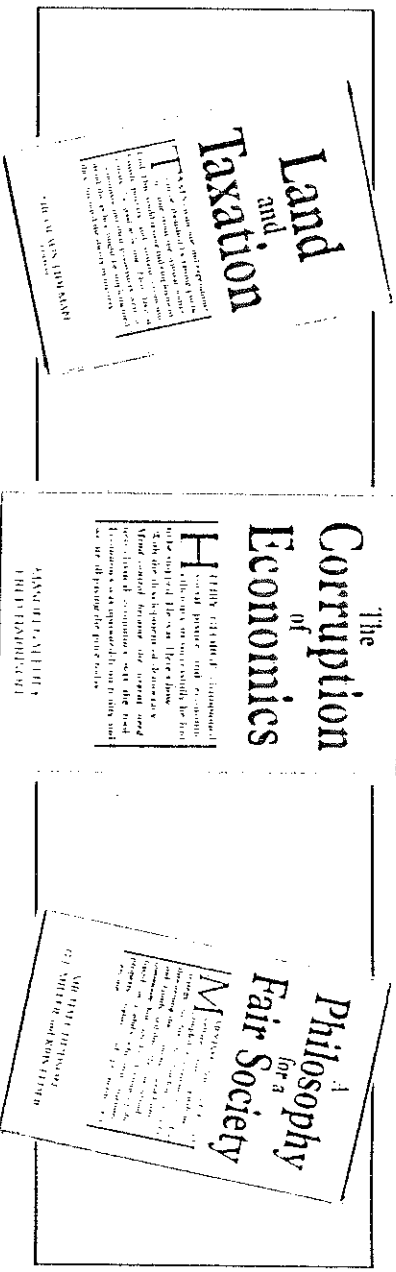
The miniscule practical expressions of The Good Society - as recognisable in Georgist terms - have surfaced over the past century. They have not, however, been associated with a vigorous public exposition of the Georgist philosophy along the lines that would herald a systemic change.

Reform of public finance - by socialising the rent of land - is the unique contribution to political ideology offered by the Georgist philosophy. Opponents of this philosophy have succeeded, however, by the simple device of dictating the terms of debate. Georgists fell into the trap, which is why they have failed to transform the small-scale experiments into socially significant changes in society.

Reason suggests that, out of sheer necessity, the right revolution will come one day. But can we afford to sit back and wait? Too many exponents of the Georgist ideology have chosen the route of inertia, these past 50 years. *Land & Liberty* hopes that the vision of Henry George will be more vigorously promoted over the next couple of decades, which may be all the time we have before another Dark Age.

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# Geopolitical Security Poses Ideological Dilemma for West

FOR social reformers who believe in the primacy of tax-and-tenure changes, the political significance of the global environmental movement must not be underestimated. Ecological awareness has compelled people to think about land - broadly defined by classical economists to include all the resources of nature.

Paradoxically - with a few exceptions-environment campaigns have failed to focus on the significance of tenurial laws and tax policies. Over the next few years, however, the ideological debate about property rights may surface via a new route.

The globalisation of the economy will intensify the despair of an increasing number of people, and the easy access to arms will multiply the local insurgencies. To contain these conflicts, the peace-keeping powers will be increasingly confronted by the institutional causes of discontent.

Haiti is a case in point. The US government is the peace keeper now that the authoritarian rulers have been ousted. But this has not satisfied the peasants, who want to reclaim their land. And that has placed US troops in the middle of an ideological dispute which creates problems for official policy in Washington.

Land reform is seen by the Aristide administration as the cornerstone of the strategy to raise living standards. But the US, while wanting peace on the island, is uncomfortable with the sight of peasants attacking landlords. Haitians are particularly worried by the rightward shift in policy in Washington, where Republicans now control Capitol Hill.

THE SUCCESS of the communists in the Nepal elections dramatises what could now happen on an increasing scale. As one of the ten poorest countries in the world (annual per capita

income: \$112), Nepal needs drastic action if the welfare of the citizens is to be improved.

A mandate for reform was handed to the United Marxist-Leninist (UML) communist party in the November elections, who have declared a determination to reform land ownership. The ceiling on holdings is to be lowered, with compensation promised for owners who are deprived of their land.

But this model - based on the redistribution of land - is one that has failed in those Third World countries that have tried it. The political will to experiment with new approaches is absent, because at the heart of the problem is the issue of who is to hold power. As Solon Barracough (retired director of the UN Research Institute for Social Development) put it:

"Land reform necessarily implies a change in power relations in favor of those who physically work the land at the expense of those who traditionally accumulate the wealth derived from it."\*

Rural uprisings have peppered the history of the Third World throughout this century, but no country has succeeded in developing a formula for bringing prosperity for everyone. "Such conflicts had been endemic in the past but rather easily repressed or resolved by ruling oligarchies with the support of the state," notes Barracough, who adds,

"...land reforms evolve according to complex political dynamics that are to a large extent unique for each time and place. Generalizations can be made, but they are necessarily so abstract that at best they only provide working hypotheses about some of the processes, social actors and institutions that should be examined in any particular situation. This may not be helpful for anyone seeking general 'laws of motion' governing social

change, but the real world is a messy place."

In fact, if you know what you are looking for - the fundamental source of the conflict - the picture is not quite so confusing; and nor are the practical solutions beyond definition.

THE landowning elites fight hard to obstruct those reforms that would actually succeed.

Solon Barracough, who has travelled extensively in the poor countries, acknowledges that "The need for massive and profound land reform remains throughout much of Latin America," but he adds:

"It is often as difficult politically to bring about improvements in rural services, working conditions, human rights, collective bargaining and progressive tax reforms as it is to redistribute rights to land".

There we have it. He reflects the general view that economic and social development is a many-stranded process, rather than a single evolutionary strategy that would emerge from the grassroots - if the correct conditions for liberation were introduced. Yet he admits that the present approach is flawed, for he notes: "There is little space in the neoliberal paradigm for popularly based development strategies promoted by states that are accountable to their peoples. So prospects for land reform look bleak."

So we find that the ultimate problem is an ideological one. If the so-called peace-keeping nations are to ease the burden on the poor - and on their own taxpayers, who fund the military.

