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RATING REFORM SPECIAL

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Wild and woolly

ON JANUARY 17 Mr. Patrick Jenkin told Parliament that the government had reviewed the possibility of abolishing rates, Britain's property tax.

The Secretary of State then added: "Each of the possible options – a sales tax, a local income tax, a poll tax or a local share of central Government revenues was examined minutely.

"Each solution had its admirers, but each suffered from fatal defects.

"In the event, none could be proved to be a suitable replacement for rates."

Politicians often have to eat their categorical words, but few have to do U-turns quite as promptly as Mr. Jenkin.

The Environment Secretary is impaled on the Prime Minister's fanatical determination to get rid of the rating system, a time-honoured way of raising public revenue that has fewer defects than other taxes.

Mrs. Thatcher's fixation is a gut-reaction to we know not what.

WHY does she have this virulent hate of rates? The average annual property tax bill, at £320 ($420) is hardly crippling for the Conservative Party's natural supporters.

HOW does she plan to replace the £9bn raised by the rates? The government has no coherent substitute.

Which is why we now hear much wild talk about introducing a poll tax. This is, in fact, a head tax which is used in underdeveloped countries which lack the sophisticated fiscal weaponry of a modern Treasury.

It was last used by Britain in Africa, in the early decades of this century. Colonial administrators counted the heads of peasants and imposed a tax which the village had to pay.

The African peasants didn't like it, and nor did the British: the Peasants' Revolt of 1381 was sparked off by a poll tax.

And there is no reason to think that today's "peasants" – the 10m people whose low incomes entitle them to exemption from rates – would be any happier with a poll tax.

The backbench Tories know it, and they fear that their leader is about to drag them into dangerous electoral pastures.

Which is why we believe that, in the end, Mrs. Thatcher will again admit defeat, and concede that – tinker as she might with the system – rates will continue to be levied on Britain's property owners.

But if she wants to earn the right to call herself a radical Prime Minister – an image she nurtures with some relish – she *could* undertake sweeping changes.

She could start with agricultural land. Since 1929, farmland owners have not paid a penny on their valuable acres.

Today, that costs British taxpayers something like £400m. A Royal Commission (the Layfield Report) concluded in 1976 that there was "no good reason" for de-rating agriculture.

De-rating did not help Britain's tenant farmers, at the time: for a lower property tax simply translates into higher land prices!

More attractive to the Prime Minister, however, would be a proposal from Mr. Hector Wilks, Britain's foremost authority on reform of the rating system. He proposes, as an immediate measure, the removal of all family homes from the tax roll.

This would be a useful first step towards a full-blown system of site value rating, which would have the wide range of benefits documented in this issue of *Land and Liberty*.

Churchill advocated a tax on land values. Mrs. Thatcher likes to compare herself with the old warlord. She now has the chance to implement one of the policies to which he was most philosophically devoted.

RATES: Tories in a dilemma

Computer aid vital to rout tax cavaliers

By FRED HARRISON

PREMIER Margaret Thatcher does not pull her punches when she discusses rates, Britain's property tax. She says:

"I will be absolutely candid about rates. It is not a good system of taxation".

Despite the best brains in Whitehall to advise her, however, Mrs. Thatcher has not been able to produce a satisfactory alternative to this form of taxation, which in fiscal year 1985/86 is forecast to yield £13.6bn ($17.5bn) out of total government revenue of £150bn.

Despite the Tory Party's conversion to an anti-rates stance ten years ago, the government has failed to articulate reforms to the locally-administered property tax. Once again, however, the issue is on the political agenda, and the government promises to produce a White Paper on rate reform before the end of this year.

Firm and detailed proposals are now promised: the Tories know that they cannot yet again enter a General Election with no more than whimsical promises to do away with the time-tested rating system.

The Tories are already suffering because of a rank-and-file backlash in the Scottish shires. According to a recent opinion poll, Tory support north of the border dropped from 28 per cent to 22 per cent of the electorate, thanks to the recent property revaluation which pushed up rates bills.

THERE are few intrinsic defects in the property tax.

The problems arise because of the cavalier way in which it is administered.

Strongest hostility is generated because properties are revalued on too-infrequent a timetable.

Properties in England, for example, have not been reassessed for tax purposes since 1973. Values over the past 12 years have risen exponentially, which means that property owners are guaranteed a shock when they receive revised rates bills.

In Scotland, the new revaluation promised to turn into the proverbial straw that broke the camel's back: in some cases, rateable values have risen to ten times their previous levels.

The burden is making some small businesses bankrupt and forcing some domestic ratepayers to sell their homes.

This would not happen if local governments, using the latest computer technology, were allowed to reassess values every two years.

Small, incremental increases in the property tax would be applied with lower increases in rents and land prices. So there would be no body-blows of the sort that are inevitable if values are allowed to go unassessed for ten years or more.

THE THREE problems with the property tax in Britain can be rectified.

● The tax falls on the value of buildings as well as on land: this is a deterrent to capital formation and

● Turn to p.84

POLITICS AND THE PROPERTY TAX

1974 Margaret Thatcher persuades Tory Party to pledge, in October election, to abolish rates "within the lifetime of a normal parliament." Labour wins.

1976 Layfield Report on local government finance; no reforms implemented.

1979 Tory Manifesto refers to desirability of abolishing rates. Tories win election.

1981 Government consultative paper 'Alternative to Domestic Rates' admits "it will not be possible to replace domestic rates overnight".

1983 Mrs. Thatcher rejects Cabinet committee report which recommends few changes; she orders work to be done again for new committee which she chairs.

1984 Mrs. Thatcher and Ministers admit defeat. Environment Secretary Patrick Jenkin says on March 23: "The Prime Minister herself emphasised that we cannot keep reviewing rates for ever. So rates are here to stay for the foreseeable future."

1985 Emergency summit at Chequers in scrambled search for alternative to rates. Treasury ordered to increase domestic rate relief grants to Scotland from £14m (1984) to £102m.

Poll tax extra burden on poor

● From p.83

job creation. Buildings should be de-rated (see page 89).

● Vacant land is exempt from rates, whereas in countries like the United States the owner of idle land is liable for the tax. Untaxed land encourages speculation.

● Tax rates are low — too low to make a positive contribution towards persuading owners to put their land to its best appropriate use (even if buildings were de-rated). This is a fault common to the property tax throughout the world, but it could be swiftly remedied – for example, to offset the loss of income arising from the derating of buildings.

These are peripheral problems to what would happen if the property tax were wiped out, as Ireland is now beginning to find out.

The British government has not considered the income effect. A poll tax, which the Thatcher Administration appears to favour, would increase the burden on low income families. And landowners would increase rents to mop up the savings that might otherwise have gone to their tenants.

Then there is the wealth effect. Land values would have incorporated into them the amount that would otherwise have been paid as a property tax. So with a shift in the incidence of taxation away from property, and on to earned income, the asset value of wealthowners would soar.

This would amount to a massive redistribution of income in society in favour of those who now own property, and make it that much more difficult for everyone to buy a house or commercial premises.

Mrs. Thatcher has already begun to erode the disposable incomes of poor families. For under her government's review of the welfare state, everyone no matter how poor is supposed to pay a proportion of their rates.

At present, millions of people who occupy houses are exempt from this liability. *If they are tenants,* they will eventually be able to pass the liability for rates on to their landlords. But *as owner-occupiers,* the burden will fall on them.

That there are millions of people who are not able to generate incomes that are sufficient to meet their basic needs reveals something about the nature of the economic system.

