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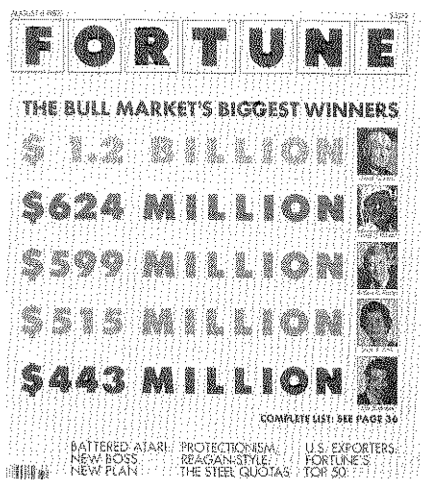

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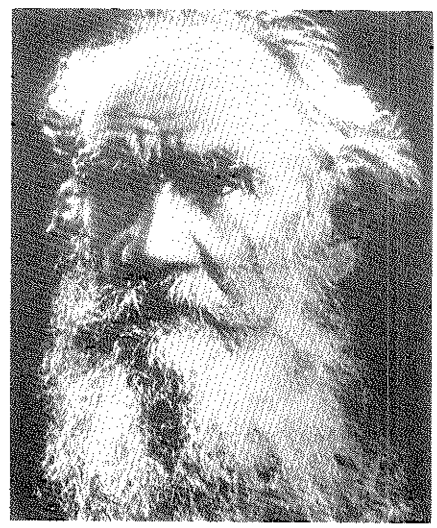

What did Winston Churchill, Fortune magazine and Leo Tolstoy have in common? They all said:

WE NEED A TAX ON LAND!

LAND and LIBERTY

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The land tax: will UK lead the way?

FOR THE FIRST time in the history of democracy in Britain, the centre of gravity of political power has shifted away from the landowning elite, giving rise to the prospect of the social and economic transformation that is overdue by at least 200 years.

The landowning class, through its sophisticated manipulation of the political processes, has performed superbly in defence of its interests. It has fiercely fought attempts by Liberal and Labour Chancellors of the Exchequer who have tried to undermine the economic power of land monopoly by taxing rental income on the basis of the market value of land.

In a series of articles in this issue, *Land & Liberty* restates the need for a dramatic reorientation in land policy. For land monopoly is the root cause of unemployment. Yet the land market offers the best single solution to the problem of how to return to sustained growth.

Our writers analyse the new political realities in Britain and evaluate past attempts at dealing with "the land question" — attempts that have failed to generate the consensus necessary for a rational strategy to meet national aspirations of both economic efficiency and social justice.

And from the United States, we report the warning of an expert who declares that land reform is inevitable: what he cannot tell us, however, is whether this reform will be the result of enlightened government or civil strife.

Churchillian attempts to reform the land tenure system have been defeated in the past, but the 1980s may yield striking advances.

- The Conservative Government is no longer shackled by the landowners: it could — if it were convinced that a shift in the tax burden on to land values was an imperative economic objective — act without the risk of defeat by prominent members of the Cabinet seeking to defend a sectional interest.
- Even the Labour Party, which for the past 40 years has been wedded to the concept of physical planning as the focal point for land policies, is beginning to reassess its philosophy. Peter Shore, the party's spokesman on economic affairs — and a contender for the leadership of the party — began this re-thinking before the general election.
- The election has also shifted the political axis of the Liberal Party, which in the post-war years has been less than enthusiastic about promoting land value taxation despite repeated affirmations of its faith in the policy. Until June 9, the party was largely represented in Parliament by MPs from agricultural constituencies, most of whom were cautious about advocating a fiscal solution to the land question.

Now, however, urban politicians — deeply rooted in local politics in the inner cities — have equal weight with the rural fringe MPs.

All the ingredients are present, then, for a consensus approach to dealing with land-related issues. These problems are not peripheral to the concerns of governments that are trying to solve the global economic crisis. They are central to an understanding of why over 30 million people are unemployed in the industrialised countries alone — and why another three million people are predicted by the OECD to end up in the dole queues in the next few years.

It is towards an enlightened debate on these problems that we dedicate this special issue of *Land & Liberty*.

INSITE analyses dramatic shift in Tory power structure

Mrs. Thatcher breaks the grip of landowners

FOR THE first time in industrial history, Britain is confronted with the prospect of a consensus in Parliament in favour of a radical change in the power structure.

Twice in this century — in 1909 and 1931 — governments have sought to subvert the power of artistrocratic landowners by beginning the process of undermining their economic power.

Both attempts were eventually defeated by the landed elite through their control of the junction boxes in the political system.

It took a woman — Margaret Hilda Thatcher — to turn the tables on the landowners, and so open up the possibility of a rational approach to solving the problem that distorted the Industrial Revolution: land monopoly.

WHEN Mrs Thatcher came to power in 1979, she was a Prime Minister working within the traditional values of the Conservative Party, which lie deep in the shires and the big urban estates of the ancient aristocratic families.

This class retained its power during two centuries of social and economic upheaval through a mixture of paternalism (creating the idea of stewardship of the land and the people on it) and of effecting timely compromises.

As one commentator noted during the 1983 general election campaign: "One of the traditional goals of the Conservative Party is to avoid the ruling classes being hanged from lampposts."[1]

Mrs Thatcher, while not holding a high opinion of the leisured class whose sons came to power as a birthright rather than on merit, is not openly hostile to the private ownership of land. Indeed, it is part of her concept of a property-owning democracy, which she believes ought to extend down to families living on council estates.

However, the "wet" values that she finds so intolerable happened to be those of the landowners. These values created economic conditions which she blames for the deep-seated problems that now beset the country.

So as the dole queues lengthened, it was inevitable that the "wets" among Conservative ranks should start to demand an approach to policy-making that *they* considered to be both socially humane and economically prudent.

● Margaret Thatcher

Keynesian pump-priming was their prescription for the unemployment problem.

Mrs Thatcher disagreed. She fought the wets, and eventually triumphed. But the inevitable result of this battle over *policies* meant a realignment of *men* in the positions of influence in her government.

One by one, the landowners of substance left their posts, to be replaced by the "hard" men who believed that national salvation lay down the road of stricter control over the money supply, and by not flinching when the going over the economic hurdles got tough.

And so, early this year, it became clear that a landslide victory at the polls for Mrs Thatcher would result in a remarkable transformation of the power structure inside the Tory Party.

"Businessmen understandably recoil at the suggestion of tax reform. At the state and local level, "reform" has become virtually synonymous with tax increases. Real estate taxes in particular have grown increasingly unpopular in recent years, and genuine reform remains elusive because people prefer the devil they know to the devil they do not understand. But higher land taxes, especially when accompanied by reduced taxes on structures, look like an idea businessmen ought to embrace and promote. The benefits in the form of more jobs and increasingly compact development are not only lasting, but flow to the whole community."

– *FORTUNE, the U.S. business magazine, Aug. 8, 1983, p.71.*

THE FIRST to publicise this development was Lady Marcia Falkender, who was private secretary to one of Labour's ex-Prime Ministers, Sir Harold Wilson.

"She and her friends stand against the power of the old aristocracy, just as much as she stands against the new power of the trade union movement," wrote Lady Falkender.

"She is not a Tory at all; she is an old-fashioned Liberal, a new Gladstone believing that what counts is 'muck and brass'.

"The old Liberal Party stood for the merchants, the factory owners and the businessmen determined to get the landowners off their backs. So does she, but adds what she regards as their modern equivalent, State interference.

"Only now with the landowners off *her* back is she free to act."

In the run-up to the election, as the ideological battle within the Tory ranks hardened, the few remaining landowning grandees with power became the targets for the Thatcherite bloodhounds.

Home Secretary Willie Whitelaw, for example, was accused of being too soft in his attitudes to crime, that he had failed to get to grips with law and order.

And so, as the polls started to predict a landslide victory for Mrs Thatcher on June 9, the conservative commentators developed their critique of the new Tory Party.

The most thorough assessment came from the pen of Peregrine Worsthorne in *The Sunday Telegraph:*

"Make no mistake, it is not only the unskilled unemployables in the depressed areas of the North who will be lamenting the return of Mrs Thatcher.

"From the landed gentry of the shires will be heard just as bitter a volume of wailing and gnashing of teeth. For if the former face material impoverishment at the hands of a triumphant Mrs Thatcher, the latter can expect a no less painful deprivation: loss of political influence, for which the continuation of fox-hunting will be only scant compensation.

"In her eyes, neither group deserves much consideration, since she is as ignorantly contemptuous of the values of the so-called idle rich as of the so-called idle poor.

"If Britain is to prosper, says she, both must be consigned to the scraphead of history."[3]

The Sun, Britain's best-selling tabloid newspaper, was gleeful at the prospect. It declared in its editorial on May 24:

"For the first time since Cabinet rule emerged more than 250 years ago, we have a Tory government without an Old Etonian.

"The school where countless generations have been raised in the arrogant assumption that they were born to command will not be commanding anyone any longer.

"Under the grocer's daughter from Grantham, the Tories have at last thrown off the mantle of aristocratic influence and privilege."

Mrs Thatcher won the election with a majority of 144.

HISTORIANS will eventually put this political development into perspective.

The roots of the change may go back 15 years before Mrs Thatcher was elected leader of the Conservative Party to a time when, according to sociologists, there began a decline in the deferential attitudes of the working class.

But whatever the reasons, there can be no doubt that the British political system is at a watershed. For the first time, the economic power of the land monopolists *could* be challenged by a Parliament that is no longer in the grip of the old aristocracy.

There is no certainty, of course, that Mrs Thatcher will now launch a campaign against the landowners. In fact, most conservative philosophers are confident that this will not happen. Worsthorne, for example, declares:

"Thatcherism poses no threat to the wealth of the ruling class, who stand to be better off than ever before. Everything material about the old order will be preserved, except its public spirit, which was its main justification.

"So far as ownership is concerned, nothing will change. The change will be political, not economic; in the distribution of political rather than economic power."

This may be a correct evaluation, insofar as Mrs Thatcher's present attitudes are concerned. As a basis for predicting no change in the distribution of wealth, however, it stands on shaky foundations.

● First of all, if the "public spirit" of the landed elite evaporates, it will find itself in serious difficulties when it seeks to reaffirm (as it has to do, periodically) its right to the property and privileges which it now enjoys.

● Secondly, it is incumbent on economists to show that the land tenure and fiscal systems are *the* major obstacles to the meritocratic society to which Mrs Thatcher aspires.

Winston Churchill knew that this was so: that was why he fought so hard for a tax on land values.

A great deal of work still needs to be done to uncover the way in which the distribution of rental income *undermines* the process of wealth creation; the way in which the operations of the land market *undermine* entrepreneurial activity. This research has already begun.[4] It reveals that the one denominator common to all major depressions in the past 200 years — from the USA in the West to Japan in the East — has been the phase of intense land speculation which disrupts both consumption and investment.

●PETER WALKER

●LORD CARRINGTON

OUT: Lord Carrington, hereditary landowner; Sir Ian Gilmour, Middlesex landowner; Francis Pym, Cambridgshire landowner; and Tory grandees Lords Soames and Thorneycroft.

PUSHED ASIDE: Peter Walker, ex-Shropshire landowner, demoted from Agriculture to Energy. William Whitelaw, Cumbrian landowner, reluctantly accepted elevation to House of Lords after re-election in June.

● During these periods, families are forced to cut back on their purchase of goods and services as rents and mortgage payments rise as a proportion of disposable incomes.

● Entrepreneurs discover that buying or renting land is prohibitively expensive: so businesses are not created or expanded. The disruption in the house-building sector is particularly noticeable, forcing a cut-back in capital investment.

The solution is to tax away the profits from land speculation, and the only effective instrument for doing so (without creating alternative friction points in the system) is to impose an annual tax on the rental value of land.

The tax would have to be set at a high enough rate to deter long-term hoarding for no better reason than prospective capital gains.