\* Solon L. Barracough, "The Legacy of Latin American Land Reform", *NACLA Report on the Americas*, Nov/Dec 1994, p.17.

## Put Ethics Into Politics

THE ECONOMY used to be local, then regional. Now it is global. The economy used to be the means for putting food on the table; then the production of commercial goods. Now its defining characteristic appears to be a system to accommodate the politics of social destruction.

I am not talking about the environmentalists' complaint, that the industrial mode of production causes havoc with nature. Under present arrangements, it does. But there is an additional dimension that now poses the most serious threat to our civilisation: the arms trade.

Somewhere in the past the production of wealth was abandoned in favour of the production of destruction. A major slice of our productive capacity is now geared to the manufacture of weapons designed to destroy people and property. What makes this system so crazy is that apparently sane politicians rationalise it as necessary for the purpose of keeping people in jobs.

THE COLD WAR provided a kind of ferocious stability: enemies were too scared to Strike First, because the weapons of mutual destruction ensured that no-one won. Now, the eclipse of Soviet power means that, far from our being able to create a more humane civilisation, public policy is being driven by the balkanisation of global society.

The "world powers", instead of turning to a politics of decency, are resorting to the stepped-up production of weapons as a means of bringing "prosperity" to their citizens. But to achieve this, they have to export an increased volume of weapons to those nations that are so poor - or torn with internal political contradictions - that the prospect of bloody war offers relief.

Britain, for example, as the world's second largest suppliers of arms, measures its policies not in terms of ethics, but in pragmatic terms: 500,000 people are engaged in manufacturing weapons. The Major government - at a loss over economic policy - is stepping up its support for the production of sophisticated methods of killing people, because it does not know how to shift society in the direction of prosperity with peace.

The latest Defence White Paper offers this rationalisation: "Defence exports can reduce the cost of equipment by lengthening production runs and spreading overheads. They also help to maintain a competitive, high-technology, defence industrial and research and development base."

It's the same story in the United States. A cash-strapped military sector is searching for new markets. President Bill Clinton said on November 16 that he would launch an arms sales drive to support the ailing industry.

Until now, Washington insisted on blessing only those deals that served its foreign policy. No longer. Foreign arms dealers will be courted in the hope of offsetting the impact of the cutback in the Pentagon's procurement budget. Military contractors rely on foreign orders for a fifth of their business.

SO WHAT happened to ethics? There is no need for a conflict between ethics and the pursuit of profit. But for there to be an absence of conflict between these two depends on the nature of society.

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Since 1945, there have been two hundred wars, in which 22 million people have died. Many of the 42 million refugees in the world are victims of these conflicts

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- Michael Cranna (editor), *The True Cost of Conflict*, Earthscan, 1994

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The nature of our society is illustrated by what is now happening in Britain, for example, which has put together a £2 billion deal to sell arms to Indonesia, a country with an appalling record on human rights.

Can our ringing of the alarm bells be dismissed as millennial nonsense? Are we heading for a period of increased territorial conflict, as nations abandon the politics of consensus and substitute the threat of violence against their own populations? Will governments abandon diplomacy and use violence as the "cost-effective" way of dealing with cross-border issues?

I think not. Look at the problems posed by Russia. That giant of a country is suffering, and the pressures are building up to an ugly conflict. Ordinary Russian folk feel betrayed. They have lost their dignity: who wouldn't, feel let down, when the social system is so abruptly abandoned as wholly wrong? They could have expected sympathetic support from their erstwhile "enemies". Instead, they now see that the West is using them for experiments in "shock therapy", and to separate them from their relatives in neighbouring lands. So now we see the rise of a dangerous nationalism.

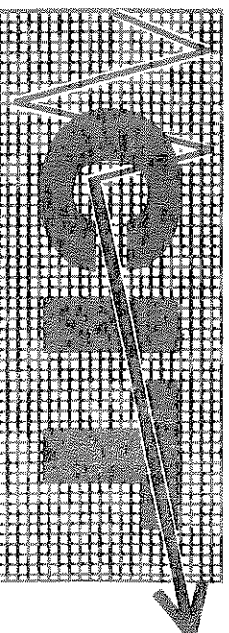
On top of that, there is no end in sight to the collapse of industrial output. So policy is shifting in favour of an increasing dependence on the military-industrial complex for jobs through the export of weapons.

Put all this together, and we have the complete abandonment of ethics from global politics. Might is right, and we know where that, in the past, has led the world.

HENRY WAINMANLEY

# ECONOMIC INTELLIGENCE

EI/44 December 1994



C E N T R E F O R I N C E N T I V E T A X A T I O N

## GOVERNMENT ABANDONS DIVIDEND PROBE

BRITISH chancellor Kenneth Clarke insisted in his budget speech on November 29 that he was creating the conditions for a culture of enterprise. But he did not tell the House of Commons that the government had abandoned its investigation into the payment of dividends by companies, to see if these were contributing to the short-termism that afflicts the UK economy.

A year ago, Treasury financial secretary Stephen Dorrell launched an inquiry into whether the tax system induced companies to pay too great a proportion of profits as dividends to shareholders.

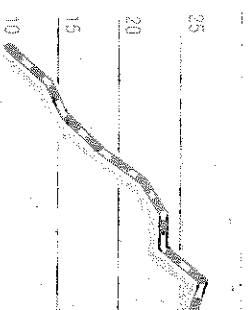
One of the long-standing criticisms of British industry is that high pay-outs compromised the investment needed to improve competitiveness and ensure sustainable growth. Investors, so critics claimed, were more interested in short-term profits than long-run productivity.