● Mrs. Thatcher wants a "residence" tax (otherwise known as a poll or head tax) in place of the property tax . . .

In our view, imperfections in the property market constitute the major obstacles to the fluid and efficient market economy that Mrs. Thatcher wishes to create.

She will compound those problems if she carries out her threat to abolish the rating system.

YIELDS OF MAJOR RECURRENT TAXES ON IMMOVABLE PROPERTY – 1979

Country	Tax	Beneficiary government	Yields in National Currency	Yields as % of GDP(1)	Yields as % of total tax revenue of general government	Yields as % of tax revenue of the relevant government
Australia	Land Tax	State government	258 m	0.27	0.80	6
	Rates	Local authorities	1,216 m	1.19	3.99	97
Denmark	Land Tax	Municipalities & countries	4,338.5 m	1.24	2.82	n.a.
	Service Tax	Municipalities & countries	648.2 m	0.18	0.42	n.a.
France	Land and Building Tax	Municipalities	8,973 m	0.15	0.94	0.96
	Land Tax	Municipalities	3,307 m	0.39	0.36	0.34
	Property Tax	Municipalities	14,020 m	0.60	1.45	1.47
Germany	Real Property Tax (Grundsteuer)	Municipalities	5,202.9 m	0.37	1.00	12.8
Ireland	Rates	Local authorities	85 m	1.16	3.47	100
Japan	Fixed Assets Tax	Municipalities	2,523 bn	1.15	4.58	33.9
	City Planning Tax	Municipalities	425 bn	0.19	0.77	5.7
	Special Land-Holding Tax	Municipalities	66 bn	0.03	0.12	0.9
Netherlands (1978)	Municipal Tax	Municipalities	1,820 m	0.61	1.28	92.0
	Contributions to Polder Boards	Polder Boards	380 m	0.13	0.27	43.0
New Zealand	Land Tax (3)	Central Government	10.7 m	0.05	0.16	0.01
	Rates	Local authorities	464.0 m	2.22	7.12	92.7
Spain	Rural Land Tax	Local authorities	2,582 m	0.02	0.08	1.48
	Urban Land Tax	Local authorities	13,789 m	0.11	0.45	7.89
Sweden	Municipal Guarantee Tax	Municipalities	1,832 m	0.40	0.80	n.a.
Switzerland	Recurrent Tax	Communes	289 m	0.18	0.59	0.7
Turkey	Immovable Property Tax (3)	Central government	5,335 m	0.25	1.20	n.a.
United Kingdom	Rates	Local authorities	6,123 m	3.30	9.51	100
United States	Property Tax	State and local authorities	64,943 m	3.60	9.29	35.46

1. Gross Domestic Product at market prices, Source: Table 3.6, Revenue Statistics of OECD Member Countries 1965-1980 Paris, 1981.
2. i.e. own tax revenues and non-tax revenues.
3. Note that Land Tax in New Zealand and the Turkish Property Tax are levied by central governments.
n.a. = not available; m = million; bn = billion.
SOURCE: Taxes on Immovable Property in OECD Members Countries, Paris: OECD, 1983.

U.K. RATING REFORM

DOUBLE DISASTER

By DONAL O'LEARY
in Dublin

IRELAND abolished domestic rates – the property tax on people's homes – seven years ago.

The result has been disastrous in both political and economic terms.

Politically, there has been an erosion of power from local to central authority.

The abolition which was popular, sweeping Fianna Fail into government with a record 20-seat majority in 1977 meant that the central government controlled spending.

For local government had to be financed by grants from Dublin.

By losing its independent financial base, local authorities became puppets, dependent on the whims of others. Michael O'Halloran, the Lord Mayor of Dublin says: "We're constrained even more by this system than the old one."

Economically, the abolition of the property tax has been disastrous for unemployed people and families wanting to buy their homes.

For house prices rose by the amount saved as a result of the 1977 decision. Responding to the tax saving, property owners capitalised the benefit into higher prices!

The transfer of wealth to existing property owners has been massive. For the increase in the other taxes has not matched the reductions arising from the abolition of domestic rates.

Dublin has accepted the need for a strategy of budgetary austerity. Public spending has been cut, and so have the grants to councils – in every year but one since 1978 council grants have increased by less than the annual rate of inflation.

The result: property owners are sitting pretty.

● So disruptive has been the 1977 decision that councils are now being given some financial powers. They have been allowed to introduce charges for services like water and refuse collection. Angry residents' groups maintain that these charges are examples of double taxation and they have advised members not to pay.

Dark blues in the Black Country

THE administration of the property tax in Britain is like a lottery.

Some ratepayers win handsomely: others lose painfully.

The winners and losers are identified in a report by Grimley & Son, a firm of chartered surveyors in Birmingham.

Properties are supposed to be revalued every five years, for tax purposes. The last valuation – based on rental values – was 12 years ago. Since then:

● Industrial properties have slumped in value. But because governments have regularly shirked the job of carrying out re-valuations, owners are paying rates on values which were set during the 1973 land speculation boom.

● Many shop rents have increased more than twice as much as industrial rents: these increases, reflecting higher turnover and greater retail profits, are not reflected in higher tax payments on property.

The result: sagging industries, located near the cradle of the Industrial Revolution in the West Midlands, are subsidising the prosperous owners of commercial properties.

The pain behind these discrepancies is intensified by Birmingham City's decision to increase rates this year by 43 per cent.

Mr. David Clarke, an associate of Grimley & Son, told *Land & Liberty:*

"The rateable value of some foundries is five times what it ought to be, by comparison with the rateable value of shops.

"Three-yearly valuations would solve more problems than they would create, in manpower terms."

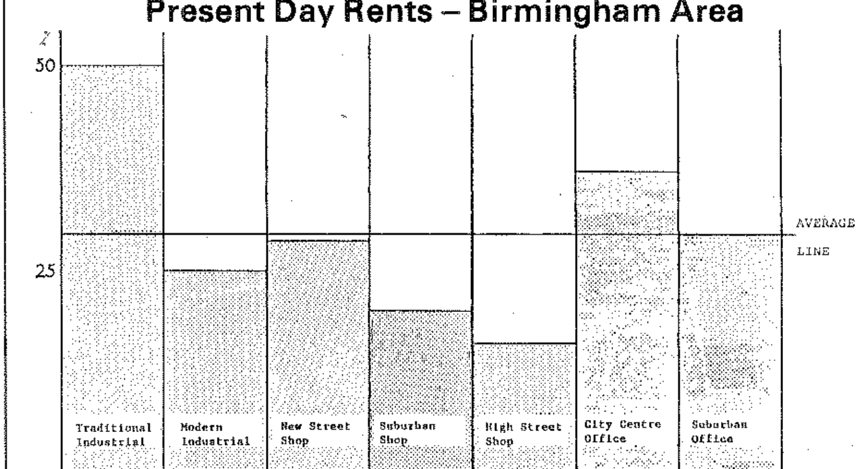
Noting that the rates "rebellion" began in Scotland, Mr. Clarke declared:

"The problem in Scotland arose not because the valuations are excessive, but because the last valuation was so long ago.

"People were buying property based on incorrect values. What they now see is a 300 to 400 per cent increase in the rates: what in fact has happened is that they were paying too little in rates for the last five to six years."

Regular revaluations would prevent distortions from building up.