It was this tax which was unacceptable to Conservatives before Mrs Thatcher's rise to domination over her party.

MORE INFORMATION will have to be accumulated and analysed before politicians will risk a shift in their attitudes back to the convictions expressed during Churchill's early days in politics.

This shift may not prove to be so hard to execute, however, because the old reference points in orthodox economic philosophy have now lost their credibility.

What we can say with confidence is that *if* the politicians once again perceive the intimate connection between land monopoly and economic activity, the broad consensus exists in Parliament for a reasoned approach to the formulation of rational policies.

The debate in the House of Commons will undoubtedly surface, in some form, because Mrs Thatcher has declared her intention to break with over three centuries of tradition and impose central controls over rates, the property tax which has hitherto been administered by local governments.

Her centralised control is intended to *reduce* the level of the tax: there is no reason, however, why the debate should not open up the possibilities of radically reforming the tax by *raising* the rate on land values and *eliminating* the burden on capital improvements upon the land.

Already, there has been a partial move in this direction by the Royal Institute of British Architects' London region planning group, which now advocates a tax on vacant land rather than on empty properties.[5]

The possibility of a drastic re-orientation of economic policy, then, is not a fanciful one. All will now depend on the vigour with which the advocates of land value taxation educate the public and their political representatives as to the virtues of their alternative strategy as a programme for full employment and social justice.

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ECOLOGIST DEMANDS A NEW LAND ETHIC

Land reform or civil war

LAND will acquire an "energy collection value" **in the post-petroleum era.**

Renewable energy — wind, hydro and solar — will gradually replace non-renewable resources, and transform the value of land that is now written off as useless.

This prediction was made by Lester Brown at the Second World Congress on Land which was staged at Harvard University in June.

"It takes space to collect solar energy," declared Mr Brown, who is President of the Worldwatch Institute, which has published authoritative studies of the way in which Man is abusing and depleting his natural resources.

"In the post-petroleum era we will be even more dependent on land than we are today," he said.

But Mr Brown conceded that a great deal more research needs to be done to define the elements of a new land ethic.

"In our technological, urbanising society, we have lost sight of our dependence on land. A world that will soon have five billion inhabitants desperately needs a land ethic, a new reference for land and a better understanding of our dependence on it," he said.

THE NEED for a new ethic was highlighted by new research now being carried out at the Washington, D.C.-based institute, which will be published next year.

Mr Brown cited the evidence on soil erosion. The U.S. is suffering a net loss of 1.9 bn tons of topsoil every year. In India, the figure is 4.7 bn tons; China is losing 3.3 bns., and the USSR is losing 2.9 billions.

The preliminary estimate for the world as a whole, revealed Mr Brown, was a net loss of 24.6 billion tons of food-bearing topsoil.

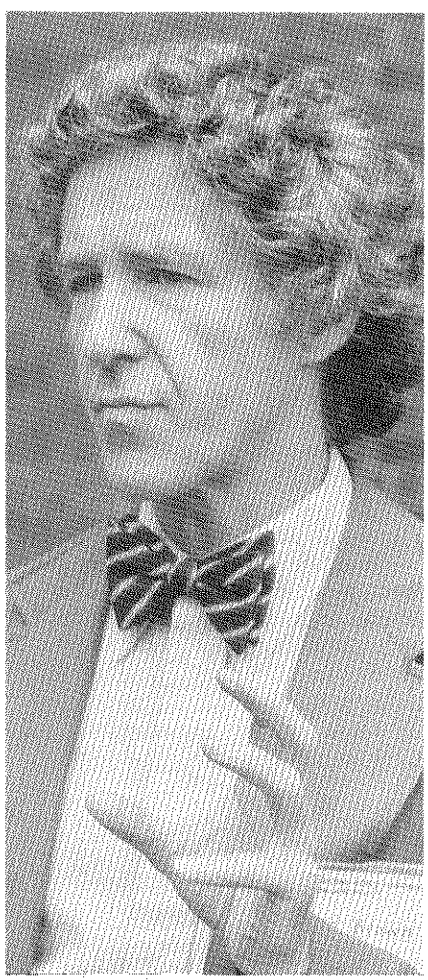
This was an alarming loss of a vital resource base, which at present amounts to 3.2 billion acres of cropland covered by 7" of topsoil.

"The erosion of soil is the erosion of productivity," explained Mr Brown. Fourteen studies on the relationship between soil erosion and corn yields revealed that the loss of an inch of top-soil reduced corn yields by six per cent.

By Fred Harrison

We have been substituting energy for land: "Fertiliser factories have become the new frontiers," declared Mr Brown, but substituting energy for land is probably not the "winning ticket" in the long run.

And that was one reason why we had to develop a new land ethic, to preserve resources and ensure institutional changes that would lead to a society that could be sustained long into the future.



●Lester Brown

ONE OF the future changes can even now be seen in the windy mountain passes of California.

● Windmills are springing up to "harvest the wind".

● Scrubland that could not sustain a few cattle — and was therefore marginal (i.e., could not yield a rent for the landowner) — is suddenly valuable.

● Twenty-six wind firms have been established in California. Nine hundred commercial-scale generators are now in operation, 85 per cent of them built last year. The process has been described by Janet Hopson:

"Wind-energy entrepreneurs are rushing to lease 'wind rights' on the land all over the Altamont, a funnel-shaped zone of dry hills in California where the annual average wind speed amounts to more than 27 kilometres per hour.

"Figuratively speaking, wind is the latest crop to be 'harvested' in the Altamont; although there is some cattle grazing, the area's dryness makes it the epitome of marginal land for many agricultural purposes."[1]

One landowner, Joe Jess, has leased access-to-wind rights to John Eckland, who runs a small wind-energy firm, and he sells the power to the Pacific Gas & Electric at a rate equivalent to the cost of producing electricity from the most expensive fuel.

Of the future, Eckland predicts: "I foresee a day, maybe 10 years from now, when the entire Altamont area will be covered with wind machines."

BUT HOW will society adjust its land tenure arrangements to these future developments?

The Institute is well-aware that a profound problem exists.

"Farmers are being pushed up the hillsides almost everywhere in the world," acknowledged Mr Brown, a migratory process which is accelerating the flow of topsoil from the continents to the oceans, via the rivers and air.

He does not doubt that all the demographic and economic pressures on Man's ecological base is bound up intimately with our land tenure system.

He concluded his speech with this prospect: "Almost all the important issues that we concern ourselves with in development — productivity, income, distribution of income — are influenced by land tenure patterns.

"My guess is that over the long term, as the employment problem worsens, it is going to either directly or indirectly lead to a lot of soul-searching in national capitals on the land distribution question.

"What is not clear to me is whether the reforms will come as a result of enlightened public policy and strong political leadership, or indirectly as a result of civil war and political instability, over-throw of governments.

"There is not much question but that land reform is going to come in the world. The question is how."

Citing the case of El Salvador, Mr Brown acknowledged that political problems could not be separated from the issue of land ownership.

UNFORTUNATELY the Worldwatch Institute, while excellent in documenting the scale of the ecological crisis, has not been able to define the elements of appropriate land reforms.

This is because its analysis of the social origins of the problem is superficial, leading it to a vague condemnation of capitalism as the source of evil. This in turn leads to nebulous conclusions such as the following:

"Whether in the form of legislation, government decrees, or such incentives as differential tax rates, the only defences against the ultimately destructive opportunism of the marketplace are land-use planning and restrictions."[2]

Deeper research may, however disclose that the marketplace offers the best prospect of solutions to the problems that now face Mankind.

That this research has not been conducted is affirmed by Mr Brown, who traces the analytical difficulties to the fact that the necessary research would cut across many academic disciplines.

In the end, however, more work will have to be undertaken if we are to realise the ambition of a new land ethic.

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Tax revolt backfires on real estate lobby

THE TAX REVOLT is being turned against the real estate lobby.

For the first time in 50 years, there has been an increase in the share of all state and local government revenue drawn from real estate and other property taxes.

According to new U.S. Census Bureau figures, last year the share rose from 30 to 31.7 per cent.

Property still yields a relatively small part of total revenue in the U.S., as the table reveals (below), but it is higher than in France and Germany.[1]

Ironically, the original tax revolt which led to the campaign for lower property taxes is now being used to *raise* taxes on real estate.

The first major success of the revolt was in California in 1978, where Proposition 13 was used to curb the growth of the tax on land and buildings.

But as a result of this success, state and local governments were forced to cut back on the provision of many services.

By Ian Barron

And in May, the San Jose school district declared itself bankrupt — the first one in the state ever to do so — because it could not pay $3.5m in pay and benefits to teachers.[2]

Then the recession reduced revenues from other sources. And the Reagan Administration cut back on federal grants, as part of the conservative strategy to reduce the role of government.

The size of the public sector compares favourably with other industrial countries, as we can see from Table 2.

But as poverty mounted under the pressure of rising unemployment, state and local governments became desperate for additional funds to finance welfare services.

In Los Angeles, Mayor Tom Bradley has asked the City Council for a 15 per cent rise in the average family's real estate tax to meet a deficit of $142m.

The alternative, he declared, was the sacking of 900 police officers, 200 firefighters and the closure of all libraries and recreation centres.

Table II

TOTAL GOVERNMENT ACTIVITY AS PERCENT OF GNP (1981)

	*Outlays**	*Revenues*
U.S.	33.5	32.6
France	45.8	47.4
Germany	44.3	44.7

*Excludes gross capital formation

THE PRESSURE on the California legislators can be gauged from the impact of Proposition 13. Real estate tax revenues crashed from over £10bn in 1978 to under £5bn in 1979.

But now the reaction has set in, and local politicians are turning to the property tax for more revenue.

Even so, real estate produces a miniscule proportion of revenue when seen in historical perspective.

Property taxes provided 80 per cent of state and local government tax revenues in the 1920s. The shift to other forms of taxes reduced the property tax share to about two-thirds of the total in the 1930s, and by the end of the last world war the share had fallen to 50 per cent. In 1981, it hit the lowest level ever — 30 per cent.

Our Washington correspondent writes: The economic crisis has now provoked the fiscal counter-revolution, and this may provide the opportunity for a reform of the property tax.

The U.S. house building industry is desperately short of land at prices which families can afford. A change in the structure of the tax — shifting the burden on to land and away from the value of buildings — would provide the impetus that could make a major contribution to reducing unemployment.

The *New York Times,* in its leading editorial, called for such a reform on May 13.

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2. David Calleo, 'A European Solution to America's Budget Crisis', *The Washington Post,* 22.5.83.

Table I

COMPOSITION OF TAX RECEIPTS, 1981 (PERCENT OF TOTAL TAXATION)

	Social Security	Profits & income	Indirect (value added)	Property
U.S.	38.1	46.3	6.5	9.0
France	42.7	18.4	29.7	3.7
Germany	35.7	34.0	27.1	2.6

Land markets: the fatal flaw in the economy

BOOK REVIEW
by Roger Sandilands

THIS IMPORTANT book has two main purposes.

First, it seeks to expose the failure of capitalist, socialist and Keynesian 'mixed' economic systems alike to provide non-totalitarian solutions to the chronic persistence of poverty amidst rapid technical progress, and to the problem of cyclical instability that produces periodic bouts of mass unemployment.

The intellectual roots of all three systems are examined and found to contain fatal flaws.

Second, it re-examines the intellectual case originally advanced by Henry George in 1879 for placing land at the centre of the economic stage, as the primary factor of production without which labour and capital cannot function; and it studies the evidence that economic cycles and depressions are universally linked to the failure to prevent urban and agricultural land from being held off the market by land speculators.

This is a major undertaking but one which Fred Harrison has carried out with a laudable mixture of passionate conviction, dispassionate scholarship and lucid exposition of theory and evidence.