This appeared to be a legitimate concern for a government that claims to want to "manage" the economy - at least, in terms of helping to improve private sector entrepreneurship. But the dividends enquiry has been shelved after criticism from a captain of industry. And yet, evidence from a Leeds University enquiry has revealed that companies are under pressure to be over-generous with dividend payments - more so than their German and Japanese competitors. Two reasons are offered:

- Pension funds own about half of all UK shares. These investors are not risk-takers: they structure portfolios to suit the psychology of old age. The tax-exempt status of pension funds also provides an incentive for higher dividends. For or companies pay tax on behalf of pension funds, which then receive a tax credit for every £1 received in dividends, a fund receives an extra 25p from the taxman. The company participates in this rignarole because its pre-payment -

### Dividend payout

UK industrial and commercial companies  
Dividends as a proportion of profits



Source: Institute for Public Studies

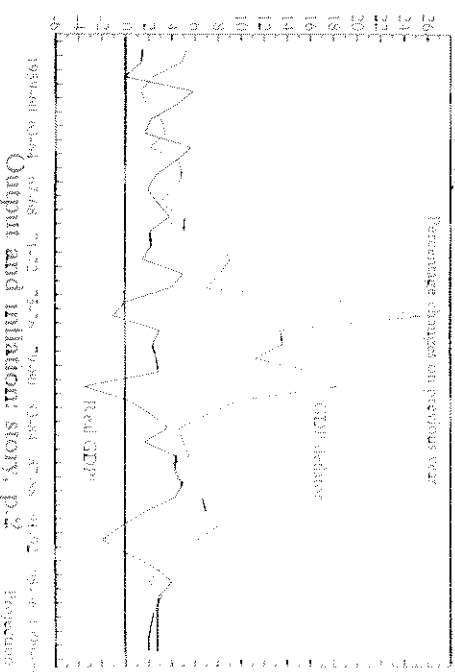
Advanced Corporation Tax - can be set against its tax bill, which is an encouragement to higher dividends.

- The second encouragement is a bureaucratic one not unrelated to the motives of pension funds.

Corporate managers pay high dividends - which raise stock market prices - as a defence against hostile takeovers, and thereby ensure a peaceful managerial lifestyle.

The overall result, then, is a sclerotic entrepreneurship in which the principles of safety-first reign supreme over the risk-taking hustlers who innovate and compete.

The impact of this business psychology is particularly damaging in the trough of a recession. For example, although profits rose by 6% in October, according to the Central Statistical Office there was a fall in investment in plant and machinery. This does nothing to suggest that Chancellor Clarke will achieve his aspiration: the re-creation of a thriving industrial base for Britain (see page 2).



Output and inflation: story, p. 2



**PREMIER** John Major hopes to win the election in 1996 on the back of cuts in income taxation, even though voters will still be paying a larger proportion of income to the government than they were 20 years ago. Next year the government will spend over 42% of national income.

Despite the tax burden, the Chancellor of the Exchequer expresses his fiscal policies as if he were Father Christmas. But the rhetoric from the Treasury is not matched by the facts in factory and field.

"Helping people back to work" is one headline-catching slogan. There will be a 0.6% cut in employers' national insurance contributions for employees earning less than £205 pounds a week. This miniscule change will not make the slightest difference to total labour costs. NIC is a £44.5 billion burden on employers. The cut is a "saving" of £250m!

"More family credit" - an extra £10 a week for people working over 30 hours - is presented as a generous gift. The money will barely buy a fish-and-chip meal for a family of four.

The threshold for VAT registration is raised by £1,000 - as if that will make a difference to small businessmen worrying about the state of their order books.

At the same time, increases in spending are presented as victories. Farming under the Common Agricultural Policy is to benefit by an extra £2.910m. The Minister of Agriculture omits to point out that the main beneficiaries are the owners whose acres are increased in value, while pushing up the price of food for families who, at the lower end of the income scales, struggle to make ends meet.

ORWELLIAN language is used by Treasury speech writers to reassure people that their political chief has the country's interests at heart. The Chancellor identified three priorities:

First: "to keep the economy on track to achieve the great prize of sustainable growth". That prize is

## ORWELL DOUBLE-SPEAK TO DISTRACT US FROM OUR WOES

beyond the reach of present policies.

Second: "use this recovery wisely, to encourage the creation of more jobs". In between budgets the Tory government attacks its Labour opposition on the grounds that governments do not create jobs!

Third: "strengthen the economy in the longer term" - a repetition of the first priority. This does not deter Treasury mandarins from claiming that they are aiming for "a modern economy in which the growth of enterprising companies will give people a greater sense of confidence in the flow of new jobs". That confidence has now evaporated.

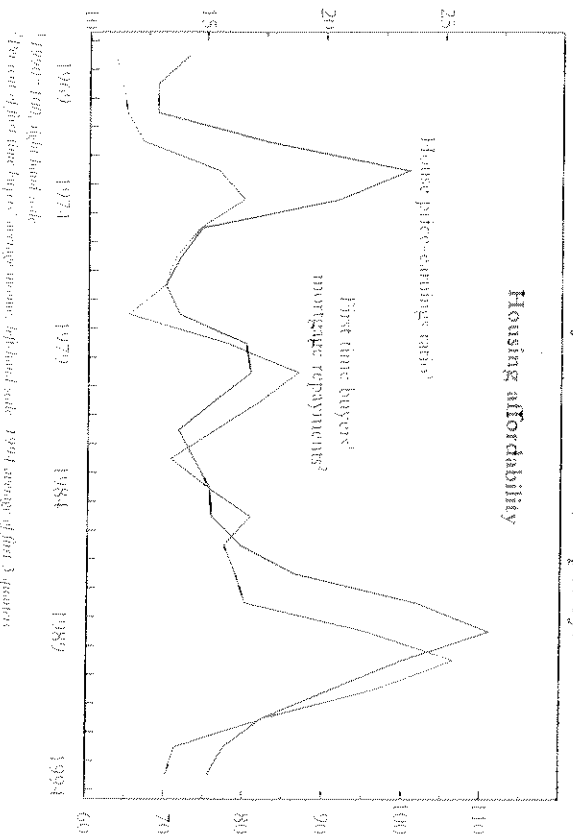
DOUBLE-SPEAK has been developed by policy-makers who wish to distract people from the real causes of our economic woes.

On inflation, the Chancellor speaks in high moral tones about the need to restrain this evil. "Nothing would be more damaging than if we let inflation off the leash again, only to need another dose of bitter anti-inflationary medicine," he warns. He does not point out that governments are the prime agents of inflation - the generalised rise in prices on the back of an expansion of the money supply. Concealment of what really dis-

rupts the economy has been developed to a fine art. "The British experience is that high inflation has brought economic recovery to a halt three times over the past twenty years." That is not true. They were primarily caused by failure in the land market, with a little brutal intervention from the Thatcher government in the early '80s.