Rateable Value as a Percentage of Present Day Rents – Birmingham Area



● *Grimley and Son's histogram shows how Midlands industrialists are subsidising retailers. The average line shows the level rateable values would reach if a revaluation were carried out immediately. Traditional industry and city centre offices would benefit from the revaluation, while retailers and modern industrialists would pay a fairer share of the burden.*

U.K. RATING REFORM

MISGUIDED ATTACK ON A 500-YEAR TRADITION

THE SURPLUS income from natural resources – what we today call rents – has traditionally financed public services in all forms of societies.

The aristocracy in Britain – with the barons and knights fighting to retain their right to feudal rents even when they finally lost their social functions changed all that.

The social nature of rental income was gradually transformed into private property.

Rates – the property tax, raised by local governments to finance a few council services was the only concession to the community's right to share in rental income.

Prime Minister Margaret Thatcher's desire to abolish the rating system, then, takes to its final, logical conclusion a historical process that spans more than 500 years: the alienation of the community's rental income.

● Houses of Parliament . . . receives messages from the monarchs

By Paul Knight

A RELIC of history is the way in which Britain pays for its No. 1 Civil Servant: Queen Elizabeth II.

Traditionally, monarchs have financed the government, army and judiciary of Britain out of the rental income of Crown lands.

This practice has continued up to the present day, thanks to shrewd political decisions made by kings who were anxious to preserve their dynasty.

The turning point was 1660, when – on the restoration of the monarch – Parliament took greater control of royal finances.

A century later, George III struck a deal with Parliament: he surrendered rights to rents from most of the Crown lands in England and Wales (which yielded a gross revenue of £89,000) in return for a fixed Civil List of £800,000 a year.

This formalised the role of the monarch as a servant of the state, and it transferred responsibility for the costs of officers such as judges and ambassadors onto the general taxpayer.

This transfer of responsibilities was completed under Queen Victoria. She surrendered all hereditary revenues from Crown lands for life, except for personal properties belonging to the Duchy of Lancaster (which exceeded 50,000 acres) and the Duchy of Cornwall.

The last governmental responsibility to be given up by Victoria was the secret service, then costing £10,000 a year.

BY LAW, title to Crown lands remains in sovereign hands.

So one of the first acts of a new monarch, on accession to the throne, is to send to Parliament a message formally surrendering hereditary revenues.

When Elizabeth was crowned in 1952, the Commons approved a Civil List of £475,000 for her and an annuity of £40,000 a year to the Duke of Edinburgh.

The cost of the monarchy then was about £1m, a fraction of the revenue being generated by 320,000 acres of prime Crown property.

Prince Charles will make the same arrangements when he succeeds his mother.

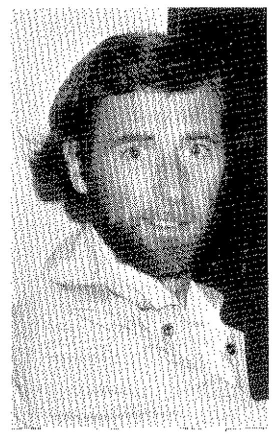
This evidence demonstrates the historical validity of the case for financing public services through a property tax on the socially-created value of land.

Mrs. Thatcher's government, alas, for all its royalist commitments, has failed to grasp the fiscal lessons.

By abolishing the rating system, Parliament would completely rupture the right of the people – established by ancient custom – to identify rental income as a unique source of public revenue.

'By abolishing the rating system Parliament would rupture the people's right'

Time for switch to site value system



● THE Great Rates Row in 1985 began in Scotland, where property owners were suddenly faced with the results of a new valuation of their properties: some increases – thanks to the escalation in prices over the past decade – were astronomical.

● The fault, however, lies with the way in which the property tax has been administered: not with the system itself. Governments have consistently deferred revaluations, to curry political favour with the voters.

● In this article, Dr. ROGER SANDILANDS (pictured left), an economics lecturer at Glasgow's Strathclyde University, demonstrates that reform of the rating system, rather than its abolition, is the sensible way forward.

THE EVER increasing burden of local rates is prompting a widespread demand for an alternative to the present system. It is therefore opportune briefly to review and compare the rating of property now in force with some methods, actual and proposed, of raising the revenues required by local authorities.

Under the present system of rating the assessor is required to estimate the annual rent at which premises could be let on a yearly tenancy in their existing condition. After certain minor adjustments, laid down by statute, this valuation forms the basis upon which rates are levied. This system has many defects, the foremost of which are:

(a) Vacant sites and unoccupied premises pay no rates.
(b) Poor property on valuable sites is under-assessed, since site values are largely ignored.
(c) Speculation in land is encouraged and its optimum development discouraged.
(d) Any structural improvement to property results in an increased valuation and an increased rate burden, which severely discourages improvement.
(e) The assessor's methods of valuation are never disclosed to ratepayer, any owner-occupier, who has had experience of the proceedings of a Valuation Appeal Committee, will be aware of the difficulties facing those who dare to challenge the assessor's valuation.

RAISING of revenue by means of a local income tax appears attractive as a method of making those most able to pay and many now making an indirect contribution bear the burden of local authority expenditure. However, closer examination shows this proposal to have many objections, some of which might be insurmountable. To be equitable taxes on income must be graduated by means of allowances and by differential rates on taxable income of varying amounts. Few income-tax payers would welcome another inquisition into their financial affairs, in addition to that demanded by the Inspector of Taxes. Collection would be complicated where the income of an individual, resident in the area of one local authority, was earned in that of another, or derived from properties situated in different areas. For industrial and commercial establishments, at present large contributors to revenues derived from rates, any income-based assessment would present problems.

Recently it has been suggested that the rating system should be abolished and the entire financial needs of local authorities met by Government grants. At present many local authorities, including Glasgow, receive substantial Government grants to augment their income from rates. Were the Government to finance all local authority expenditure, a much more extensive control of local authorities' policies and projects would inevitably be exercised by Government departments. Local communities should have the maximum possible oversight and control of how public money is provided and spent.

Local taxes upon commodities are imposed to augment rates in some parts of the United States of America. Such taxes, which fall upon people according to their consumption, place a relatively greater burden on those with low income.

THE MOST advantageous alternative to the present system is the rating of site values. Under this system rates would be levied on the unimproved annual value of each site on the basis of its optimum permitted use (e.g. a vacant site in an area scheduled under the Town Planning Acts as residential would be valued on that basis). Among the many merits of this system are the following:-

(a) The rating of site values exempts from rates all houses, shops, factories and other improvements made to land. Owners could extend, modify or rebuild their premises as they might desire, without increasing their valuation.
(b) All vacant and underdeveloped sites would pay rates on the assumption that they were fully developed. This would force vacant sites on to the market, thus reducing the price of land and so stimulating enterprise and development.
(c) The rating of site values is essentially a restoration to the community of a value which the community as a whole creates. Site values is due solely to the

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PROSPERITY AND THE 'KENT CONNECTION'

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demand for land as it is a measure of the economic advantage to be derived from the possession of a site in a particular position.

A large volume of experience of this system has been accumulated over long periods in the USA, Australia, South Africa and New Zealand. This experience demonstrates that assessment of site values can be made more accurately and with less difficulty than those based upon the combined value of land and any improvements thereon.

In this country municipal agitation to amend the law governing local rating dates back to 1895, when Glasgow took the initiative and by 1906, had the support of 518 local authorities. In 1906 Glasgow Corporation promoted the Land Values (Scotland) Bill to permit a rate limited to 10% of the annual land value. This Bill passed through the House of Commons but not the Lords.