The author looks first at Adam Smith's widely accepted model of the workings of a capitalist system where a harmony of interests is supposed to exist between all members of a community freely seeking to maximize their private interests. The duties of government are limited to a few social provisions such as defence, education and lighthouses and to discouraging the monopolization of capital and labour. Free competition would minimize costs of production and maximize output. Harrison shows, however, that these principles cannot — and do not — apply to land in the basic sense of the free gifts of Nature.

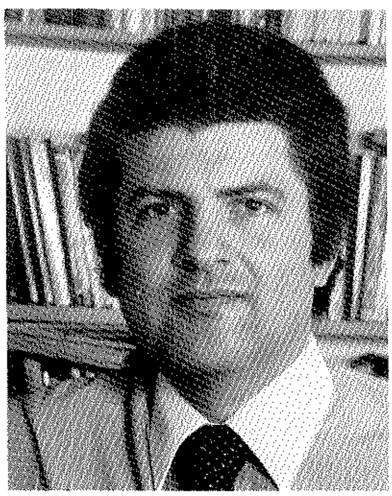
Land has zero cost of production yet inside the margin, land does command a price, often fabulous.

In the conventional modern economic theory of the firm, when price lies above the marginal cost of production, the firm is said to enjoy monopoly profit, providing a *prima facie* case for taxation and regulation. The socially-optimal output is defined by the volume at which market price equals marginal cost of production. Thus Harrison is justified in referring to *monopoly* landowners and ultimately advancing the case for 100 per cent land value taxation that would capture the monopoly surplus for the community, reduce the market price of land to zero, its cost of production, and ensure that land is not held off the market in speculative hoards.

By contrast, Adam Smith ignored the full implications of this inherent monopoly element in economies that has alienated property righs in land from the public domain. Perhaps this is attributable to the conventional definition of monopoly as a single producer. There are, of course, many owners of land, so most modern students of economics would, like Adam Smith, baulk at the phrase monopoly landowner. But none of these owners are producers of land, and the fixity of the aggregate supply of land is what gives an individual owner a monopoly rent.

Unfortunately, individuals currently acquiring property rights in land are obliged to pay the market price, which capitalizes prospective rentals. This is a pure transfer payment and not a cost of production. In a free land market, with perfect knowledge, purchasers of land will tend to pay a price that equalizes prospective yields from land and any other asset on the market. Land taxation would reduce their prospective incomes, which is why many urge that, to cushion the landowners' losses, the tax should be introduced gradually, or involve a system of gradually declining rebates.

Harrison, however, is anxious that the tax be quickly set at a level sufficiently high to deter speculation. Otherwise it invites the criticism that it is an ineffective and irrelevant measure; the pervasive harm caused by land speculation would continue until the levy was penal.



Fred Harrison – author of:
The Power in the Land: An Enquiry into Unemployment, the Profits Crisis and Land Speculation.
London: Shepheard-Walwyn, £8.95

> **'A tax upon ground rents would not raise the rents of houses. It would fall altogether upon the owner of the ground rent . . . whether the tax was to be advanced by the inhabitant or by the owner of the ground, would be of little importance. The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground, so that the final payment of the tax would fall altogether on the owner of the ground rent.'**
> Adam Smith (*Wealth of Nations* 5, ii, 1).

THE NATURE of this pervasive harm is explored thoroughly. First the author explains clearly why speculation in land has radically different consequences than other types of speculation.

- Commodity speculation and hoarding does not reduce aggregate demand, and stimulates current production of the commodities.
- Stock market speculation involves paper transactions that can indirectly lower the cost of business finance.
- But land speculation and hoarding reduce the availability of an essential factor of production and drive up the price of land in use. Efficiency is reduced and production costs rise, driving labour and capital out of business and reducing aggregate supply and demand.

Harrison documents the way in which land speculation has tended to produce 18-year cycles in land values unless modified by exogenous shocks such as war or inflationary finance. Toward the end of the cycle, a frenzy of speculative activity drives land prices up while reducing the amount of land held for productive purposes. This drives down the natural rate of interest on capital. The initial impact falls mainly on the construction sector which is starved of reasonably-priced land, but this is soon followed by a downturn in general economic activity that is heavily dependent on a healthy construction industry.

The evidence supports this explanation of business cycles far more convincingly than any of the alternatives, such as Marxist theories of excessively high wages that reduce profits, excessively low wages that reduce demand, excessive government spending (the Reagan-Thatcher thesis), or the effects of OPEC. These latter explanations are faulted on their timing or because different countries have different experiences of prosperity or depression with similar ratios of government spending to GDP or degree of labour unionization.

The author might have noted, however, that some of the explanations such as low wages and under-consumption theories are not inconsistent with the thesis that land speculation reduces profits and wages and, hence, aggregate demand despite a desperate *need* (not the same thing as *effective demand*) for basic commodities.

However, by providing a more fundamental explanation of the source of trouble, his diagnosis points to fundamental solutions rather than palliatives such as Keynesian demand management.

Curiously, the awareness that land is fixed in supply has been responsible for the widespread view in orthodox economics literature that land plays no role in the process of economic growth. Harrison reminds us of the crucial distinction between a fixed *potential* supply of land and the very variable supply made *available* to the market for use.

The scandalous paucity of official data on land ownership, use and non-use has encouraged this neglect of land's role in economic growth and cyclical instability. It has made Harrison's researches more difficult but also all the more important. Despite these difficulties, he presents us with very informative case studies in the history of land's alienation and monopoly in Britain, the USA, Japan and Australia.

THE EXPERIENCE of Soviet bloc countries is also reviewed. Whereas land monopoly and speculative hoarding are the fatal flaw in the capitalist free enterprise model, the socialist model suffers from an equally-fatal error stemming from Marx's labour theory of value. Since land has no direct or indirect labour costs of production, it can have no labour value, hence no value. In socialist systems, there is no market to guide the efficient allocation of scarce land resources and rents are not collected from users. Instead, a corrupt totalitarian bureaucracy presides over the rationing process, with predictable results.

The gloomy concluding message of this book is that unless the liberal democracies introduce the proposed fiscal reform to their land markets, the appeal of an illiberal socialism may prove too hard to resist.

Lastly, there are some very important sections of the book, perhaps not brought together or emphasised sufficiently, that deal with the question of the adequacy of land rents to finance the requirments of modern governments.

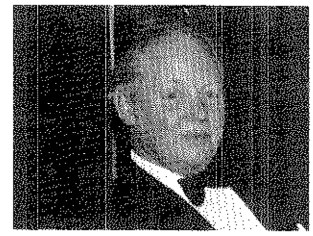
The conventional view, popularised by textbooks such as Paul Samuelson's, is that rent is now only a small fraction of governments' financial needs. Harrison explains the nature of pure economic rent as the only true surplus from which taxation can ultimately be derived, the insight originally propounded by the eighteenth-century French physiocrats. Taxes on capital and labour not only distort resource allocation and discourage supply, they also tend to be passed on in higher prices that ultimately must reduce land rents if labour and capital are to remain employed at their minimum acceptable levels of wages and interest.

If this diagnosis is correct, it means that gross rents would rise as taxes on labour and capital are reduced. The growth of taxation as a proportion of national income in modern industrial economies indicates that the physiocrats, Henry George and Ricardo may not, after all, have been wrong in their prediction that rents would capture a growing share of income even in the face of land-saving as well as labour and capital-saving technical progress. If so, the case in favour of the *impôt unique* (single tax), on grounds of efficiency, equity, certainty and 'buoyancy', deserves careful re-examination by modern economists and politicians.

Fred Harrison's work has provided them with ample material and a comprehensive bibliography and documentation.

VIC BLUNDELL

analyses official reports and Britain's land laws



MYTHS, like misquotations, have a habit of persisting despite all attempts to put the record straight.

In the political and economic field, land-value taxation has perhaps more than its fair share of myths, many of them generated by political hostility and perpetuated by the lazy and prejudiced who, whenever the subject comes up for discussion, rush to quote biased sources of information rather than do a little original thinking.

Much of the mythology can be traced back through Green Papers on the rating system to the report of the Simes Committee (Chairman, Sir Erskine Simes), which dealt exclusively with the rating of site values. This Committee was set up by the Labour Government in 1948 and reported in 1952.

Of the four Green Papers published since then, the latest in December 1981 *Alternatives to Domestic Rates,* ignored site-value rating with only a passing reference, citing the previous two Green Papers: these were published in May 1976 (the Layfield Committee report) and July 1971 (*The Future Shape of Local Government*).

Although over the last hundred years there have been a number of Government committees and Royal Commissions dealing directly and indirectly with our land tenure system and taxation, it is the Simes Committee report that has gained the greatest currency and credibility. The terms of reference given to this Committee were:

> "To consider and report upon the practicability and desirability of meeting a part of local expenditure by an additional rate on site values, having regard to the provisions of the Town and Country Planning Acts and other factors."

The majority (six) found site-value rating neither practicable nor desirable having regard to the provisions largely of the 1947 Town and Country Planning Act. The minority (three) was favourable to site-value rating.

The arguments of the majority report received a severe blow by the repeal of the very development charges of the Town and Country Planning Act which they had said made site-value rating impracticable, and by the publication of the first Whitstable valuation of land (1962) which refuted other arguments as to practicability.

> 'A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden upon anyone else. It does not affect the value or price of produce, for this is determined by the cost of production in the most unfavourable circumstances ... a tax on rent, therefore, has no effect other than its obvious one. It merely takes so much from the landlord and transfers it to the State.'
>
> John Stuart Mill (*Principles of Political Economy* 5, iii, 2).

Specifically, the Whitstable valuation demolished what appeared to be an irresistible argument regarding the amount of revenue that could be raised by rating sites only. The committee, with apparent logic, argued that the value of sites alone must be less than the value of sites plus buildings. This would of course have been true, had the value of a site been determined separately and then added to the value of the building standing upon it. However, as members of the committee must have known, under the present rating system, valuations are not done in this manner. Valuations are based upon what a property would let for from year to year with the site in its existing use and the building *in its existing condition.* Thus, a poor building on a valuable site would have a low valuation irrespective of the fact that, on its own, the site might have a higher value.

Also, under the present system, vacant land and agricultural land is excluded from valuation and from rates.

The Simes Committee estimated that the value of sites was between 20 per cent and 50 per cent of the then composite valuation of land and buildings for rating purposes. Taking 35 per cent as an average, we can see how far out they were then. The Whitstable Survey revealed that the total value of all the sites in Whitstable was almost 90 per cent of the composite valuation for rating purposes.

> It is no wonder that *The Guardian*, commenting on the results of the Whitstable experiment, said: "The Simes Committee reported adversely in 1952 on site-value rating but their report cannot continue to be Holy Writ . . ."

Despite this, many of the arguments in the majority report of the Simes Committee continue to be quoted and used as evidence against site-value rating.

LAND LAWS

THE HISTORY of land legislation in Britain makes dismal reading. Not only have successive Labour governments since the war failed to get to the heart of the matter, with their lack of understanding of the economic principles involved, but they have muddied the waters so much with unworkable land schemes that new proposals for land legislation may well provoke fears of the same nasty medicine as before.

Looking back to pre-war land legislation, there were two attempts at taxing land that were aborted.

- The first piece of legislation, the Lloyd George Land Value Duties of 1909–10, was subsequently repealed and the land duties that had been collec-

The Myth Makers

Not all the conclusions of the Simes Committee were adverse to site-value rating; indeed, some were favourable and the two chapters in the report dealing with the British background and the operation of the site-value rating policy abroad can be commended. But these carried little weight in the conclusions.

The minority in their report not only stated well the principles of site-value rating but also answered many of the objections and misapprehensions of the Majority Report. However, it was the majority report that prevailed.

IT WILL BE useful to examine the nature of the now almost standard objections and expose once again the unsound basis upon which they rest.

The most persistent myth is that the betterment levies, development charges and development-land-charges which have been features of land legislation since the last war render site-value rating unnecessary, implying that the purpose of site-value rating is merely to collect some of the *increases* in land value. No doubt site-value rating would do this in the periodic revaluations but, like a national tax on land values, site-value rating has as its primary target the taxation of *existing* land values which these other taxes completely ignore.