Two graphs illustrate the conflicting interpretations. The first one, on inflation (see p.1), shows that the general rise in prices followed the market-based forces that were undermining output. The second one (below) shows that people's incomes were squeezed by cyclical rises in the housing market. House prices (the costs of construction are downward) have to be taken as a proxy for the land market (for the government fails to track the rising trend of land prices for macro-economic analysis).

Time and again - including periods of long-run price stability in the 19th century - the land market has disrupted the economy. Treasury chiefs were persuaded to look everywhere for the problems of economic instability except the land market. 1984 has come and gone; but Orwellian language continues to shape economic policy.





# THE GROWTH POLICY THAT IS OFF-LIMITS

THE BAREST GLIMMER of an insight into the restructuring of the British tax system was revealed by Chancellor Clarke in his budget speech. He wanted to "raise revenue in ways which do the least damage to the economy. In some cases, taxes actually do some good, by helping markets work better and by discouraging harmful or wasteful activities".

For the past 250 years, economists have clearly identified the essence of such a strategy. For the last eighty years, alas, that policy has been off-limits for governments. Could it be that the environmental lobby is unwittingly pushing the chancellor in the direction of the one policy that would let him achieve his ambitions?

Mr. Clarke is to introduce a tax on the disposal of waste in landfill sites. This should raise "several hundred million pounds" a year, starting in 1996. The purpose, said Mr. Clarke, was to encourage people to reduce waste. But the government does not intend to increase the burden on business, for he plans compensatory reductions in the cost of employing labour - by reducing national insurance contributions paid by employers (a tax, by another name, on the employment of people).

The landfill tax is a result of the awareness of the need to conserve natural resources. It stems from the influence of the environmental movement, which has pitched its propaganda at easy-to-see targets like the volume of waste churned out by the industrial economy. "A landfill levy will be a key economic instrument in the field of sustainable waste management," says Environment Minister John Gummer.

But will the government now generalise its concerns so that it can reshape the structure of taxation to give everyone the benefits of such a fiscal philosophy? The way to achieve this is to shift taxation off wages and profits - or production and consumption - and onto the rent of land.

This is a policy that economists ignore when they advise governments. For example, it was ignored by Todd Buchholz, who was Associate Director of the Economic Policy Council under President Bush. He had the opportunity to revisit what is acknowledged to be the least damaging method of raising public revenue when he wrote *New Ideas from Dead Economists* (Plume, 1990).

When he was challenged to explain his omission by Prof. C. Lowell Harris (President of the New York-based Robert Schalkenbach Foundation), Mr Buchholz said: "The next time I have the opportunity to revise the text on Henry George, I will point out the virtue of taxing inelastic capital, such as land, rather than taxing elastic, man-made capital". Henry George was the 19th century social reformer who campaigned on the need to treat the rent of land as the principle source of public revenue.

Buchholz refers to land as "capital". It isn't.\* In doing so, economists encourage policies that undermine strategies for balanced growth based on resource conservation and squeezing the maximum productivity from economic activity.

The significance of this error is revealed in the failure to create jobs.

The construction industry - a leading sector - is being obstructed from pulling the economy out of the recession with the minimum of pain. The struggles in the housing industry illustrate the point.

\* In the US, the housing market is slowing down. The National Association of Realtors reports that the sales of ex-

isting single family homes rose by a seasonally adjusted annual rate of 3.91m in October. This is a drop from the 3.97m in September.

\* In Britain, a decline in construction costs has been more than offset by an increase in land prices. Buyers have kept out of the market, resulting in a slowdown in sales in the summer and autumn. Result: a decline in the demand for household goods produced by industry.

According to the Inland Revenue (whose data on regional trends appears in the table), builders are re-stocking with land, but they are no longer "prepared to bid up prices except in favoured locations such as the Home Counties, where marked increases in value have been seen for sites within striking distance of the M25".

In the absence of a rational fiscal strategy, the land market will continue to wreak havoc with the economy. And Mr Clarke's aspirations will be whistles in the wind.

\* For a trenchant critique of the neo-classical strategy for confusing public policy by treating land as capital, see Mason Gaffney and Fred Harrison, *The Corruption of Economics*, London: Shephard-Walwyn, 1994.

Percentage change in prices	SECONDHAND HOUSING		RESIDENTIAL BUILDING LAND	
	6 months	12 months	6 months	12 months
	1 Oct 1993 to 1 Apr 1994	1 Oct 1993 to 1 Apr 1994	1 Oct 1993 to 1 Apr 1994	1 Oct 1993 to 1 Apr 1994
1. Scotland	+1%	+1%	+5%	+4%
2. Northern Ireland	+2%	+5%	+3%	+15%
3. North	0%	0%	+2%	+4%
4. North-west	0%	0%	0%	+1%
5. West Midlands	0%	0%	+6%	+8%
6. Wales	+1%	+2%	+6%	+10%
7. South-west	0%	0%	+6%	+12%
8. Outer London	+3%	+4%	+6%	+13%
9. Inner London	0%	+1%	+4%	+13%
10. South-east	+1%	+2%	+7%	+18%
11. East Anglia	0%	+1%	+5%	+24%
12. East Midlands	0%	+2%	+6%	+14%
13. Yorkshire & Humberside	+1%	+2%	+12%	+14%

# The 'Tax' that Politicians Should Love!

NO TAX is more vexatious - to the general public - than the rates, the property tax levied to finance local government. The tax provokes controversy out of proportion to the amount of revenue (£43.5 bn in England, next year) raised for the public coffers.

And yet, the rates offer the most visible approach to employing policy to positively enthuse the public about the contribution that government can legitimately make to prosperity - a lesson that politicians (who love to be loved) have curiously overlooked!

For if the rates burden were shifted off the value of buildings and onto the annual rental value of land, empirical evidence from around the world demonstrates that there would be an immediate benefits. Data in the table shows what happened in Pittsburgh when the council shifted the burden off the value of build-

ings and onto the value of land, there was a construction boom that left other cities in that part of the world way behind! But instead of learning these lessons, governments continue to crash around the economy like bulls in a china shop.

Take the attempt to re-new Britain's inner cities. By levying a charge on the rent of vacant sites, landowners would immediately release sites for development.