In 1908 the Bill was again passed in the House of Commons, but subsequently so mutilated by the House of Lords that the Government abandoned the Bill. A Bill, presented by the London County Council entitled The London Rating (Site Value) Bill, which provided, as a start, for a rate of 10% of the annual value, was defeated in the House of Commons in 1939 by 229 votes to 135 votes. The lead given by London County Council was followed by many other councils and, by 1947, 263 local authorities had affirmed their support for site value rating.

TO DETERMINE the practicability of raising local revenues from site values, a survey of the town of Whitstable in Kent (pop. 20,000) was sponsored by the Rating and Valuation Association carried out in 1963 by Mark Wilks & Co., who are professional valuers. The basis of the valuation was the market value of each site, having regard to the optimum permissible use of land as laid down by the town plan. In his report the Valuer stated:–

> "The field work involved in valuing site only is very much less than valuing site plus improvements. When buildings are altered in any way no alteration takes place to the site value. Once the method is established and the evidence of market transactions passed to the valuer, the speed of work in the office is considerably greater than on the orthodox method".

In Whitstable 99% of the sites were valued without difficulty.

On 1 April 1963 the rateable value of Whitstable under the present system was £724,104 and the annual site value was estimated to be £642,254. The rate under the present system then was £0.55 per £1 so that a rate of £0.62 per £1 of annual site value under the site value rating would have produced the same revenue. But the incidence of payments would have been vastly different. Vacant sites now exempt from rates would have made a substantial contribution to the revenue, so that most properties would have paid less under site value rating than they did under the present system. This reduction would have been most marked in the case of residential property, where, in the majority of cases, the reduction would have amounted to about one third in the total amount of rates payable.

No other system ... provides so many benefits and holds such promise of prosperity

Similarly, well-developed commercial properties in the centre of the town would have paid less, due to the unfairness of the existing method of assessment, which penalises new development. Some of the older shops and those on large sites would have paid more, but had they been developed in line with the true value of their sites, they would also have paid less under site value rating.

In 1973 the Land Institute Ltd. in their own words:

> "Accepted an opportunity to undertake a second site valuation exercise in the town of Whitstable, Kent, believing that in this way it could add to the present limited knowledge of the practical results of this method of raising local revenue".

In their Report published in January is this statement:

> "It appears to the Institute that the criterion referred to in the Paragraph 2.10 of the Green Paper (Cmnd 4741) is satisfied and that site value rating may make a significant contribution to meeting local expenditure and thus to reducing government grants".

The following figures illustrate the increases in land values which have been fairly general in this country during the decade 1963-1973.

The Total Rateable Value of Whitstable:

	1963 £	1973 £
On the present rating system	724,104	2,703,667
On site value rating system	642,254	3,369,589

From these figures it is evident that a change from the present system to site value rating in Whitstable, without alteration to the rate per £1, would produce an increase in revenue.

ECONOMIC reasoning and practical experience both demonstrate that a rate on site values is the best means of raising the revenue required by local authorities. It provides a true local revenue based on the degree to which the community, by its public and private enterprise, has made the locality desirable. Its source, annual site value, is created by the community at large and not by the owner of the site and is therefore the natural source from which the revenue required for social service should be derived. It exempts buildings and other improvements from rates, so encouraging building construction, industry and commerce and discouraging the holding of land out of use or under-developed. There is no other system for the provision of local government finance which provides so many benefits to society and holds such promise for prosperity.

U.K. RATING REFORM

Less rot – and many more jobs!

THERE are two urgent reasons why buildings should be exempt from the property tax.

This partial derating would boost employment in the construction industry.

Property owners could improve their living and working environments without being penalised by the tax system.

This would lead to the creation of badly-needed jobs in a leading sector of the economy, in which there are over 300,000 unemployed workers.

The second reason is that Britain's housing stock is decaying rapidly. Derating would encourage home owners to stem the rot.

The owner-occupied home is old: 37% of the dwelling stock in England was built before 1919. The extent of the dilapidation was restated in the 1981 House Condition Survey. This revealed that 3m privately owned dwellings needed (in addition to annual upkeep), one-off repairs costing at least £2,500.

Today, owner-occupiers are spending £620 a year on all repair work, including decorations.

The gap between the two figures gives one measure of the state of dilapidation: many homeowners, however, are deterred from investing their savings in house improvements (such as an extra room in the loft) because this would lumber them with higher property taxes.

NO-VOTE BUSINESSMEN CAN STILL BE INFLUENTIAL

● THE TORY government wants to relieve commercial and industrial companies of part of the property taxes they pay to local authorities. Their payments add up to over 20% of local authority income, compared with under 20% from householders, with the rest coming from charges and the central government. IAN BARRON examines the case for treating non-domestic ratepayers as a special category.

STRESS is being placed on the principle of accountability, in the propaganda aimed at abolishing the property tax.

Businessmen, it is loudly proclaimed, do not have the right to vote in the localities where they run their companies.

Commercial companies contribute a major slice of local government revenue, and the implication is that their owners are disenfranchised.

A great deal of spurious reasoning has gone into this argument, as a moment's reflection will reveal.

THERE IS no necessary correspondence between tax liability and a right to be consulted under the accountability principle.

For example, to the extent that the property tax falls on the value of commercial premises, this burden is passed on to customers in higher prices.

In other words, other people – who may live elsewhere in Britain – pay this portion of the tax to the commercial firm's local authority.

The company, in other words, is merely the conduit through which the tax passes. The consumer, however, does not have the right to be consulted by this company's local authority; thus, the company itself can hardly claim the right to be consulted by the local authority on the pure principle of accountability.

BUSINESSMEN, we are told, do not have a right to vote in – and therefore influence – council elections.

Is this really a problem? Consider the reality.

Businessman X lives in area A, but runs his company in area B. He pays domestic rates to A, where he has a vote as a resident, but pays his commercial rates to B, where he has no vote. Is he at a disadvantage?

The current case, as presented by lobby groups representing industry and commerce, is that entrepreneurs *as a class* are at a disadvantage with respect to the spending decisions of councils.

But the assumption here is that councils tend to neglect the needs of industry and commerce. Is this true?

Look at the example above. Aren't there businessmen living in area B (where they vote) who pay rates on their commercial assets to area A (where they do not vote)?

Of course there are!

So businessmen, motivated by similar considerations, directly influence the outcome of elections in both areas. No council escapes the influence of people engaged in commerce and industry.

Evidence for this is not hard to find: we only have to recall the strenuous efforts made by councils to attract firms into their localities. They are not, therefore, likely to deliberately make decisions to undermine the confidence of businessmen in their areas.

THE PROPERTY TAX. . .

Foolhardy in

★ About 250,000 people move to Florida each year, and most of them want to live near the coast. Over 90% of the population live in metropolitan areas. This is imposing a tremendous pressure on the supply of services such as sewerage-works and schools.
★ The State's main source of income is a 5% sales tax. Governor Bob Graham has rejected the proposal by Florida's housebuilders that the cost of clearing the backlog of public services should be met by raising the tax another 1%.
★ Builders oppose the idea of "making growth pay for itself". But the governor supports the idea of an "impact fee" of $3,000 on each new home to cover the cost of providing it with electricity. But there is an even better way: reforming the property tax.
★ Under-assessment and under-taxation of property values both distort the economy and create injustice between different groups of taxpayers. PERRY PRENTICE, chairman of the National Council for Property Tax Reform, spotlights the problem in Pinellas, his home county in Florida. Mr. Prentice is a former editor, publisher and vice president with Time, Inc.