> The notion that the value of land cannot be separated from the value of buildings, or that such an exercise is extremely difficult, was most effectively disposed of by the two Whitstable valuations. Nonetheless this argument has been repeated *ad nauseam* and is still around.

Making a vice of a virtue, i.e. that land would not be neglected or misused under site-value rating, the claim is made in the Green Papers that encouraging the better or fuller use of land would result in overdevelopment.

The fact that development does not take place unless there is a market for it is ignored so that we are presented with a picture of unwanted skyscrapers suddenly appearing in everybody's back garden!

If there is anything to be said for encouraging development, the critics add, then it is that it has perhaps more force in relation to underdeveloped countries. And Australia is frequently included in this category by those who quote them. This, of course completely misses the point that it is in developed but rundown areas with derelict sites that the encouragement would be beneficial. The better use of land and the use of idle land should be particularly welcomed in this country where there is so much talk of "land famine".

A new myth, which grew out of the first Whitstable survey, was that site-value rating would price amenities out of existence. This was because the Chestfield golf course, which was in a very desirable residential area, was given a high valuation. The valuer did this on the assumption that planning permission, which had already been applied for, was imminent. It subsequently transpired that planning permission was refused and, of course, under site-value rating the valuation would have been reduced to permissible use only, i.e. use as a golf course. If planning permission had been granted for development, then it would have been the *planners* who had priced this particular amenity out of existence by releasing the development value of the land in question. The site-value rate would merely have increased with the new value.

This seems not to have been appreciated by those eager to seize upon any excuse to decry site-value rating. Much was made of it in the Press, with scare headlines claiming that site-value rating would put an end to all sporting amenities!

Another golf course in Whitstable, at Seasalter, some distance from the town and subject to periodic flooding, was unsuitable for development. This golf course naturally had a low valuation.

> The above example of muddled thinking springs from the false notion that all sites under site-value rating would be assessed upon their uninhibited potential use rather than their permissible use. But it is a principle of site-value rating that no owner of land is taxed or rated upon a value that cannot be realised.

Land owners would not be exempt if they kept their land idle and this would mean, say the myth makers, that since the owner would have no income from the land with which to pay his rate, he would be obliged to realise some of his other assets and thus finish up out of pocket. But that, of course, is the very discipline required to release the land for use so as to provide employment and revenue.

More examples of misunderstandings, misrepresentations and faulty reasoning could be given but perhaps the foregoing will be sufficient to illustrate the nature of the most persistent objections to site-value rating and the prejudice underlying them.

Compilers of Green Papers and members of Government enquiry committees who are instructed to look into these matters cannot plead ignorance, for The United Committee for the Taxation of Land Values has regularly submitted for their benefit evidence and statements dealing with the myths surrounding this subject that have accumulated over the years.

Experiments in failure

ted were paid back to the landowners. Not that these duties bore the slightest resemblance to land-value taxation as proposed by Henry George and demanded by many of those who supported that Liberal Government.[1] Nonetheless, the Act had at least the virtue that it established a valuation of land and it was in fact about to be stripped of most of its ambiguities regarding the definition of land value.

● The second attempt was in Part III of the Finance Act 1931, when Philip Snowden, Chancellor of the Exchequer, imposed an annual tax of one penny in the £ on the capital value of land (about one shilling and eightpence in the £ of annual value).

This was the Act that the Tory, Stanley Baldwin, said would "never see daylight" if the Conservatives got back into power, and about which Ramsay MacDonald, in an eve-of-poll speech in the 1931 General Election which returned a National (predominantly Tory) government, said: "If there is to be any partisan manoeuvring (by the National Government), then I am not their man."

MacDonald, who was to become Prime Minister of the National Government (which had succeeded the fallen crisis-ridden Labour Government) was later to eat his words. Challenged by the United Committee for the Taxation of Land Values to explain why the Land-Value Tax clauses were repealed under his premiership (1934),[2] the Prime Minister said in a letter to the Committee:

> **"It may be argued that the step which has been taken indicates the power of certain interests . . ."**

Despite its exemptions and other defects, these clauses did, in principle, express the taxation of land values as understood by its advocates — albeit only a small beginning in the collection of the rent of land for the community.

SUBSEQUENTLY, the Labour-controlled London County Council (as it then was) made two attempts to get government approval for the rating of site values by promoting two Bills in Parliament. The Conservatives defeated these attempts.

It was natural to expect that with the return of a Labour Government with a large majority in 1945, the Labour Party would pick up the threads of the two previously abortive attempts to introduce Land-Value Taxation and make good their pledges to legislate for the local rating of site values and a national tax on land values. *They didn't.*

The leaders of the post-war Labour Party declined to follow in the footsteps of their predecessors and, as part of their overall scheme to establish a government-planned economy, introduced the Town and Country Planning Act (1947) with its development charges (represented as land taxes).

This tortuous Act purported to deal with the problems of compensation and betterment, land scarcity and high land values. Land use was frozen to existing use and the future development rights nationalised by allocating £300m as compensation to landowners who lost the future development value of their land.

The Act is far too complicated to describe in any detail. It was never fully understood by anyone, not excepting the Government itself. It bristled with legal and technical complications, anomalies and absurdities.

● The "land tax" provisions were embodied in the development charge, a charge which fell immediately there was a change in the use of land. The bigger the change or material development, the bigger the charge.

● No taxes or charges fell where land remained in its existing use, even if the land increased in value.

● Where the charges fell on change of use or redevelopment of land, they had no real relation to land values (whether released by planning permission or not), only to the value of the development.

Protests came from politicians of the left, right and centre, from professors, planners, the people and the Press. And with justification. And yet this monstrous Act was heralded by the *Christian Science Monitor* as the fulfilment of Henry George's ideas! Perhaps they were misled by the excited waving of a copy of *Progress & Poverty* in the House of Commons by an enthusiastic but not too well-informed Labour member during the debate.

When the Conservatives were returned to power the Development Charges were among a number of the provisions of the 1947 Act that were repealed.

● Cont. on P.99

THE MOTHER

CONSISTENCY, declared Winston Churchill on one occasion, is the bugbear of little minds.

In one sense, that aphorism summarises his career. He changed party twice, and often caused considerable embarrassment in whatever ranks he chose to join. And his attitude both to Hitler and to Stalin underwent dramatic and swift changes.

And yet, in another sense, Churchill was a good deal more consistent than many politicians. His patriotism was never in doubt. He was always fundamentally a Free Trader, although he was often prepared to make compromises which infuriated purists. And he was a keen land reformer: again, not the sort of man to nail his colours to one mast and go down with his ship rather than abandon those colours, but a consistent believer in the importance and necessity of land reform in the spirit of Henry George.

Churchill's belief in land value taxation went back a long way. At Caernarvon, in October 1904 — as an Opposition backbencher — he declared that it would be necessary to give effect to the almost unanimous demand for the taxation of land values".[1]

This expression, "almost unanimous", was something of an exaggeration, but not as much as it may seem. Well over 500 local authorities — Conservative as well as Liberal — had petitioned for the right to levy rates on the basis of site values, and in the overwhelmingly-Conservative House of Commons of the day, a Bill in favour of site value rating had not long passed its second reading, winning substantial support from Ministerial supporters.[2]

AS A JUNIOR minister in Campbell-Bannerman's Liberal Government, Churchill did not resile from the views he had expressed in opposition.

● At Glasgow, in October 1906, he spoke of the "determination . . . to intercept all future unearned increment which may arise from the increase in the speculative value of the land".

● In his first major speech on the land question, delivered at the Drury Lane Theatre in April 1907, he called for "a universal valuation of the land, rural and urban" on the basis of "fair market value of the land, apart from the buildings and improvements of all kinds".

Churchill contended that "the present land system hampers, hobbles and restricts industry . . . a reform of our rating system and our system of land tenure would be followed by an upward movement in the material welfare of the nation."

He made an important point which is often missed by proponents of land reform. The injurious effect of a bad land system does not lie just in the fact that some people become richer and others become poorer than would otherwise be the case. This imbalance is only preserved by "vexatious obstruction of social and economic progress far more injurious and wasteful than could be measured by their own inordinate gains".

Churchill, however, had a disposition to introduce quasi-moral judgments into his dialectic.

"There are only two ways in which people can acquire wealth", he once declared. "There is production and there is plunder. Production is always beneficial. Plunder is always pernicious . . ."

The inference seemed to be that beneficiaries under the existing land system were "plunderers". When we read the speech carefully, we see that he disavowed that inference; but people do not always read politicians' speeches carefully, and unnecessary animosity was aroused.

Such speeches from Churchill, and others, served to explain why Lloyd George's celebrated Budget of 1909 sparked off such a furious controversy: a controversy which would hardly have been anticipated after the relatively uncontentious character of the site value rating proposals in the previous Parliament.

Churchill — by now a member of the Cabinet — jumped in with both feet. His speech in Edinburgh on 17 July 1909 is a model of lucid argument, largely free of surplus and counterproductive polemic.

"Land", he declared, "which is a necessity of human existence, which is the original source of all wealth . . . is strictly limited in extent . . . is fixed in geographical position (and) . . . differs from all other forms of property in these primary and fundamental conditions."

No doubt, he went on to argue, there are examples of people making inordinate profits from things other than land: the sale of a picture, for example. "But pictures do not get in anybody's way." Speculators in stocks may receive "profits . . . far beyond what they expected or indeed deserved . . . nevertheless that profit has not been reaped by withholding from the community the land which it needs, but on the contrary, apart from mere gambling, it has been reaped by supplying industry with the capital without which it could not be carried on".

By contrast, the owner of land who holds it out of use in speculation on rising land values does much harm. "The citizens are losing their chance of developing the land, the city is losing its rates, the State is losing its taxes which would have accrued if the natural development had taken place; and that share has to be replaced at the expense of other ratepayers and taxpayers, and the nation as a whole is losing in the competition of the world . . . both in time and money".

This Edinburgh speech is typical of others which Churchill delivered about that time; it must be read in full to savour its penetrating logic.

Yet there was the usual confusion in the public mind between attack on a system and attack on individuals who benefit from that system. Churchill's opponents returned the attack in full measure. A few weeks later, the bloodthirsty Duke of Beaufort proclaimed his wish "to see Winston Churchill and Lloyd George in the middle of twenty couple of dog hounds".

WHAT HAPPENED, in the end, to Churchill's land taxing enthusiasm?

This is not an easy question to answer. In 1917, he accepted office in Lloyd George's Coalition, after a period out of government. As the law then stood, he was required to submit to a by-election in his Dundee constituency.

Questioned on land taxing, he replied: "I have made speeches to you by the yard on the subject of land value taxation, and you know what a strong supporter I have always been of that policy."[3]

And yet, three years later, that same Lloyd George Coalition, with Churchill still an important member, abolished the very land taxes which had been the matter of such intense controversy in 1909–10.

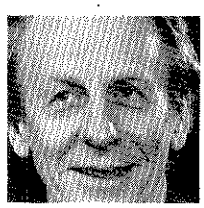
"Land monopoly is not the only monopoly, but it is by far the greatest of monopolies — it is perpetual monopoly, and it is the mother of all other forms of monopoly.

Unearned increments in land are not the only form of unearned or undeserved profit, but they are the principal form of unearned increment, and they are derived from processes which are not merely not beneficial, but positively detrimental to the general public.

I have made speeches by the yard on the subject of land value taxation, and you know what a supporter I am of that policy."

Winston Churchill

by Roy Douglas



Lloyd George's defence of his own apparent *volte-face* would doubtless have been echoed by Churchill: that the yield of those taxes was so trifling that it did not justify their continuance. In a sense, that was correct; but it misses the most salient argument advanced at the time of the Budget debate.

Lloyd George had not introduced those taxes in the first place for their own sake but because they seemed to offer a device for slipping through a general system of land valuation, on which it might later prove possible to apply land taxation.