The government, however, prefers to bribe owners into using their land - with (of course!) taxpayers' money! But this does not yield good value for money. Twelve

urban development corporations have spent over £3 bn in grant-in-aid. This has enhanced the value of 2,450 hectares, but has produced a paltry 27,500 new houses.

As for jobs, "over 140,000 jobs have moved to, or been created in UDC areas", according to the Department of the Environment. Research has revealed that UDC money creates precious few new jobs. Instead, the fiscal benefits of the UDC experiment biases development in favour of warehouse-based service activities.

RATES, as presently structured, are part of a fiscal weaponry designed to discourage investors in favour of land-owners.

15 midwest cities  
before and after Pittsburgh's major land tax increase.  
Average annual value of building permits.  
Constant 1982 dollars: millions

	1960-79	1980-89	% change
PITTSBURGH	181.7	309.7	70.4
Akron	134.0	87.9	-34.4
Allentown	48.1	28.8	-40.4
Buffalo	93.7	82.9	-11.5
Canton	40.2	24.2	-39.7
Cincinnati	318.2	231.5	-27.2
Cleveland	329.5	224.5	-31.8
Columbus	450.5	527.0	15.4
Dayton	107.7	92.2	-14.4
Detroit	368.8	277.7	-24.7
Erie	48.3	22.7	-52.9
Rochester	118.7	82.4	-30.5
Syracuse	94.5	53.6	-43.2
Toledo	138.5	93.4	-32.4
Youngstown	33.6	11.1	-66.9
15-CITY AVERAGE	167.5	143.3	-14.4

In London, for example, land values east of the City are now going to strengthen as a result of the government's determination to extend the Docklands Light Railway. The rational way to finance mass transit systems is to pay for them out of the increase in the rent of land that they induce (as has happened in Hong Kong). Rents are the measure of the net economic benefit of investment.

In a rational world, sound public investments would be self-financing. In our world, the taxpayer is forced to finance infrastructural investment, the largest part of the financial benefits of which are handed to landowners!

One way to break the chains of this constraint on economic efficiency (to say nothing of social justice) is to redesign the rates as part of a radical review of fiscal policy. In the latest budget, however, John Major's government has shown itself

reluctant to employ principles of equity or efficiency. Business properties will

be revalued in 1995, which will reveal that values have increased in some areas and declined in others. The owners of 250,000 large properties whose values have increased dramatically will not be asked to pay their full proportionate share, even though they could do so on the basis of the windfall increase in the value of their land. For no business will face annual increases of more than 10%.

This favouritism will be financed by the taxpayer (to the tune of £72m in Scotland alone), and by owners whose

properties have crashed in value - for the reductions in their rates bills will be restricted to 10%. In other words, areas worst-hit by the recession will subsidise areas that are now prospering!

This is farcical economics. Geographical areas that are suffering the most from the recession need all the help they can get. Areas with a relatively low property tax would attract investment, but the government's refusal to allow them to enjoy the full benefits of their "comparative advantage" means the taxpayer will have to continue to shoulder the costs of a protracted recession.

# THE SECRET THAT ELUDES THE WEST

*Ronald Banks is working with officials in Syktyvkar, capital of resource-rich Komi - the republic recently devastated by a massive oil spillage - to change the tax system. The Mayor has secured permission from the republic to implement the reform. In this essay, Mr. Banks outlines the case for transforming the Russian economy.*

**C**URPROPOSALS would lead to the reduction and eventual abolition of taxation and the collection of the rent of land for the purposes of public revenue.

The economic basis underlying these proposals is described in the economic literature of the great classical economists in the 18th, 19th and 20th centuries. It was recently endorsed by 30 economists, including three Nobel Prize winners, in a letter to the Russian president in 1992.

Russia already has empirical evidence of the harm that heavy taxation does to the economy. In the West, economists have analysed the effects of taxation and their conclusions match the empirical evidence of Russia. One economist concluded that when taxation exceeded 25% of the nation's product, inflation necessarily followed, increasing sharply as the percentage rose well above 25%. In addition to being one of the prime causes of inflation, taxation's main effect is to impede production. The taxation of profits, incomes and spending depresses economic activity, penalises private enterprise and impoverishes the population. The poverty which results then requires greater public expenditure and, therefore, higher taxes, which result in more poverty. This vicious circle can be seen in most Western economies at

the present time.

TAXATION distorts the economy, but specific taxes have specific consequences. Payroll taxes and other taxes on incomes increase unemployment. Investment in capital is adversely affected by profits taxes, while consumption, and therefore production, is harmed by spending taxes such as VAT.

But although taxation is harmful, public revenue is necessary to pay for the infrastructure within the economy and for the protection and social requirements of citizens. And yet, among most economists and politicians in the West, there is no perceived alternative to taxation as the basis for public revenue, despite the recognition that there exists a particular factor which could provide public revenue without economic distortions.

This factor is variously labelled as land, location or site. Its importance derives from its value or rent. In a market-based economy, rent represents the payment people are prepared to make to enjoy the benefits of occupying, exclusively and securely, a particular location, the benefits of which would include public services, trading position and proximity to population.

• A letter to the President of

Russia from 30 economists makes it clear that the flow of income from rent should not be allowed to be appropriated by the private sector but, instead, should be retained as public revenue.\*

• One Nobel-winning economist, Professor Milton Friedman, states: 'In my opinion, the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago.'

• Professor Martin Feldstein, economic adviser to President Reagan, also agrees: 'One of the reasons that economists have long been interested in the tax on pure rental income is that it is a tax without excess burden. Because the owners of land cannot alter the supply of land, the tax induces no distortions and therefore no welfare loss.'

• Professor Bela Belassa of the World Bank urged Red China to adopt a tax on land values as a necessary part of its new economic strategy.

The 18th century economist, Adam Smith, said it very clearly: 'Land is peculiarly suitable for taxation, since such a tax falls on an economic surplus and cannot be

\* See Richard Noyes, *Now the Synthesis*, London: Shephard-Walwyn, 1991.

passed on to consumers in the price of goods.'

In the 20th century economic thought divided into two schools. The 'demand side' school emphasised full employment. The 'supply side' school emphasised monetary targets and the need to curb inflation. Each school was looking at one side of the coin only and economic policy alternated between them, with the result that western economies did not achieve the level of success possible.