THE PROPERTY TAX is by far the biggest of all Florida taxes, and I doubt if many people can think of anything good to say about the way the state government makes county governments apply it today.

The property tax total is bigger in Pinellas than anywhere else in Florida except the Gold Coast counties of Dade, Broward and Palm Beach. So Pinellas' voters have an extra good reason to take a long and unhappy look at what is now so wrong.

So let's begin by taking a long backward look to get a better perspective on how things got this way.

Let's start back in 1948.

Did you know that in 1948 three-quarters of all the homeowners in Pinellas County paid no property tax at all because housing prices and housing assessments were then so low that the $5,000 homestead exemption mandated by the Florida Constitution was more than the total assessment on their homes?

Even the relatively wealthy top quartile of homeowners paid a property tax of between $10 and $100. So in 1948 all the homeowners in Pinellas County paid a total property tax of a little over $100,000 compared with roughly $160 million in 1981 – 1,600 times as much now as then! With five times as many residents and dollars worth only a quarter as much, that still means that in constant dollars the average homeowner paid nearly 80 times as much in 1981 as in 1948!

Pinellas County tax assessments: $

	TOTAL JUST VALUE	TAXABLE
1948	215,357,827	137,266,526
1949	291,466,371	151,848,946
1950	322,472,820	165,533,270
1951	487,061,545	279,425,425
1952	527,657,275	364,264,455
1953	570,640,360	386,183,520
1954	615,411,848	408,997,418
1955	666,185,850	433,160,196
1956	725,968,261	395,314,871
1957	883,863,139	508,492,119
1958	992,621,962	568,280,232
1959	1,100,325,655	626,192,655
1960	1,212,446,706	690,441,466
1961	1,296,108,170	735,255,380
1962	1,874,202,384	1,227,622,004
1963	1,949,702,880	1,261,421,720
1964	2,023,587,197	1,310,912,197
1965	2,116,870,186	1,380,381,476
1966	2,188,034,280	1,405,670,520
1967	2,298,400,436	1,491,271,946
1968	2,427,655,573	1,576,981,463
1969	2,595,262,205	1,697,942,005
1970	2,792,459,508	1,838,526,868
1971	3,107,073,479	2,035,071,711
1972	3,279,071,301	2,126,712,771
1973	6,410,536,151	5,018,595,621
1974	7,147,418,041	5,399,535,360
1975	7,798,250,342	5,954,452,540
1976	8,387,819,729	6,491,278,679
1977	8,866,144,340	6,876,497,670
1978	9,451,302,080	7,239,807,280
1979	10,270,686,863	7,898,469,713
1980	14,266,141,326	10,385,470,935
1981	18,066,883,690	12,991,501,205
1982	21,144,089,963	15,562,817,692
1983	22,983,483,452	16,146,649,484
1984	24,807,574,070	17,799,232,424

With only one-fifth as big a population and very little industry, almost all the land in Pinellas County must have been either vacant lots or farms, dairies or forests in 1948. So in 1948 much more than two-thirds of the property tax must have fallen on the owners of that land, whereas today all the owners of farm, dairy and forest land pay only one eighth of 1% of the Pinellas property tax and the owners of vacant residential, commercial and industrial lots pay only 8.5%.

So all the landowners in Pinellas County now pay less than 9% of the tax total – a very small fraction of the percentage they paid 34 years ago.

★ ★ ★ ★

NOW LET'S stop and take a look at how net taxable assessments have been climbing since 1948 – going up an average of only $42,270,524 in the seven years from 1948 to 1955, but soaring an average of $2.5 billion a year in the three years 1979 to 1982 as a result of Gov. Bob Graham's demonstrably foolish demand to make Florida the only state in the union that calls for 100% assessments.

Even in 1981 – the last year for which the census bureau has published state-by-state assessment comparisons – the Florida assessment total of $211 billion was bigger than in any other state except California and Texas. It was roughly twice as big as in the next ranking states of New Jersey, Virginia, Washington and New York.

And much more shocking and more pertinent to Pinellas voters is that property assessments in our own small county were actually bigger in 1981 that the statewide total for Alabama, Arizona, Arkansas, Delaware, Louisiana, Mississippi, Montana, Nevada, New Mexico, North Dakota, Rhode Island, South Carolina, South Dakota, Utah, Vermont and Wyoming.

In 1956 the big Florida landowners, who (says Pinellas Property Appraiser Ron Schultz) have dominated the

... LESSONS FROM THE U.S.

Florida

DISTORTION AND INJUSTICE

UPSET THE TAXPAYERS

OF PINELLAS COUNTY

Florida Legislature for so many years, got the Legislature to authorize a tax exemption that ran 76% in Pinellas last year for all land used for farms, dairies and forests. One result of this enormous tax exemption was to send the price of all this land soaring. A study by two University of Florida agricultural economists found that the price of Florida farmland multiplied more than 25 times over from $57 an acre in 1950 to $1,507 an acre in 1981. A still more dramatic example is the way smart land investments in the Florida Panhandle helped the late administrator Edward Ball multiply the value of the DuPont estate from $27 million when Alfred DuPont died in 1935 to well over $2 billion.

The exemption explains why the assessment total for all the 23 farm and timber counties in the Panhandle and along the Georgia border (not counting four counties in the Tallahassee and Pensacola metropolitan area) adds up to less than half the assessment total for Pinellas County alone.

Their financial disclosure statements showed that Graham and some of the six elected members of the Cabinet are all sizable beneficiaries of the farm, dairy and timber exemptions.

Today assessments in Pinellas and all over Florida are so high that the $25,000 exemption the 1980 Legislature voted to give five-year residents as a consolidation prize is saving them much less than the $5,000 exemption all homeowners enjoyed in 1948.

SO MUCH for how big the Florida property tax is. Now let's take a minute to consider how bad and how foolish the Florida property tax as now applied is for everybody in Florida except the landowners who have so long dominated the Legislature.

This badness would be self evident if only the voters realized that what we call THE property tax (singular) is not just one tax. On the contrary, it combines and confuses on one tax bill two completely different taxes whose consequences could hardly be more different.

One of these two taxes combined and confused on the property tax bill is the tax on the improvement – the tax on a value the owner has himself created by an often very big investment of his own money and time. And it should be obvious that heavy taxes on improvements are bound to discourage, inhibit and often prevent the owner from making the investment.

The other tax combined and confused on the property tax bill is the tax on the value of the underlying land – a

● Perry Prentice

value created partly by God, but mostly by an enormous investment of other taxpayers' money needed to pay for the roads, streets, water supplies, sewers and sewage disposal systems, police and fire-fighting facilities, schools, etc. needed to make land in that location livable, reachable and richly saleable.

I can't tell you just how big this other taxpayer investment is in Florida, but I can tell you that in the spread-city around New York a study for the Regional Plans Association added them up to more than $30,000 per residence. The Southern California Real Estate Research Council came up with a cost only a few thousand dollars less for that area; so the Florida cost must also be big.

That's why the eminent Dr. Lowell Harriss, long-time professor of Economics at Columbia University, past president of the National Tax Association, consultant for the Tax Foundation, and now executive director of the Academy of Political Science says:

"Practically all competent economists who have studied the problem are now agreed that land should be taxed much more heavily and private investment in improvements should be taxed much more lightly."