That valuation had not been completed by 1914, and there was not the remotest chance of persuading the Parliament which sat in 1920 to resume it. So why preserve futile taxes whose object had been to facilitate a now-impossible valuation?

IN 1922 the Lloyd George Coalition fell, and Churchill suddenly found himself "without an office, without a seat, and without an appendix".

In the following year, Prime Minister Baldwin called a General Election on the Protection-versus-Free Trade issue, and Churchill unsuccessfully sought election as a Liberal.

At the beginning of 1924, the first Labour Government took office, and Churchill rapidly moved towards the Conservatives. In October there was another General Election, and he was returned as a "Constitutionalist". To everybody's astonishment, and not least his own, Churchill became Chancellor of the Exchequer in the new Government which resulted, and over which Baldwin again presided.

Within that Government he had his work cut out to preserve the essential fabric of Free Trade against great Protectionist pressures some of his colleagues: indeed, many Free Traders criticised him for serving in an administration of such complexion at all.

What was absolutely clear was that no faint chance existed of making any sort of useful fight for land taxing as well as Free Trade. Challenged in Parliament in December 1924, Churchill adroitly side-stepped the question: "I took occasion to inform my

● Cont. on next page

OF ALL MONOPOLIES

constituents in the Epping Division during the recent election that I was not seeking a mandate from them for the taxation of land values during the present Parliament."

That Parliament lasted until 1929, and from time to time, land taxing enthusiasts in the Labour and Liberal parties sought to draw Churchill into either avowal or repudiation of his pre-war position on the subject — always without success.

Cast into opposition in 1929, Churchill soon found himself at loggerheads with his erstwhile Conservative colleagues on the future of India. Eventually, in 1931, the National Government was formed, and as the decade advanced the voice of Winston Churchill was raised increasingly on international rather than domestic causes. What appears to have been his last public observation on land taxing came some time after the Second World War. I have sought without success to discover the reference (perhaps a reader can help me there?) but there seems to have been a Parliamentary exchange with one of the leading Labour personalities who taunted Churchill with having once sung the "Land Song". The retort was to the effect, ". . . and I shall sing it again".

So what do we make of Churchill as a land taxer?

He was firmly convinced that land value taxation was desirable, although he probably never shared the most sanguine and enthusiastic forecasts as to the benefits which would supervene from its introduction. There is no reason to think that his opinion on the matter ever changed. Yet he was a politician who believed politics to be the "art of the practical". He was willing to fight in that cause as in others, where he judged that positive results could be produced by so doing; but he was not prepared to die in the last ditch for one cause when he had a chance of living and continuing to fight in defence of some other causes in which he *also* believed.

The world needs both the idealists who willingly suffer martyrdom, and the realists who fight only where they think they have a good chance of winning. Neither group has any right to sneer at the other.

REFERENCES

1. This quotation, like others in the article, is from *Land Values,* predecessor of *Land and Liberty.*
2. See list in *Liberal Magazine,* 1904, pp 161–2.
3. *Dundee Advertiser,* 28 July, 1917.

The one tax that can't be dodged

By RICHARD STOKES

THE LAST serious political attempt to introduce land value taxation in Britain was made by Richard Stokes, who was Minister of Works in the Labour Government in 1950.

After graduating from Cambridge, he entered the Army and distinguished himself during the first world war. He was awarded the Military Cross and the French Croix de Guerre.

In 1938, he was elected to Parliament for the constituency of Ipswich. Late in the 1940s, the Labour Government set up an inter-department committee on site value rating to examine the prospects of shifting the property tax off the value of buildings and on to land values.

Mr. Stokes served on that committee. He guessed that the rent value of land was £1,000 m – eight per cent of the national product, which was probably a severe under-estimate.

The data on which to make precise calculations, however, was not available. An attempt had been made to value all the sites of Britain when a socialist Chancellor, Philip Snowden, introduced land value taxation in his 1931 budget. But the valuation programme was suspended in keeping with a pledge on behalf of the Conservatives by Stanley Baldwin in June that year:

"I can say one thing about it, that if we get back to power, that tax will never see daylight."

It didn't. Nevertheless, Mr. Stokes campaigned for the reform of the property tax in the post-war years. Before he could achieve success, however, he died from injuries received in a car crash in August 1957. He was aged 60.

Two years earlier, the Labour Party published a pamphlet in which Mr. Stokes explained why a tax on land values fell exclusively on landowners: it could not be passed on to others. Because landowners who oppose fiscal reform still seek to cloud this issue, we publish an extract from Mr. Stokes's six-penny pamphlet, *The Rating of Site Values.*

THE QUESTION whether a tax or rate on land values can be passed on to the tenant is a question of economic principle, and this will apply whether the tax be large or small.

Many people, as soon as they grasp the idea that taxes upon labour products shift to consumers, jump to the conclusion that similarly taxes upon land values would shift to users.

But this is a mistake and the explanation is simple.

Taxes on products are added to their price, for all competing products must pay the tax added to the price of the product; but taxes and rates on land values are not added to the price of land because competing unused land will keep the price of land down.

Sometimes this point is raised as a question of shifting the tax in higher rent to the tenant, and at others as a question of shifting it to the consumers of goods in higher prices. The argument is the same.

Merchants on expensive sites cannot and do not charge higher prices for goods than their competitors do merely because they pay higher ground rents.

A country shopkeeper whose business site is worth but a few pounds, charges as much for sugar as does a city grocer whose site is worth thousands. Quality for quality and quantity for quantity goods tend to sell for about the same price everywhere.

Though land value *has no effect upon the price of goods*, it is *easier* to sell goods in some locations than in others. Therefore, though the price and the profit of each sale be the same

THE U.S. cotton industry has been turned topsy turvy by the government's payment-in-kind (PIK) programme.

Land has been withdrawn from production by farmers in return for payments-in-kind from government stocks.

Growers liked the idea of receiving cotton without having to work their land, so they rushed to join the programme.

By June, the Department of Agriculture found that it was running short by 700,000 bales of cotton to meet its PIK obligations.

So on June 17, a Plant-for-PIK programme was announced. Farmers were promised inducements in return for cotton which the Dept. of Agriculture could pay to idle cotton growers.

● On June 20, market analysts confirmed that the reduction in cotton-producing acreage had helped to push up the price of cotton.

in good locations and in poorer ones, aggregate receipts and aggregate profits are much greater at the good location. And it is out of this *aggregate*, and not out of each profit, that rent is paid.

For example: a shoe store on a main thoroughfare supplies certain quality shoes at 50s. On a side street the same quality of shoes can be bought no more cheaply. Yet ground rent on the main thoroughfare is very high compared with the ground rent on the side street.

How, then, can the first dealer – he who pays the high ground rent – afford to sell shoes as good as those of his neighbour in the low-priced location for the same price? Simply because he is able to make many more sales in a given time so that his aggregate profit is greater. This is due to the advantage of his location. And for that advantage he pays what amounts to a premium in higher ground rent. But the premium is not charged to customers; *the dealer of the side streets protects them by his competition.*

This higher ground rent represents the greater ease or, if you like, the lower cost of doing a given volume of business upon the site for which the premium is paid; and if the State should take any of it, even the whole of it, in taxation, the loss would be finally borne by the owner of the advantage which attaches to the site – in other words by the landlord.

Any attempt to shift the site rate on to the tenant or buyer would be promptly checked – people would go off and shop in the side streets instead of in the main thoroughfares and the shops in the main thoroughfares would have to close down.

Or put it another way.

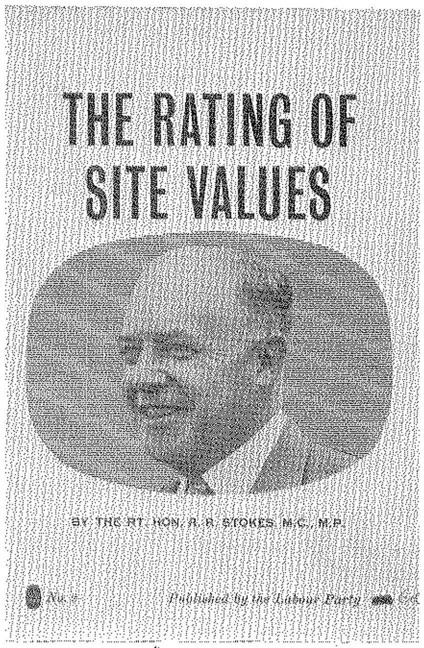
A tax on tea and tobacco, though it may be paid to the Custom and Excise in the first place by the importer, is eventually recovered by him in the price which he charges the retailer who in turn passes it on to the consumer. So the question is constantly asked: "Won't the landlord do the same if he has to pay a site value tax?"

In the first place, a tax on land value is a tax on land rent alone. It is a tax on the value or price the land can command in the open market. It must be remembered that land which has no *market value* is not necessarily useless land. It is only useless to the man who tries to get something out of it without working it himself. Land which will give a return sufficient only to compensate labour and give a bare return to capital can have little or no *market value* – no one would buy or pay rent for this land.

There is quite a lot of land which falls into this category – it is known as marginal land.* As no rent or selling price can be got for this land – there would obviously be no land tax to pay. No rent, no tax.

NOW LET us look at the better land (urban as well as agricultural).

Here we see that with a similar expenditure of effort the returns are greater and when measured against the marginal production, the *difference* in productive capacity shows itself in rent.



Mark that this difference in production exists even if no payment is made between one man and another. The advantage the owner of the better land (user or not) has over the marginal land owner is 'economic rent' – and it is this difference that it is proposed to tax.

It will be seen, therefore, that the tax – while levied at a uniform *rate* – will vary in amount according to the variation in the values of the different plots. This is the key to understanding why a tax on rent cannot be passed on to the consumer or tenant.

So we know from experience that a tax on commodities can and is passed on to the consumer. Very well. Now suppose a tailor's shop and half its stock destroyed by fire in the night. Could the proprietors double the price of the remaining suits to recoup their loss?

The answer obviously is 'no'.

Likewise, a jeweller who tries to pass on his gambling debts to his customers by charging higher prices for his jewellery would soon lose his customers to his competitors. It is competition which levels prices and prevents sellers from juggling with prices.

But when a commodity tax is levied *it falls on all shopkeepers equally.* All competitors are in the same boat. None has an advantage in respect of the tax, therefore it can be passed on to the customer without fear of being threatened by competition. The jeweller knows that he can pass his jewellery tax on because, unlike his gambling debts, all his fellow traders are affected by the tax in the same way.

Now look again at the land value tax. Is it a tax which falls on all traders equally? Certainly not.

While the grocer or tobacconist in Bond Street pays the same excise tax per lb. of tea or tobacco as his competitor in the village store, he would pay a *very different* land value tax. The Bond Street retailer (assuming he were the landowner) would have to pay the full land value tax but would not dare to attempt to raise his prices.

If all those liable to pay the tax were to attempt to pass it on to the customers, we would have the fantastic picture of goods of the same value *selling at different prices!* according to the varying amounts of land value taxes levied.

If the landowner in Bond Street were a separate person from the retailer, he would not dare to raise his rent or else his tenant would leave – because the tenant could not raise his prices and would not stand the loss himself.

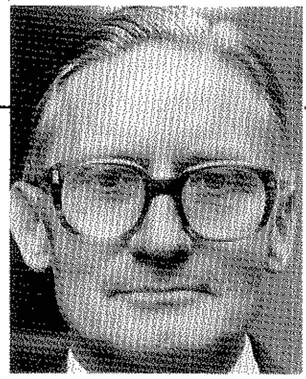
The land value rate or tax is like a handicap in a race. It levels up the different advantages, and as one runner cannot shift his handicap on to another, so the landowner cannot shift his land value tax to the tenant or consumer.

It is this difference between valuable sites and marginal sites that it is proposed to tax.