THE CAUSE of error in much economic policy-making stems from the confused definition of taxation.

Western Governments use taxation as the main source of public revenue, a system which is based on taxing private endeavour. Whether income tax, sales taxes, social security taxes, profits or payroll taxes - they all fall on private enterprise and act as disincentives in the economy. In addition, the payment of taxes bears no relationship to the benefits received. They are an indiscriminate charge on private endeavour.

The payment of rent, on the other hand, is a payment which reflects, precisely, the benefits received. It is a contradiction to speak of rent and taxation in the same terms. In the quotations above, it is important to keep in mind their approval of rent as the source of public revenue, but dismisses from the mind their use of the term 'tax'.

Rent arises from public value, which itself arises from the growth of communities; their congregation around chosen locations; improvements in the arts, sciences, technology, and methods of production; economic growth and the provision of public services including roads, lighting, parks, bridges, water provision and sewerage, law and order, health and social services.

Location values are public values. Not everyone can occupy the best locations, but everyone can benefit equally from this public value. Rental payments should provide the revenue required for public expenditure and, in this way, every citizen

shares in the value of all locations, including the very best ones, and every citizen paying rent receives a benefit equal to his payment.

UNFORTUNATELY, Western governments not only use a system of taxation which penalises private endeavour and depresses economic activity. They also leave land rent largely in private hands, enabling just a relatively few people to benefit from increases in public value. The gains for these few are so vast that the land market, and the financial mechanisms which complement it, is one of the largest sectors of the economy in the West.

Economically, the weaknesses in this system - the depression of economic activity - are compounded by an inordinate interest in the land market. This leads to speculation, a wide-ranging banking structure to support and finance the speculation, and the creation of 'boom and slump' conditions on a regular basis. Empirically, countries such as the United Kingdom, the U.S.A. and Japan, where land speculation is greatest, experience the worst of these 'booms and slumps'. To these countries can now be added China, whose southern region is experiencing one of the worst land market cycles in the world.

The Organisation for Economic Co-operation and Development (OECD) studied the impact of the land market and listed the problems that stem from the West's system of property rights and taxation. This list is given in *Urban Land Markets: Policies for the 1990s* (Paris, OECD, 1992, p.15):

'Excessively high and rising land prices are a significant concern for most of the OECD countries. They often occur in markets which have overheated concomitantly with economic success. Some of the criticisms levelled against very high land prices are the following: they impede the purchase of land for needed public purposes, especially infrastructure; they encourage urban sprawl in peripheral land where prices are lower; they lead to overly extensive use of

land, resulting in negative environmental impacts; they induce monostructures of high-rise central office buildings which crowd out residential and other land uses more sensitive to high prices; they have negative distributional effects by increasing the price of housing; and finally, they contribute to speculation and hoarding and destabilise land markets.'

The 'cure' for these conditions by Western governments is extremely painful for the people. During the height of the 'boom', inflation usually gets out of hand and high interest rates are imposed to 'squeeze' the inflation out of the system. This then leads to lower economic activity and higher unemployment. During the 'slump' which follows, revenue from taxation is lower, leading to a rise in taxation or cuts in public services (or a combination of both). This causes a deterioration in the capacity of society to meet the needs of its most vulnerable citizens. Despite the 'booms and slumps', the value of land, over as short a period as ten to twelve years, rises inexorably, the benefits largely accruing to the private sector.

RUSSIA has a clear choice. The 'land' phenomenon can be either a destabilising influence on the economy if rent is placed in the private sector, producing riches for the few, poverty for the many. OR, land rent can be used as the basis for public revenue, with little or no taxation, and provide Russia with the opportunity to plan not just for the short term, but to put down roots for sustainable growth.

The additional economic consequences of the system of public finance we are proposing are wide-ranging.

The most notable of the general consequences is the change in the dynamics of the economy. Instead of the unproductive activity of land speculation and its financing, effort is directed towards productive operations. Likewise, finance and investment are encouraged to build real capital and employment, and is not wasted on unproductive, although

personally profitable, land investment. The economy is revitalised in a way that encourages the allocation of land and capital to people who wish to create jobs and raise the levels of productivity.

Taxation in general depresses economic activity, but each individual tax has its unique effect. The corollary is that the reduction or abolition of a specific tax has its own consequences.

The increase of consumption follows both the reduction of income tax or spending taxes. The real value of the wages of workers is increased by the abolition or reduction of both these taxes. Income tax abolition has the extra effect of increasing productivity and enterprise as workers are able to keep the extra they earn by working harder, longer or better. In all, people will have more spending power which will lead to higher productivity as that spending power is satisfied, largely from the creation of thriving small enterprises, which will be labour intensive, leading to higher employment. This will have the added effect of facilitating redeployment from inefficient State enterprises. The dynamics of these tax reductions also include the nurturing of competition and the learning of the disciplines of the market economy.

The abolition of the profits tax would stimulate the use of withheld profits into capital investment and research and development. These areas are vital if Russia is to compete successfully in world markets.

One of the most pernicious of taxes is the 'payroll' tax, which has a devastating effect on employment. This tax can also have a cumulative effect at every level of manufacture, distribution and marketing. This can have a large effect on the selling prices of goods and result in demands for higher wages. This type of taxation has been a major cause of economic pressures that have led to unemployment and spiralling inflation in Western economies.

Since this tax in Russia is used to create funds for the welfare of the old and the sick, an alternative would be

to finance the funds from a rental charge on the vast natural mineral wealth of Russia. Professor Dmitry Lvov of the C.E.M.I. research institute in Moscow estimates that a rental charge on natural resources would create sufficient revenue to take care of the welfare of the sick, old and unemployed.

THE TAXES mentioned above (income tax, VAT, profits tax and 'payroll' tax), all enter into prices. Their abolition would give Russian exporters a price advantage in world markets, thus encouraging inward foreign investment.

But there are some taxes we would recommend retaining, such as those taxes relating to health (for example, duties on tobacco and alcohol). Although revenue is gained from these taxes, their main function would be to limit health risks.

Abolition of taxation has one other advantage which in present-day Russia is important. The figures on which taxation is based are easily 'massaged' to maximise tax evasion. So much can be hidden. On the other hand, the collection of public revenue from the rent of land gives no opportunity for evasion of rental payments. Land cannot be hidden. The assessment of the rental values of locations, if our Code of Principles and Practice is applied, would be seen by all to be certain, open, fair and just. Cheating, bribery and corruption could not exist.