This conclusion is supported by every unprejudiced tax study from coast to coast, including studies for the Federal Commission or Urban Problems, the Chamber of Commerce of the United States, the Federal Advisory Commission on Intergovernmental Relations, the Congressional Research Service, Brookings Institution, the House Committee on Banking, Finance and Urban Affairs, the state governments of Michigan, Indiana, Pennsylvania and North Carolina, and by local studies in many cities.

The best cure for what is now so wrong is property tax reform that stops subsidizing the crazy inflation in Florida land prices by undertaxation and stops the gross overtaxation of improvements to homes, industrial plants and commercial facilities.

That long overdue tax reform would reduce the tax on almost all the homes in Pinellas County. It would stimulate more agricultural production by making farm land less expensive to buy for growing crops. Perhaps most important in these times, it would create more industrial jobs by making it less expensive for companies to build plants in Florida.

INSITE

U.K. RATING REFORM

Putting those

● **POLITICIANS regularly talk about the need to "reform" the rating system, but by this they usually mean changing a few numbers (higher subsidies, more exemptions) rather than altering the structure of the property tax itself.**
● **There is one change only that could constitute an effective reform: shifting the burden off capital improvements (drains, walls, houses, skyscraper office blocks) and onto land values.**
● **Not since the old London County Council sought to change the law in favour of site value rating in the 1930s has the British political system made a serious attempt at evaluating this reform.**

☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆

WHITEHALL has a file marked Site Value Rating. It contains the stock answer used by ministerial spokesmen when they are challenged to consider the advantages of reforming the British property tax.

Mr. C. Talbot-Ponsonby of the Environment was the last to use the sactter-gun objections in April 1982, in reply to Mrs. Barbara Sobrielo, the Secretary of the United Committee for the Taxation of Land Values.

The official case against the tax on site values does not seem hard to demolish.

OBJECTION "It would be very difficult to operate such a tax in Britain in view of the form of planning law (which does not lay down in advance the permitted development of every plot of land)."

ANSWER It is not necessary to lay down the precise use for every site. The general rule would be that the land tax would fall on the value that was determined by the "highest and best use" within the framework of existing planning law.

Values would be set by the free market, and valuations by the rating department would be subject to appeal in the usual way.

Prof. A. R. Prest of the London School of Economics puts it this way:

"The introduction of a local tax on site values would mesh in with the planning permission system (assuming the tax base is potential rent levels) in the sense that refusal of planning permission would immediately reduce the local authority's revenue compared to what it would have been, provided that adjustments to central government grants did not make good any resultant shortfall."*

OBJECTION The tax would be difficult to administer because of "the system of land registrations".

ANSWER While the tax ultimately falls on owners, the rating authorities would not have difficulty in collecting the money from current users who, in turn, if they were not the owners, would make the appropriate deductions from their rental payments.

The difficulty of tracing owners of vacant land can be surmounted, as well: the tax authority would impose a lien on such property, collecting the back taxes when the owner finally turned up to sell his property.

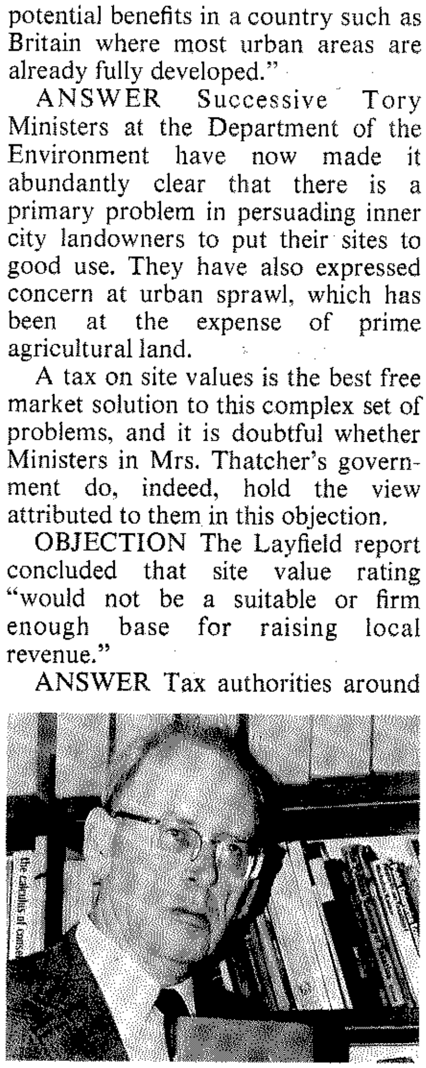
OBJECTION Government Ministers "are also doubtful about its potential benefits in a country such as Britain where most urban areas are already fully developed."

ANSWER Successive Tory Ministers at the Department of the Environment have now made it abundantly clear that there is a primary problem in persuading inner city landowners to put their sites to good use. They have also expressed concern at urban sprawl, which has been at the expense of prime agricultural land.

A tax on site values is the best free market solution to this complex set of problems, and it is doubtful whether Ministers in Mrs. Thatcher's government do, indeed, hold the view attributed to them in this objection.

OBJECTION The Layfield report concluded that site value rating "would not be a suitable or firm enough base for raising local revenue."

ANSWER Tax authorities around the world have shown how this proposition is a vacuous one. Major cities such as Pittsburgh, Pennsylvania, and Johannesburg, in South Africa, use the system.



● A. R. Prest

And countries ranging in size from Australia to Jamaica have found site value rating a practical way of raising revenue.

Experts such as Jamaica's former Commissioner of Valuations, Mr. O. St. Clare Risden, would reject this objection out-of-hand.

OBJECTION "Local accountability would not be promoted".

ANSWER This is an emotive objection which actually obscures the political realities.

If accountability is considered to be a function of the proportion of local expenditure financed out of locally-generated revenue, then site value rating could advance the cause. All that would be necessary would be to:

(a) increase the rate of taxation on site values, to claw back for the public's benefit the value that was created by the community, in the first place; and

(b) reduce expenditure until the council budget was balanced.

But accountability cannot be restricted to the duties of politicians. People who hold land, the value of which is socially created, ought to be called to account for their possessions: and this is executed perfectly by site value rating!

OBJECTION "The practical difficulties were formidable and at least a decade would be needed to put site value rating into use, with a long period of transition thereafter before

U.K. RATING REFORM

doubters to flight

Six key answers to officialdom's case against site values tax

it could become fully operative."

ANSWER If something is worth doing, then it must be worth doing properly – even if this takes time.

But Britain *could* institute this reform within the lifetime of a single Parliament, beginning with self-assessments, and simultaneously launching a programme of valuing land in its unimproved state.

Seventy years ago, after Lloyd George introduced his Finance Act which sought to capture part of the value of land through the national exchequer, the Inland Revenue's experts readily conceded that there were no practical difficulties in compiling a roll of land values that could be kept up to date at a lower cost than under the present system.

CIVIL servants are swaying with the political wind, priming government ministers with tailor-made excuses for not radically reforming the rates system.

Spurious arguments are invented to justify inactivity: 10 years have been wasted by the Tories. During that time they could have advanced reform to the point where, at the next general election, they could have reaped rich rewards.

Instead, they are now paying the price of weak leadership and ideological confusion: this is reflected in their irrational statements and weakening electoral support.

● O. St. Clare Risden

For a decade, now, Mrs. Thatcher has wailed in the wind against the property tax. But if she looked closer at it, she would find in the rates system the answers to many of the economic problems that now beset Britain.

*A. R. Prest, *The Taxation of Urban Land*, Manchester University Press, 1981, p.188.