*Marginal land is that land, which, after using the optimum application of labour and capital, yields a return only sufficient to cover labour earning and capital return at the prevailing rates – leaving nothing that can be secured as rent for the land.

Sub Marginal land is land which will not yield sufficient to pay the current rate of wages and the current rate of interest.

Can money buy the Matterhorn?



by Bert Brookes

IN THE SWISS federal court at Lausanne, some time soon, a civil action will be fought between a hotelier named Zimmerman and a group of Swiss families led by businessman Othmar Julen. At stake will be a large piece of property; a veritable mountain of real estate which the world knows as the Matterhorn.

To the 25,000 winter sports enthusiasts who throng its ski-slopes or climb its challenging faces every year, the Matterhorn is one of the natural wonders of Europe. Pointing over 14,000 feet into the Alpine sky above the resort of Zermatt, this towering pyramid of snow-covered rock must rank as one of the world's most famous mountain peaks.

But to Othmar Julen, the Matterhorn is not so much a peak as a pay-cheque. He and his family, with 20 other burgher[1] families of Zermatt, consider that they own it. And not just the Matterhorn; according to a report in the *Sunday Times Magazine*[2], they also lay claim to the Breithorn, Castor and Pollux, the Lyskamm and Monte Rosa.

There is not much doubt that this breathtakingly beautiful area, world-wide favourite among winter sports devotees, is well worth owning.

- As landlords, the 21 burgher families control all development on and around the ski-slopes and have a monopoly on cable cars, lifts and restaurants.
- All profits from feeding and refreshing the climber — including coca-cola at £1.25 a time — accrue to them.
- From some of Zermatt's most luxurious hotels, from the town's water and electricity installations and from the £260m that tourists spend in the town every year, the 21 families take a hefty percentage.
- Their assets, amazingly for a small Swiss town, are estimated at £77m.

"We have always owned the mountains," Mr Julen declares. And of the Matterhorn in particular, he says, with conviction: "It's ours. Our families finished buying it by 1618 and nobody is going to take it away from us."

THE OFFICIAL history of Zermatt bears out Mr Julen's claim. The whole area was given by King Rudolf III to the Count-Bishops of Sitten in 999. The Count-Bishops ceded it to feudal lords who, in turn, sold their rights to local families. In 1618, the families formed themselves into a unified association called the "Burgher-gemeinde".

In the early days, life for the burghers was no bed of edelweiss. They gained a frugal living from the land, farming sheep, goats and cattle. But in 1865, mountaineering arrived, the dramatic lift-off of winter sports followed and the fortunes of Mr Julen and his associates were laid.

Recently, a small cloud gathered over the business prospects of the Burgher-gemeinde. On the initiative of Mr Zimmerman, their title to the area is being challenged. Indeed, a local court has already found against Mr Julen and ruled that the Matterhorn belongs to "Zermatt as a whole". But Mr Julen is not disheartened. He is appealing to the federal court, and he insists: "Those are our mountains, and that's that."

No doubt Mr Julen sincerely believes the Matterhorn to belong to him and his associates. Their forbears bought it and no doubt they have an impressive title deed bearing the appropriate crests and seals.

No matter that the Matterhorn, like every other particle of the Earth's surface, was here aeons of time before the remotest ancestors of King Rudolph and the 21 families swung from tree to tree.

As far as they are concerned, they own it — provided they win their case in court. They own the Matterhorn just as, say, the first Lord Arran owned 360,000 acres of Ireland[3]; just as the Land Lords of London — the Grosvenors, the Cadogans, the Bedfords and the Howard de Waldens — between them own most of Marylebone, Bloomsbury, Knightsbridge, Chelsea, Belgravia and Mayfair[4]; and just as I and many readers of *Land & Liberty* own the few square feet of land on which stand our semi-detached houses or bungalows.

Yet Mr Julen must know, as Lord Arran and the rest of us must know, that the titles we hold to the land we call "ours" have no more substance than those which various crackpot organisations issue for plots of land on the Moon.

No one in his right mind would argue that parts of the Moon's surface are capable of being owned by individual human beings. Is the Earth any different?

PERHAPS everything that needs to be said about land titles was said by Henry George in *Progress and Poverty.* He wrote:

> "Consider for a moment the utter absurdity of the titles by which we permit to be gravely passed from John Roe to Richard Roe the right exclusively to possess the earth, giving absolute dominion as against all others. In California our land titles go back to the Supreme Government of Mexico, who took from the Spanish King, who took from the Pope when he, by the stroke of a pen, divided lands yet to be discovered between the Spanish or

THAILAND

Reds quit jungle for land

MANY Communist guerrillas in Thailand are giving up their struggle.

The promise of land has lured them out of the jungle, where they have waged war against the government.

Since December, groups of up to 1,000 insurgents have been marching out of their hide-outs. Some of them explained that they joined the guerrillas when government troops burned their homes during searches for communists.

One intelligence officer explained that these tactics are no longer used. And he said that the arrogance of officials, "corrupt police and greedy landlords" had always helped to strengthen the ranks of the Communists.

The Red army has drawn its strength from the hundreds of thousands of landless farmers in the north east.

But some defectors are now complaining that the government has not kept its promise to give them land and houses.●

● Colin Campbell, 'Many Thai Communists give up their long warfare in the Jungle', *New York Times*, July 4, 1983.

Portuguese — or if you please they rest upon conquest. In the eastern states they go back to treaties with Indians and grants from English kings; in Louisiana to the government of France; in Florida to the government of Spain; while in England they go back to the Norman conquerors. Everywhere, not a right which obliges, but to a force which compels. And when a title rests but on force, no complaint can be made when force annuls it. Whenever the people, having the power, choose to annul those titles, no objection can be made in the name of justice. There have existed men who had the power to hold or to give exclusive possession of portions of the earth's surface, but when and where did there exist the human being who had the right?"[5]

This uncompromising ridicule of titles to land is unanswerable; not one of us has any *moral* title to any natural resources we might claim to own.

But so accustomed do we become to society around us ignoring this fundamental fact that our perception of the incongruity — like the taste of water — fades. We come close to accepting that the practice of land being "owned" by individuals has somehow become hallowed by the mere passing of time; just as in English grammar, a common error can become "sanctioned by usage". Then, suddenly, a grotesque fantasy, such as a claim to own the Matterhorn, jolts us from our torpor.

For while the sanctioning by usage of a piece of corrupted English may unsettle the perfectionist, it has no effects outside the world of letters. It victimises no one; it enslaves no one; it sentences no one to pay tribute to others till the end of time.

In contrast, the commandeering of a piece of land does all of these things. Instead of granting the Matterhorn and the surrounding area to the Count-Bishops in 999, Rudolf III could just as effectively have issued them with a royal document decreeing that, in perpetuity, all people living and working in Zermatt should pay a levy to the Count-Bishops or their successors, a levy that would grow with the passing years until it became the lion's share of the wealth produced.

But whether the method adopted is the appropriation of land or the enforcement of a tribute, the common people are robbed of their possessions. It was, and is, a crime that moral law can never sanction, however long it has endured. That is the shameful significance of land ownership. Perhaps we should be grateful to Mr Julen and his associates for reminding us of these facts.

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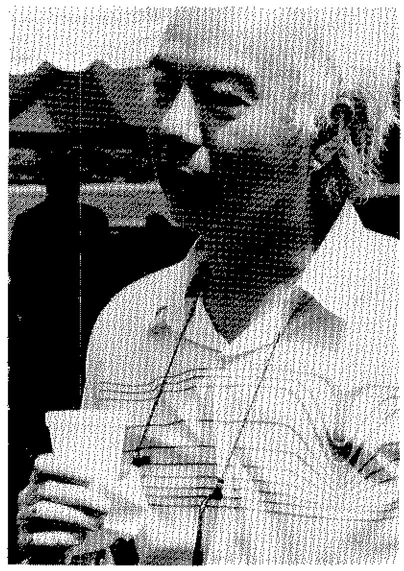
ROUND THE WORLD . . .

LAND IS A POLITICAL PROBLEM

SPECULATORS are the target of a new tax adopted by Singapore's government.

When the use of land is changed, 70 per cent of the increased value is taxed away.

"We have deliberately discouraged land speculation," explains architect William Lim. "We encourage free enterprise in all other areas."



● **William Lim**

There is no housing problem in the world, he says, but there *is* a land problem – "which is a political problem because governments protect landowners."

Speaking at the Second World Congress on Land Policy, staged at Cambridge, Massachusetts, Mr. Lim declared:

"Land problems are not technical, academic or Third World problems, but they *are* political problems."

ARLINGTON'S shopkeepers expected a revival of business in the decaying downtown district when the new Washington, DC subway opened for business three years ago. Instead, many of them are being forced out of business by rents that have doubled near the stations.

'Public robbed of birthright'

AN AMAZING attack on Washington's politicians has been launched by the Editor of a scholarly journal.

In the July issue of the *American Journal of Economics and Sociology* Mr. Will Lissner reported that in fiscal year 1983 the nation received $17 billion from lease rents and royalties.

The revenue came from the private exploitation of publicly-owned natural resources on the continental shelf and the sea bottom.

"It's the public's offshore money from the people's land," declared Mr. Lissner.

But the orthodox view in the United States is that these resources ought to be sold off to the private sector. Mr. Lissner declares in a no-holds-barred comment:

"The plunderbunds within the Republican and Democratic parties, which unfortunately have been all-powerful in several recent administrations, would like to hand over, for a pittance, these leases and royalty agreements to their campaign contributors who have so pervasively corrupted American politics."

Such a sale, says Mr. Lissner, would "rob the people of their birthright, their patrimony." It was justified on the grounds of preserving capitalism, but the sale would have the reverse effect.

"Nothing would be more likely to sound the death knell of capitalism, to bring on a Soviet-style revolution and the dictatorship of the politicians and the secret police to which revolution inevitably leads."

Social science is equipped to devise rational programmes for resource taxation and land use, claimed Mr. Lissner, but these conflicted with the "privileges usurped by wealthy and powerful special interests.. and their stooges, university professors, journalists, lawyers, politicians, officeholders and so on."

Mr. Lissner said that the present distribution of beneficial interests in natural resources was "creating billionaires whose crackpot ideas, combined with the terrible power of their hoards, threaten the survival of democracy in America."

The attempt to hive off publicly-owned resources to private interests was treasonous, wrote Mr. Lissner. Unprincipled politicians, he declared, "must be driven out of office, out of public life. The Congress's investigatory bodies should be ultra-zealous in exposing every facet of the effort."

David Richards on the Oxford land conference

Politics and the taboo question

THE FIRST Minister of Town and Country Planning was appointed in 1943, charged with "securing consistency and continuity in the framing and execution of a national policy with respect to the use and development of land . . . "

Forty years on, that brief has been abandoned[1] and the chosen policy of regulatory land use planning, instituted by the Town and Country Planning Act 1947, "is itself coming under critical scrutiny among politicians, and among land use planners themselves"[2]

It was to review this situation that Patsy Healey of the Town Planning Dept. at Oxford Polytechnic and Sue Barrett of the School for Advanced Urban Studies at Bristol called a conference at Oxford on Land Policy: Problems and Alternatives.

The conference's stated aim was "to inter-relate the discussion of land ownership, values, land use planning and development policies, and to review the extent to which recent theoretical work and research findings contribute to our understanding of this area of policy, to evaluation of current policy and proposals for change".

In the event, little inter-relating was attempted other than between planning and development policies. A variant of Parkinson's Law ensures, in these circumstances, that the private games of the planners take up all the time allotted.

This was far from being the wish of the organisers. Barrett and Healey's introductory paper opens thus:

> One reason for calling the conference is that "the land question" is once again on the political agenda in Britain with the abolition of 1980 of the Community Land Act. Yet in our view a serious criticism of the post-1947 attempts to review the land question in the UK is that the issue of State intervention in land ownership and land values has been repeatedly discussed *in isolation* from the more firmly established system of regulatory land use planning, and, more broadly, the role of state intervention in the ownership and allocation of land and property in relation to social and economic policy . . .
>
> One of our main concerns in calling this conference has been to re-integrate the discussion of land use and land values in the UK, frequently treated in recent years as separate activities. We believe that this division has arisen because of the way land policy has been institutionalised in the UK (with planning departments and planners concerned with land use matters), and the separation of the more politically contentious parts of land policy (land values) from the more generally accepted programmes (concerning the control of land use).