THERE ARE other positive economic advantages to be gained from the collection of land rent.

Land use efficiency is a vital ingredient in any economy. Full payment for the rent of land ensures that the most valuable sites are used by those enterprises most suited to use them best. In putting these proposals to work, it is necessary to put land to good use. At the beginning, there should be easy access to land sites with, perhaps, a low or zero rental payment at first. This stimulates the use of land, awakening the economy as people become self-employed entrepreneurs. The use of such land sites

on these favourable terms, however, must be accompanied by the recognition that the full rental value should be paid after a specific period. Without this recognition, there is the likelihood that private interests in land will gather hold and a landed class will develop.

Pollution is another area where land rent collection has an economic consequence. Pollution is not just a health hazard. Ugly industrial buildings in the middle of a good residential or commercial area are not just an inconvenience; they destroy public value. When buildings and enterprises are not appropriately located, not only does the economy suffer, but there is massive loss to public revenue. For example, when carrying out a land valuation in a pleasant residential area which has an ugly, polluting industrial site in its midst, the value of all the residential sites is assessed lower than it would be without that industrial site.

This is a problem most Russian cities will face over the next few years. However, the free market, incorporating the collection of land rent on an annual basis, can bring about the pressures which will begin the process of solution in a reasonably short period of time.

For example, the polluting industrial site is valued in the normal way, taking into account the maximum permissible development for the site, the quality of the surrounding area and adjoining properties, the availability of public services, etc. The land rental to be charged to the industrial occupier may be higher than he can afford. Furthermore - and consistent with our principles - the site values of all the adjoining properties are assessed, both with the industrial site in place and then without it. The difference between the two assessments represents a destruction of public value, a loss to public revenue, and should be added to the rental charge on the industrial site which is causing that loss. This financial pressure would encourage the industrial enterprise to move to a cheaper, more appropriate site.



However, public finance should be available to help industrial enterprises to re-locate. It is probably not their fault that they are in the wrong place. The public authority should offer to help the re-location with grants or subsidies. Discounts on rental payments should not be offered; these are not easily quantifiable in a fast-growing economy and they could give rise to profiteering from land speculation.

These grants or subsidies are not a complete loss to the community, because a valuable site has been re-leased and can be re-developed to its full potential. This ensures that maximum public revenue is collected from the occupiers of the development.

ONE FURTHER point needs to be understood. This is clearly stated in economic literature but ignored by Western governments.

The size of land rents (in aggregate and for particular sites) is determined, in part, by the level of taxation on the incomes of labour and capital. Taxes on these incomes have the effect of reducing the rent available for collection in the land market. So, high taxes on profits and wages means lower rents. The corollary is also true; the greater the reduction in taxation, the greater will be the rents that people would be willing to pay for exclusive occupation of land sites.

Russia, in reducing taxation and collecting the rent of land, should also reduce the size of the public sector by allowing the market to provide goods and services which, at present, are provided publicly. The obvious examples are water, electricity and the telephone, where people should be charged on the basis of their use of these services, which would discourage waste.

FROM THE standpoint of economic analysis, where land rent is seen as deriving from public value, it is clear that the contributions to public value come from different aspects of society. The general contributions, such as growth of communities, growth of

knowledge and trade, etc., are difficult to quantify. However, it is important to develop an understanding of the relative importance of the contributions from the different levels of administration which provide public services.

The highest level of administration, the Federal Government, provides for the nation's defence and safety, law and order, much of social welfare, and even the national routes for rail and road. These services contribute to public value and, therefore, to the rent of land. Financing them should, therefore, be out of land rent.

Likewise, the regional and local administrations are responsible for public services, which should be provided on the basis of 'what is best done locally should be done locally and what is best done regionally should be done regionally'. These services contribute to public value and should be financed out of the collection of land rent. The actual sharing out of the land rent is a task to be negotiated among the various levels of administration.

THE ECONOMIC case for Russia is supported by ethical and social considerations. Our proposals recognise that land and natural resources are a

gift to humanity and no-one has the right to dispossess another of their equal right. Our proposals, fully implemented, would deny the possibility of anyone monopolising land and natural resources.

As Winston Churchill, the former British Prime Minister, once said: 'It is quite true that land monopoly is not the only monopoly which exists, but it is by far the greatest of monopolies - it is a perpetual monopoly, and it is the mother of all other forms of monopoly.'

Our proposals accord well with the concepts of social and natural justice. They are fair and just! To achieve optimum economic results, it is necessary to resolve the apparent conflicts between the strengths of the market economy and the welfare needs of society. What we propose for Russia does just that - Russia's 'third way' between the market economies of the West and the command economy.

The basic economic formula - the private market for goods and services, coupled with individual possession and use of land, but with socialised rent - is the secret to full employment, prosperity and natural justice. That 'secret' has eluded the West.

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## BOOK REVIEW

### ECONOMICS: BEYOND IDEOLOGY

*Land and Taxation*

Nicolaus Tideman (Editor)

London: Shepherd-Walwyn, £12.95

THAT there is a need for a "new economics" must now be uncontroversial. The facts provide ample demonstration that governments cannot "manage" the industrial economy. Contrary to the claims in knock-about popular politics, that is not - by and large - the fault of any one Treasury minister at any given time. The problem is a systemic one. The booms and slumps of the economy cannot be smoothed out on the basis of current orthodoxy, for the good reason that conventional policies reinforce the chaotic conditions.

What is more, professional economists now concede that conventional economic theory - in the neo-classical tradition that dominates the universities and business schools - is one of the sources of contemporary problems.

And yet, running through the thread of economics as a social science over the past 250 years has been a clear awareness of what it takes to establish a sound - efficient and fair - system of economics. Prof. Tideman reviews that tradition, to demonstrate that - despite the hostility to the rational policies - economists have time and again affirmed the correctness of the original insight of the Physiocrats.