COMMUNITY 'DUE' FOR BENEFIT OF EVERYONE . . .

THERE is one situation only in which it can be maintained that there ought to be a perfect correspondence between tax liability and accountability.

This focuses the debate on land values, which capitalise the aggregate benefits accruing to specific sites.

These benefits, provided by the community, include fire and police protection, amenities such as schools, and social infrastructure (roads, railways), and so on.

The beneficiaries of these services – the landowners – ought to pay a tax that was proportionate to the benefits.

This would be achieved through site value taxation. A tax on land values – unlike other taxes – cannot be passed on. This is one of the unconventional laws of economic theory: see, for example, Adam Smith (1776: 5, ii, 1), John Stuart Mill (1848 5, iii, 2) through to the most recent restatement by Prof. James Heilbrun (1983: 58).

The thrust of this analysis, however, shifts the focus of accountability from the recipients (the spending councils, on which Mrs. Thatcher has tended to focus in her campaign to abolish the property tax) to the taxpayers.

The land tax has been labelled a "super user charge" by Walter Rybeck, an expert on the property tax who is based in Washington, DC.

He points out that the landowner is called to account for his possession of land through the payment of a tax which corresponds to the benefits assigned to his property.

The realisation that there is a precise correspondence between benefits and the payment of a land value tax, does not amount to an argument for limiting the right to vote to landowners.

For this tax is the payment of a "due" to the community, for the benefits provided by the community.

Accountability, then, is restricted to the principle of one-man-one-vote, which is the basis of western democratic philosophy that makes no concession to special interest groups (by they consumers, the business community, or whoever).

HEILBRUN, James, 1983: Who Bears the Burden of the Property Tax?, in C. Lowell Harris, ed., *The Property Tax and Local Finance*, NY: The Academy of Political Science.
MILL, John Stuart, 1848: *Principles of Political Economy*.
SMITH, Adam, 1776: *The Wealth of Nations*.

Misled?

Society's attitude towards poverty is discussed by John M. Kelly

'They could not allow a man like Henry George to be Mayor of New York. It would upset all their arrangements.'

ONE OF the greatest balms to conscience, and one of the supreme sophisms of all time, has been the consoling words of Jesus as reported by St. Matthew: "For the poor you have always with you, ..."

It explains so much and – it justifies so many good works, public and private. It has been the rallying cry that has launched countless parochial charities, funeral societies, soup kitchens, benevolent associations and mutual aid groups beyond description. And of course, government programmes.

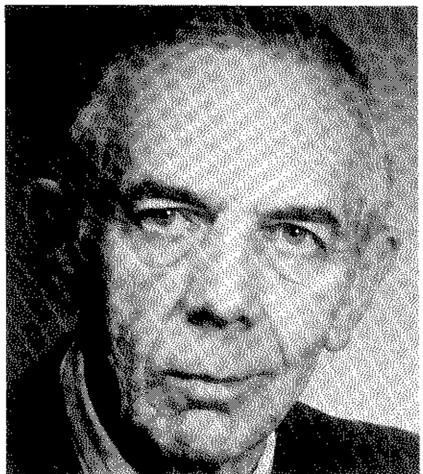
At the federal level alone the decade of the Seventies saw 44 major welfare programmes grow two and a half times as fast as Gross National Product and three times as fast as wages. It would be very hard to say we are an uncaring people. But are we misled? Or, worse yet, hoodwinked?

Just analysing poverty can be a confusing exercise. Consider these two items printed less than a week apart:

> A UPI survey supports the contention that there may be as many as two million homeless people in the United States. In New York City alone *five times more people live in shelters than there were in shelters in the Depression year of 1933.*
>
> On the frigid night of January 22, the population of [New York] city's shelters reached 6,310 – *more than on any night since the Great Depression, when it exceeded 9,000 ...*

Disparities like that shake one's confidence in the Information Age! What it points up however is the fragile vulnerability of the poor. To most of us they are invisible ... yet they co-exist like a guardian angel: never seen – always present.

Some estimates place the number of homeless in New York City as high as 40,000. Yet this is the same city where one may find the ultimate in shelter: the new Trump Towers will sell you an exquisite apartment at up to $10m.



● John M. Kelly, above, is a realtor in Scranton, PA, and a member of the executive committee of the Robert Schalkenbach Foundation in New York City.

Hand-in-hand with the homeless are the hungry; and again much confusion and not a little hyperbole emerge on this topic.

In August 1983 President Reagan, perplexed by reports of hunger in the nation, appointed a task force to study and report on the question. By January the President's Task Force on Food Assistance while acknowledging that "neither poverty nor the need for food assistance has been eradicated", announced they could find no evidence of "rampant hunger."

Within a month a Harvard-sponsored Citizens Commission on Hunger in a 112-page report declared: "Hunger is widespread and increasing", stating further that "... hunger we saw exists in epidemic proportions."

Who to believe? Does it really matter? In all truth, the main thrust of both these reports centred on the degree and extent of public charity to be applied to ease the distress of the hungry. But when do we seek out the cause of poverty and address that underlying unjust pestilence?

'No love without justice'

BENEVOLENCE, charity, generosity and love must never be turned aside; but they must be placed in their proper correlative position. None of these is an antonym for poverty.

The Archbishop of New York, The Most Rev. John J. O'Connor, has a personal motto which contains a profound truth that is crucial to this discussion: "There can be no love without justice."

Henry George, the 19th century economist and philosopher, writing in *Social Problems* (1883), said it this way: "Until the eternal justice is perceived, the eternal love must be hidden. As the individual must be just before he can be truly generous, so must human society be based on justice before it can be based on benevolence."

The antonym for Poverty is Wealth, not Charity. Is wealth in short supply? In 1982 in order to make the Forbes 400 richest individuals list, one needed almost $100m. In 1983 it took $125m to qualify. Forbes had no trouble going to press with a full complement. This is a conspicuous and possibly unfair example but other equally impressive indicators abound. Rising GNP, wages, retail sales figures, security values, bank deposits, etc., all attest to vast and increasing wealth. The paradox lies in the distribution of the wealth.

What is wealth? We hear the word frequently, but do we understand its

PROMPTS NOT A LITTLE HYPERBOLE'

Hoodwinked?

nature and more importantly its origin? Simply put, wealth is "abundance of valuable material possessions or resources". Where does it come from? In a word: production. What are the elements of production? Land, labour and capital, as you may learn from any economic text book.

While capital is an integral modern element of production it is not one in a fundamental sense. Think of the castaway tossed onto the uncharted island. Without the aid of capital he must produce to survive. That production comes down to the application of labour to the land.

Life, Jefferson tells us, is one of the unalienable rights with which the Creator endowed all men. If this be so, it must follow that all men have an equally imperative right to support and sustain that life. It would be a cruel Creator indeed who would give us the first and deny us the second. His plan was proper, man has unjustly altered it.

Spaceship earth seems huge – a giant sphere 8,000 miles in diameter. But its life support zone – the biosphere – is but a thin fragile envelope some 12 miles thick. Even here, 95 per cent of all living things, including man, are restricted to a mere two mile segment.

That crucial element of production land when coupled with labour, offers not only survival but the potential for wealth. But this presumes equal access to the land for all. Unfortunately, historic systems of title, tenure and taxation have developed which work to deny that access to many.

Vast numbers of people are effectively disinherited from the Creator's patrimony. This has resulted in social distortions,

economic injustice, hardship, suffering and poverty. And for too long this has been excused with: "For the poor you have always with you ...".