Their attempt to reverse the momentum of decades was, however, defeated. A cloudy verbiage whipped up by 100 or so theoreticians and practitioners of the established mode of land policy rolled over the land question, which disappeared from sight.

Their mistake was to "take a broad definition of land policy . . . . The 'land question' in any society involves bringing together consideration of land ownership, use, management and development, and the role of deliberate State intervention in pursuit of social and economic goals."

The net was cast so wide that the fish they were really after were lost amidst a teeming, slippery mass of distractions.

Only the first two of these concerns is the land question ("To whom does the land rightfully belong?"); the rest are economic questions, to be answered only after the land question has been settled.

THE LAND question, however, was not asked. Ad hoc land answers, such as those of the UK, USA, Sweden, Holland, West Germany, Israel and Taiwan, were referred to for their bearing upon economic questions rather than for their solutions to the land question.

In fact the very reverse of Barrett and Healey's intentions was realised. The conference bemoaned the intrusion of politics into the arena of land policy.[3] It pleaded that questions of ownership and betterment be put into cold storage, the institutional framework of land policy frozen, and the land use technocrats freed to implement their plans.

● SUE BARRATT

● ARLO WOOLERY

The majority of participants, in effect, adhered to a view explicitly rejected by Barrett and Healey — Nathaniel Lichfield's view of *"land policy* as merely the set of instruments and mechanisms for achieving *land use planning* objectives." These "do not express policy ends of their own" but "policies defined elsewhere."[4]

On the contrary, Barrett and Healey "would argue that many policies in the land field have underlying ends related to the distribution of property rights between the State and the individual (or private company), and the distribution and re-distribution of benefits arising from the ownership and use of land and property."

Alas, the conference had not ears to hear. Only one paper addressed these "underlying ends", 'Changing Patterns of Land Tenure: The American Experience', by Arlo Woolery, Executive Director of the Lincoln Institute of Land Policy. Its main thrust was to uphold indiscriminately "the sanctity of private property", as "promulgated by the Constitution" without distinguishing between property in the gifts of nature and property in the works of man.

However, in a workshop session, Arlo Woolery did commend the two land taxes of Taiwan for distributing the benefits of land ownership over the whole population. Nevertheless, he later held it against "Henry George's theory" that they had not kept down land prices. Of course, there are many exogenous variables, he added.

As for the rest of the conference, it proceeded as though Lichfield's definition had been adopted. Any policy under the sun with a land-use component was fair game — housing, employment, inner cities, the regions, local government structure and so on. Only the land question was taboo.

Consequently, another of the convener's major goals was thwarted, that of overcoming "the intellectual fragmentation of the land policy field." Robin Thomson, Chief Planning Officer of the London Borough of Southwark, was able to conclude in the final session that fragmentation had deepened over the past three days. And Patsy Healey's parting words were to apologise for being unable to avoid compartmentalisation — the scale of the subject was so vast.

Had they stuck to their guns and asked the right question at the beginning, no apology would have been necessary.

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3. S. Markowski, 'Urban Land Policies for the 1980s: An Economic View', Conference Plenary Paper, pp. 33, 34.
4. Barrett and Healey, op cit., p. 4.

'Plus values' VERSUS 'whole values'

By David Richards

"WHAT IS CURIOUS," remarked the Oxford conference organisers in their introductory paper, "is how little real concern town planners in practice, and the developing academic tradition in the planning schools, have actually given to land issues."[1]

What was not curious was that this self-serving myopia was not about to change.

More manipulated than manipulating, operating within a market system that serves to dissipate their actions, caught between the conflicting briefs of development control and development promotion, bedevilled by internal power struggles and external political squabbles, the planners had plenty to occupy them without worrying about the land question.

However, one concern that should have brought them up against it was "the vexed question of compensation and betterment", that which "effectively emasculated planning before the war" and which "remains largely unsolved."[2]

It was repeatedly stated that there is a concensus that Development Land Tax (DLT) is the most acceptable way of socialising development gains.[3] The only controversy concerns whether local authorities should be allowed to divert the profits released by planning permission away from the Treasury through the practice of extracting "planning gain" (i.e. the provision of public facilities by developers alongside private developments as a condition of granting permission).[4]

It was also stated that DLT is the least efficient revenue-raiser, hinders development, and has been exempted almost out of existence.

Could it be that DLT's acceptability depends upon this impotence, which allows it to be held up as a policy on the land question, but at the same time ruffles few feathers?

This suspicion is strengthened by the fact that there is a discontinuity between the policy instrument and the rationale behind it.

The theoretical argument is that increases in land rents represent an "unearned increment" to the land-owner, and are therefore an appropriate subject for taxation.

Thus, Geoffrey Keogh, an economist at the Faculty of Regional Studies, Reading University, states in his paper to the conference, 'The Economics of Planning Gain', that there is "an economic rent received simply as a consequence of the grant of planning permission. Since development will theoretically occur, provided the developer can earn normal profits, this introduces the possibility of imposing a tax on the unearned economic rent. In principle, any tax up to 100 per cent could be levied without inhibiting efficient development, although in the United Kingdom, Development Land Tax presently stands at 60 per cent while no estimate has been made of 'planning gain' as a tax on development profits."

Keogh slips casually from the concept of a tax on unearned economic rent to the concept of a tax on abnor mal development profits, such as DLT.

Like most theoreticians, he has failed to distinguish between the two separate markets that exist for land, and to note that one tax applies to the rental (use) market, whilst the other applies to the market in the selling or capital value.

The remarkable fact about DLT is that it does not touch unearned economic rent at all, not even the "unearned increment." This is because it concerns only the capital price of land and has no effect on the recipients of land rent.

It is the rental market for land which is vital in economic activity. The value of land in economic theory is its rent. It is this value which is a social surplus and which should be used for social purposes.

The selling price of land and its investment value exists merely because the social surplus has been alienated into private

● STEPHAN MARKOWSKI

hands. The creation of titles to the freehold ownership of land has given land a capital value which is the market value of the right to receive or enjoy land rents.

This market value is totally dependent upon the legal titles, and upon the rental market. Were all the rent to be taxed away from the landowners there would be no selling value and no investment market in land, for there would be no private economic value left for marketing. Possession of land would then be regulated purely by the rental market.

DLT, however, applies only to capital gains made in the selling price. The whole of the rent of land continues to accrue to the owner of the freehold title.

THE SECOND weakness of Keogh's argument is the arbitrary point at which economic rent suddenly becomes unearned. Apparently only rental increases are unearned. Though Keogh is only analysing those increases following the granting of planning permission, the Uthwatt Report of 1942 was unable to make any moral distinction between increments due to the specific actions of the public sector, and those due to the development of the community in general.

But the whole idea of the "unearned increment" is an illusion. If the increment in rent is unearned, so must be the whole of rent, for it is purely that sum of successive increments to an original value of zero. No date can be fixed before which rental increments can be said to have been earned. J.S. Mill proposed such a date simply as a matter of political convenience.

The policy of taxing so-called unearned increments has been part and parcel of the error of applying to the capital market arguments based upon the rental market: "Planning gain is the realisation of some or all of the economic rent as a community benefit," writes Keogh, conducting his analysis with graphs of land rent against distance from the urban centre.[5] He can do no other, for such supply and demand analysis requires that the quantities be expressed as rates of flow over time. Land rent incorporates the time dimension, purchase price does not.

The only way to realise some or all of the economic rent as a community benefit is for the government to collect the rent itself. And not just rent increases or their capitalisation.

Apart from being arbitrary, that has, in the past, left landowners with no incentive to offer land to the highest bidders and the land allocation mechanism has broken down.

Only a full tax on the whole of land rent would achieve the desired result. Landowners would then have no say at all in the level of rents, for their function as rent collectors would have passed to the taxman. The rental market would continue, however, for it requires only that users bid against each other and that rent receivers take the highest bids on offer.

It is remarkable how pervasive amongst land specialists is the failure to distinguish between the two land markets.

Sue Barrett typified the tunnel-vision in her introduction to the third day of the conference: "The complexity of relationships when a plot is changing its use is the core of the land problem."

And the continuous rent appropriation in between use changes? It escapes unnoticed. Yet the problems of betterment, and of the representation of the social as well as the private interest in land use decisions, which are aspects of the capital market, would in fact mostly dissolve if the government were to take the rent in the rent market.

This theoretical deficiency explains the puzzlement aroused by the UK experience with betterment taxes. Variations on the theme have been repeatedly introduced with great fanfare, and yet have equally sunk into obscurity.

THE MORAL argument which politicians have found so persuasive has been that of the "single taxers", but the instruments which they have produced have had the same likeness to the single tax as has chalk to cheese. Small wonder that they have been found distasteful.

Dr. Rachelle Alterman, senior lecturer and chairperson of the Graduate Program in Urban and Regional Planning at the Technion-Israel Institute of Technology, was commissioned by the Centre for Human Settlements (Habitat), Vancouver, to survey the world's "land value recapture" policies. Her initial 80-page draft was presented at Oxford with the proviso that it was not to be cited. However, her understanding of the subject became clear in group discussions.

Land value recapture actually means "plus-value" recapture. The plus-values to be recaptured are those in the capital market; the conception of a continuous rent appropriation is totally absent.

This is surprising because Henry George's *Progress and Poverty* is listed in her references. However, when asked why she had not included this proposed "whole-value" recapture scheme amongst her spectrum of land policies, she admitted that she had only actually read other people's summaries of his ideas and had not understood them.

It is quite clear that much of the blame for the ignorance concerning Henry George's theory amongst land policy specialists is due to terminology. "Land value taxation" is an ambiguous label. It can include taxes on the capital value of land (such as DLT) as well as taxes on the rental value of land (such as site value rating).

As the extension of owner-occupation is the predominant land policy throughout the non-communist world, the capital value of land is overshadowing its rental value in the common perception. Land value taxation is therefore bound to imply to the specialist and layman alike some sort of tax on the capital value of land.

Unless the advocates of land rent recapture can clear up the ambiguity over the meaning of land value, they will continue to have difficulty in making an impact on land policy in the U.K. or in any other country.

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1. Healey and Barrett, 'Land Policy' p. 15.
2. Sir Colin Buchanan, *The State of Britain*, London: Faber and Faber, 1972, pp. 21, 25.
3. E.g., S. Markowski, 'Urban Land Policies for the 1980s', p.34.
4. Markowski, *ibid.*, p. 38, opposes "planning gain". M. Loughlin, *Apportioning the Infrastructure Costs of Urban Land Development*, Conference Paper, supports it.

5. This statement may well be accurate, though not int he way intended. Keogh is wrong to regard planning gain as merely a tax on development profits and thus as a straight alternative to DLT. If the public facility detracts from the level of private rents chargeable in the future, it transfers some of the rent stream to the public sector. The rents to be capitalised are thus reduced, and development profits are lower than they would otherwise have been. But they have not existed and then been taxed. They have been prevented from existing.

   This may be a new argument in favour of planning gain as opposed to DLT. But such a piecemeal procedure of bargaining between local authorities and developers can hardly be the most rational way of realising the rent of land for the public benefit. Keogh admits as much on page 11, but as a consequence proposed a local variant of DLT.

NEWS in BRIEF

TAX VETO

MARYLAND builders are relieved that Governor Harry Hughes has responded to their eleventh-hour plea to veto a bill that would have made developers pay an agricultural transfer tax for building on farmland.

The bill slipped through the legislature in June. It would have imposed a tax of three to five per cent on the price of sub-divided land, and raised the state about $720,000 a year.