The French economists realised that the rent of land constituted the correct source of public revenue. With that policy, people would be free to enjoy maximum personal liberty within a finely integrated social system. Without that policy, people would be divided by the rich/poor conflict, and society would be increasingly crushed by burdensome taxation and all the other crises that have, indeed, come to pass. So what are we to do now? Nothing can be done until the concept of land has been reclaimed for economics. This service is brilliantly executed by Prof. Mason Gaffney. Not until we retrieve a clear understanding of the distinctive qualities of land as a factor of production can governments define appropriate policies - as evidenced by the self-defeating policies adopted by successive postwar Labour governments, a history reviewed here by Vic Blundell, a lifetime observer of the British political scene.

Once the debris of neo-classical revisionism has been cleared away, we can rebuild economics. One start is offered by Dr. Fred Foldvary, who christens

the new approach "geoclassical" economics. He takes wages as his theme, to demonstrate that the current pessimism about unemployment is unwarranted. We can re-create the conditions of jobs for all - with decent wages - if we restructure public finance.

That economics has been led down a blind alley by its neo-classical exponents is neatly illustrated by Nobel Laureate Wassily Leontief, who observed: "...econometricians fit algebraic functions of all possible shapes to essentially the same sets of data without being able to advance, in any perceptible way, a systematic understanding of the structure and the operations of a real economic system".

But consigning the neo-classical paradigm to the dustbin will not be easy. Cambridge economist Geoffrey Hodgson has warned: "...a crisis in the subject should not be taken to imply... that the orthodox or neo-classical paradigm is about to be overturned. The questions and controversies are so basic and important that the response is often to reassert belief in the fundamentals with renewed vigour, and to attack heresy with increasing force".

The only way to eliminate the ideological passions that now disfigure economics is by a new elaboration of the truths buried in classical economics. This book makes a significant contribution to that process of renewing economics as the art of uniting people in the pursuit of their daily bread.

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## BOOK REVIEW

### BUT WHAT CAUSED THESE CRISES?

*Poverty and the Planet*

Ben Jackson

Penguin, £6.99

THIS BOOK has to be the most depressing that you could ever read. Yet it is an easy read, much like a who-dunnit or horror story. You cannot put it down until the final page.

If greed, poverty and ignorance are killing not only people but also the planet, who or what is to blame? Is it deforestation, erosion, silted rivers? What about acid rain, nuclear and toxic waste, global warming, over-fishing, flooding or endangered wildlife and their habitats? Or short-sighted people and policies?

Ben Jackson, co-ordinator of the World Development Movement, looks at all these suspects and others, possessing a remarkable grasp of how problems interweave and overlap. He is known for his probing articles on the Third World including the famous one: *Biting the Bullet*. This book is about global causes of poverty and ecological degradation which blight the lives of billions of people in rich countries as well as in poor ones. Outrageously preventable situations exist in a world of plenty.

"One of the greatest obstacles to ending world poverty," he writes, "is the lack of clear understanding of its causes." Jackson has worked hard to examine the deeper causes. Unfortunately, he fails to identify the source of the problems, which is why his text is dominated by an uncontroversial description of the observable facts. Nonetheless, like Rachel Carson's book *Silent Spring* (1962), which shaped the movement for environmental concern in the United States and in due course awakened the world to the damage wrought to wildlife by the chemical barrage of agricultural pesticides, this work should have a profound effect on economic thinking.

Concern for the environment has become associated with affluent westerners absorbed by problems of

"over-development", pollution and preservation of the countryside, while the Third World is concerned with hunger and under-development.

Brazil, for example, is adamant that such problems can only be tackled when poor countries achieve a certain level of prosperity - as in Europe. So the vast areas of rainforest continue to be destroyed, thus aggravating problems of climate change for other countries. Global warming due to the greenhouse gases is a major problem of climate, but the lessons have yet to be learned.

Jackson illustrates time and again how mounting poverty and desperation direct the jobless poor into other areas. For example, about a million small prospectors flooded into the Amazon in a series of Klondike-like gold rushes. But the mercury the miners use to pan for gold is lethal when it gets into rivers and ecosystems, affecting animals and human life. It is the same story in Africa and in the Far East.

Jackson fills his book with stories of such chain reactions. Unfortunately, the environmental destruction cannot be prevented unless the economic and politic pressures that underlie it are challenged. Political will is needed to solve the problems of international debt, unfair trade, and most importantly, the unequal distribution of land and natural resources.

Jackson appreciates that the seed-bed of ecological destruction is the global division of rich and poor, but he does not offer an explanation as to how that division originated. The division serves as his starting point, rather than the question that provokes a fundamental analysis.

His analysis would benefit from a reading of the works of Henry George, for the Georgist solution could aid him through the collection of land

rent: every economy's positive feedback mechanism.

Nor does Ben Jackson refer to Adam Smith, who early put on paper how the funding of public services out of the unearned income from land would bring wealth to nations. Since then the policy of shifting taxation off the incomes of labour and capital and on to the rent of land has been recommended by economists and social reformers who span the political spectrum. They range from Tom Paine, author of *The Rights of Man*, to George Bernard Shaw, from Leo Tolstoy to Milton Friedman, and most importantly in 1910 to Winston S. Churchill.

Land rent is a fundamental requirement for economic efficiency. It is a time honoured theory. Even John Kenneth Galbraith wrote in *The Affluent Society* that if the rent of land was treated as the tax base "progress would be orderly and its fruits would be equitably shared."

Ben Jackson's solutions tend to rely on international help in one form or another to provide drinking water, agricultural development, aid for children and much else. He points out that there is a groundswell of feeling that it is no longer acceptable or rational to tolerate such unnecessary suffering and destruction. Action from one country to another must be fuelled not only by passing compassion but by recognising global injustice of which the rich world is part. Action should be directed not only to raise charitable funds but to understand, address and change the underlying causes. Meanwhile the World Development Movement, one of Britain's major pressure groups aiming to bring a better deal to the world's poor, has successfully taken the British government to court.

They have stopped £234 million from the aid budget being spent on the Pergau Dam in Malaysia. They believe the decision to fund the dam was immoral as well as illegal, and are critical of arms sales to the Third World. The WDM urge a cut in military spending to help defeat global poverty, and they want to end the burden of Third World debt and remove unfair trading barriers. These goals are worthy of support. The least we can do is purchase a copy of Ben Jackson's horror story and read it.

JULIA BASTIAN