The revenue was destined for the Maryland Agricultural Preservation Fund, which is used to preserve farms.

The new tax was seen as an attempt to recover some of the tax revenue that is lost on farmland that is assessed at low values, for tax purposes – to help farmers.

$1m question

ONE MILLION dollars have been provided by the Rockefeller Foundation in the US and the Nobel Foundation in Sweden so that scholars in 15 countries can try and work out why orthodox economic theories have failed to explain the world recession. The enquiry is to be directed by the International Federation of Institutes for Advanced Study.

Where the 'free' go hungry

INDEPENDENCE has produced few benefits for the Indian peasant, according to politician Chandra Shekhar, who has just concluded a six-month Gandhi-type walk across the sub-continent.

His thoughts were reported in the *New York Times* on June 27:

"When we fought for independence, we thought it would be a freedom where there would be freedom from poverty. But after 36 years, our people still go hungry and homeless, our children are malnourished and our villagers beg for drinking water.

"I have seen the ravages of malnutrition in western India, and tribesmen in central India told me how they could not protect the honour of their women from landlords."

Oil dividend

ALASKA'S citizens have received cheques averaging $385 – their share of the State's oil rent revenue. The money comes from the interest on a $4.2bn State fund made up largely of revenue gained in royalties on oil. Alaska had the highest per capita *income in the US last year: $16,257. The District of Columbia's* per capita *income was next in line, at $15,550.*

Don't forget the less spectacular exploitation

Sir, Several of your writers use the adjective "absentee" in connection with landowners. I think it is totally *irrelevant* whether landowners live near their property or far away: both categories are equally harmful.

They conserve an evil system not so much by living "off the land" as by living off the labour of producers.

Why is so much stress laid on the evil of land *speculation?* The phenomenon of non-speculative landownership should be considered as more important, just because it is less spectacular!

A similar objection can be made about the symptom of vacant or under-used land. In our country, at least, there are practically no vacant areas to speak of – and still we in Holland suffer under the system in which people privately pocket land-values.

In other words, the failure of our legal system should not be seen in terms of the vacancy or under-use of land, but the daily expropriation of all workers on fully used sites.

William Costerus,
Amsterdam, NETHERLANDS.

What about the progress?

Sir, Many readers of *Land & Liberty*, like myself, will feel indebted to John Allen for his clear analysis of the differences between the Ricardo/George "proportional" view and the Malthus/Keynes "quantitative" view of economics, and for his emphasis on the role of taxation.

However, if it is claimed that adoption of an unsound principle in political economy is the cause of the decline of industrial nations both in the east and in the west, some reasonable account is then due to explain the *progress* as well as the poverty of those economies.

As Karl Marx predicted, the crises of the capitalist economy are recurrent. It would be most interesting if John Allen could follow up his first article with an equally lucid exposition of how both long-term (Kondratiev), medium term (Juglar/Kuznets) and short-terk (Kitchin) economic fluctuations, or cycles, have influenced both the historic economy and the economic prescriptions of economists.

Robin J. S. Kimmerling,
Lincoln, ENGLAND.

The nation's dividend . . .

Sir: V. H. Blundell's objection to Professor Cord's idea (July-Aug. issue) of a national dividend derived from land value taxation (LVT) asks whether the removal of specific general taxes (rather than a national dividend) would not be equivalent to a cash bonus.

LETTERS TO THE EDITOR

He says that even the poorest still pay taxes in one form or another. But those with little or no income pay little or no taxes. Surely a dividend drawn from an automated/robot economy would be a less objectionable method of distributing income and purchasing power than the dole?

A growing number of breadwinners are being displaced from the economy as a result of technological changes over which they have no control. To assume that the introduction of LVT would provide jobs to absorb all the new unemployed, as Bert Brookes does elsewhere in the same issue, is utopian wishful thinking. A report by the MSC funded Institute of Employment Research (*Sunday Times*, 31 July) suggests that 70 per cent of the 560,000 new jobs likely to be created in the UK over the next seven years will be taken by women. That leaves a lot of unemployed men, and in families where the male is still the breadwinner, very little purchasing power.

LVT might well increase the number of jobs in the short or even medium term, but most of those would go to women and there would still be a vast number involuntarily unemployed. A national dividend derived from LVT seems a sensible element in the solution of the problem.

Paul Rowlandson,
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LIMERICK, Ireland.

Experiments

Cont. from page 89

But Labour did not learn from this mistake — they repeated it.

● When again in power, they produced the Land Commission Act (1967), which included a betterment levy similar to that in the 1947 Act, though with some modifications. This levy was supposed to distinguish between a normal capital gain realised by the disposal or development of land, and a gain due exclusively to planning permission or betterment.

● The Act also gave wide powers to the Land Commission to acquire land compulsorily, if necessary, to sell it at lower than market prices.

● Further, the Land Commission had powers to manage and improve land.

The consequences of all this was bureaucratic bungling and political vandalism. This Act in turn was repealed by the next Conservative government.

LABOUR's last attempt to "capture some part of the increase in land values when development or re-development takes place," was in 1976. This legislation, the Development Land Tax Act, was preceded by a chorus of condemnation — and not only from the Conservative opposition. Architects, surveyors, valuers, barristers, planners and many local authorities joined in the cries of disapproval, though not all for the same reasons — but it was all in vain.

Brought in with this Act was the Community Land Act which was supposed to "enable the community to control the development of land in accordance with its needs and priorities."[1] This amounted to the municipalisation of land imposed as a duty upon local authorities. Here again were the same bureaucratic controls. There were complicated formulae for calculating the development land tax, which had an initial rate of 80 per cent of development value gains (with the usual exemptions), and there was all the paraphernalia inevitably destined to hold up and deter development.

As predicted by many, the Community Land Act was repealed by the Conservatives and the Development Land Tax was reduced from 80 to 60 per cent instead of rising up to 100 per cent, as was Labour's intention.

The fact that under all Labour's land legislation some small part of the value of land accrued to the Exchequer is almost irrelevant. Set aginst the inhibiting effect it had on development, and taking into account administrative costs, there was very little indeed left on the credit side.

In each subsequent Act, Labour leaders thought they had only to make minor changes to the discredited previous Acts, but such tinkering was useless. *What they ought to have done was to return to the 1931 Finance Act which was sound in principle and a good basis on which to build.*

REFERENCES

1. See *Lloyd George's Land Taxes*, Sir Edgar Harper, Land & Liberty Press. 177 Vauxhall Bridge Road, London SW1 (25p post free).
2. The actual valuation of land was stopped almost immediately upon the return of the National Government and the taxation clauses suspended.

Watt a sacrifice!

JAMES G. WATT, one of President Reagan's leading exponents of the free market, now admits that he abandoned his economic ideology when he leased large tracts of Federal coal land last year.

Mr Watt, the Interior Secretary, is controversial for championing the need to alienate Federal land rights in favour of the private sector.

But two Congressional reports have revealed that the big sale of leases in the Powder River Basin of Utah and Montana brought in less than "fair market value."

The General Accounting Office report claimed that the sale raised $100m less than market value. A House Appropriations Committee staff report put the figure at $60m.

Mr Watt, who says the reports were wrong, admitted on May 12 that in accepting bids "I did not seek to optimize the dollar returns at the expense of future consumers."

It was more important to assure future supplies of energy and jobs than to bring high returns to the Federal Treasury now, he said. Illinois Democratic Representative Sidney R. Yates, chairman of the House Appropriations Committee's Subcommittee on the Interior, said that the law required the recovery of fair market value for disposal of property.

And Mr Watt's arguments were "a euphemistic way of justifying low prices for Federal property in what is essentially a giveaway."

PRINCE CHARLES — who benefits from the rents raised on the Duchy of Cornwall estates — has done some deep thinking on the conflicting advice given to British farmers.

The Ministry of Agriculture, on the one hand, requires economic efficiency. Other organisations — such as the National Park Authority — "may be raising hell from an opposing point of view," said Prince Charles in a recent speech.

How can this dilemma be resolved? Declared the Prince:

"Under these circumstances it is little wonder that the landowner aligns with the side which provides the biggest subsidy — unless he is extremely wealthy, eccentric, or was an inattentive student at agricultural college."

BRITAIN'S aristocratic landlords are receiving fortunes for nothing.

They are able to demand taxpayers' money under the Wildlife and Countryside Act 1981, which was intended to conserve natural habitats. As a result:

- Viscount Cranborne, heir of the sixth Marquess of Salisbury, is due to receive £20,750 a year for the next 65 years.*

And what does he have to do in return? He has agreed *not* to replace deciduous trees with conifers in one of his woods.

- Lord Thurso, the Lord Lieutenant of Caithness, has receive a lump sum — reported to be between £200,000 and £250,000 — for *not* digging up nearly 6,000 acres of desolate peat bog.

The money is paid as part of a programme to conserve any area that is designated a "site of special scientific interest".

Conservationists believe that payments will total tens of millions of pounds during the next 10 years as landowners submit proposals to develop their SSSIs.

The landowners deny that they are exploiting the Act. They claim they need the money to plough back into the land.

*Simon Freeman, 'Landlords busy doing nothing — and making a fortune, *Sunday Times*, June 6, 1983.

Goose Green rents anger MPs

BRITISH soldiers who helped liberate the Falklands are being charged excessive rents by the biggest landowner on the islands.

The Falkland Islands Company is charging the Ministry of Defence £1.50 a night for each soldier to be billeted in its property.

One three-bedroomed cottage at Goose Green — scene of one of the bloodiest battles of the South Atlantic War — houses 15 to 16 soldiers.

The rent amounted to £650 a month for that cottage, MPs discovered on a fact-finding tour.

Sir Timothy Kitson, chairman of the House of Commons defence committee, rushed out a report which declared: "In view of the forces' contribution to the regaining of the company's livelihood, we regard these arrangements as being less than generous."

And Sir Timothy expressed his opinion of the Falkland Islands Co., which owns nearly half of the land: "It's charges are excessive. We visited many houses owned by the company that would normally have stood empty."

Divide and rule

EL SALVADOR'S land redistribution programme is threatened by Articles 104 and 105 of the government's draft constitution.

Critics claim that the articles would thwart Phase II of the land reform, under which middle-size farms are to be expropriated.

Landowners would be given time to divide property among family members, so that their farms would be exempt from the redistribution legislation.

- The U.S. Government is sponsoring surveys to try and establish the truth of claims that peasants who are driven off their land by landlords are joining the guerrillas.

Cleaning up

WATER-FRONT sites have begun to increase in value because of pollution-control measures, reports the Washington-based Urban Land Institute.

Owners of run-down buildings on the edge of harbours have begun to realise that the clean-up programmes of the past 10 years have made their properties valuable.

Most major river systems in the U.S. have improved in terms of the fecal bacteria, phosphorous and dissolved oxygen that they carry.

Without clean water, the most attractive waterfront developments would not attract tenants.

River cleaning projects have been financed largely out of taxpayers' money. The benefits — measured in higher land values — are not recaptured for the community because of low property tax rates.

Up in smoke

THREE HUNDRED thousand Americans die every year because they are hooked on cigarettes.

Yet the U.S. Government, while trying to discourage people from smoking, also encourages farmers with tobacco subsidies.

The government regulates tobacco farming by restricting how much can be grown and by guaranteeing farmers a base price for the leaf.

Many politicians on Capitol Hill, who regard cigarettes as Public Health Enemy No 1, have begun to question the logic of the Federal programme.

Tobacco price support bills have come under close scrutiny by the agricultural committee of the House of Representatives.

The paradox of Federal policy — discouraging consumers while encouraging producers — has been rationalized by Joseph Califano Jr., a former secretary of Health, Education and Welfare, in his book *Governing America*.

In this, he declares: "As I reflected on the cigarette habit, I realized that not one person would quit or start smoking if price supports didn't exist.

"The subsidy had nothing to do with any individual decision to smoke; if anything, it made cigarette smoking more expensive."

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