HENRY GEORGE first came to New York in 1868. It was the principal city of the nation, the population was approaching 1m. Not unlike today, the paradox of great wealth and grinding poverty in the city stood in grim contrast to each other.

Ten thousand tenements overflowed with the poor, whilst at the same time a $2m white marble palace was being erected at 34th Street and 5th Avenue for the merchant prince Mr. A. T. Stewart.

Great wealth was much in evidence, yet the deep poverty which accompanied it was reflected in a death rate for the city which was twice that of London. The striking contrast between (as he later labelled it) the House of Have and the House of Want sent George on a life-long inquiry and crusade to unravel the paradox and set forth a solution.

His search and study culminated in 1879 when he published his masterwork, *Progress and Poverty*, George did not lack compassion but as he studied the inequality of distribution he perceived a great injustice, an injustice which if left uncorrected could never be overcome by love and charity.

Justice looms large in all of George's works. His attitude would be mirrored years later by Martin Luther King, Jr., who, in a letter from the Birmingham jail in 1963 said: "Injustice anywhere is a threat to Justice everywhere."

The post-Civil War years brought a great wave of land speculation to the United States, and as George witnessed the growth of fortunes, he also observed the chronic persistence of poverty. Land was obviously the key.

Labour and labour products were being increasingly taxed to provide public revenues while the natural revenues, the rent of land, was going into private landholders' purses instead of supporting the public services for the community which made the land valuable in the first place.

He perceived that the solution lay in taxing the land and untaxing labour and the products of labour. Drawing on Adam Smith, George devoted a chapter of his book to the "Canons of Taxation" and against them he tested his theory.

Tested thus his conclusion was:

> The tax upon land values is therefore, the most just and equal of all taxes. It falls only upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they

● Turn to p.96

'Most just of all taxes'

● From p.95

> receive. It is the taking by the community of that value which is the creation of the community. It is the application of the common property to common uses. When all rent is taken by taxation for the needs of the community then will the equality ordained by nature be attained. No citizen will have an advantage over any other citizen save as is given by his industry, skill and intelligence; and each will obtain what he fairly earns. Then, but not until then, will labor get its full reward, and capital its natural reward.

Progress and Poverty propelled Henry George into world-wide prominence. His arguments did not sit well in all quarters, but no opposition would dissuade him. He would argue his cause with everyone from a Tammany Hall politician to the Holy See.

In 1887 he joined forces with his friend Father Edward McGlynn, Pastor of St. Stephen's Church, in New York, to form the Anti-Poverty society. At the society's public meeting on May 8 he delivered the address titled: "Thou Shalt Not Steal".

At the time, just as today, many persons were unemployed. The conventional wisdom, then as now, attributed the unemployment to over-production. George scoffed at this, pointing out that there had never been such an abundance of wealth nor such power to produce wealth. Continuing, he said:

> So marked is this that the very people who tell us that we cannot abolish poverty, attribute it in almost the next breath to over-production. They virtually tell us it is because mankind produces so much wealth that so many are poor ... Poverty attributed to over-production; Poverty in the midst of wealth; Poverty in the midst of enlightenment; ... There is manifestly no good reason for its existence, and it is time that we should do something to abolish it.

Well, he had tried to do something to abolish poverty and would continue right up to his untimely death in 1897. In 1886 Henry George competed with Theodore Roosevelt, the Republican candidate and Abram S. Hewitt the Democratic candidate for the office of Mayor of New York. Hewitt, the Tammany Hall candidate was proclaimed the winner. George ran second.

After George's death, Richard Croker, Boss Tweed's successor as leader of Tammany Hall, admitted that the ballot count had been manipulated. By way of explanation he said: "Of course, they could not allow a man like Henry George to be Mayor of New York. It would upset all their arrangements."

The silence deafens

AND SO it has gone for over a century. Through the period, George's conclusions have drawn the support of countless official studies as well as the endorsements of economists, philosophers, government officials, and other thinking persons. Collectively these endorsements would fill row upon row of files, yet we still await the official adoption of the plan that would embrace the economics of Henry George.

'Do we want to do good, or are we content with the great excuse?'

To describe the hundred odd years since Henry George and Father McGlynn battled the House of Have it is very easy to characterize it as a Century of Silence! In the nine months following May 1983, the *New York Times* has editorially called for a modified land value tax on six different occasions. The response from City Hall and Albany? Deafening silence.

In 1978 Harper Colophon Books published a unique book by John A. Garraty titled *Unemployment in History*. Professor Garraty makes a provocative statement concerning George: "But, despite his argument that his reform would injure no class and cause no social disruption, no government *dared* to enact the single tax." Perhaps it would "upset all their arrangements?"

Isn't it curious? A land value tax conforms more closely to the Canons of Taxation than any other tax.

It is socially desirable, fiscally sound and morally right, yet we seem to wait in vain for the authorities to discover, or rediscover it.

Long before George, even before the Constitution, the Articles of Confederation provided that the expenses of the young nation "shall be provided out of a common treasury, which shall be supplied by the several States, in proportion to the value of all land within each State, ..."

No such language is found in the Constitution. One is tempted to speculate that when Hamilton and his colleagues gathered in New York in 1787 they perhaps abandoned this financing device because it "upset all their arrangements."

In Hamilton's time the unexpropriated western frontier seemed endless. There was land and opportunity for all; and indeed the truly indigent were a rare phenomenon in the early days of the Republic. Of course it became a much different story after the lands were taken up.

The bottom line is simply this: Do we fight poverty with charity or justice? Do we continue to excuse things by quoting St. Matthew?

Now, I have never been certain if Matthew was a careless reporter, or if, because of his earlier profession (Publican, i.e. – tax collector) he was reluctant to upset all the arrangements. I say this because there is another version of those words of our Lord:

> **For the poor you have always with you,** *and whenever you want you can do good to them;* **but you do not always have me.**
>
> **St. Mark 14, 7**

Do we want to do good, or are we content with the great excuse?

Three-way stretch

LABOUR UNVEILS ITS PLAN TO NATIONALISE LAND AND SPLIT THE REVENUES

● David Wetzel

Special Conference Report by JOHN HATHERLEY

BRITAIN'S Labour Party is beginning to mobilise itself behind a land nationalisation plan.

Left-winger Tony Benn, MP, has drafted a Bill which would nationalise all land except sites occupied and used by families and farmers.

"Don't under-estimate the support we will receive", Mr. Benn told a Land Campaign conference at the Greater London Council on June 15.

The nationalisation proposal divided the conference.

Mr. Benn's draft Bill proposes: "The ownership of land in Great Britain shall be vested in the nation to be held in trust for the people."

This seems to stand four square with the common law, according to which, from the time of the Norman Conquest, land is held by the monarch in trust.

Labour politicians, however, stress the nationalisation aspect, which many people suspect would cost them votes.

To try and deal with this electoral problem, the Bill exempts properties worth less than £250,000 that are occupied and farmed by owners.

Users of the remaining land would then have to pay a market rent based on the annual value of the sites in their possession. The revenues, according to the draft Bill would then be divided three ways:

- One-third to county councils or metropolitan counties;
- One-third to the national exchequer; and
- One-third distributed as a land dividend to every adult and child.

ONE OF the guest speakers was John Fraser, MP, Labour's spokesman on housing.

The conference chairman, GLC councillor David Wetzel, pointed out that Mr. Fraser changed his position on the land value tax three times during the afternoon: at first he was against it; then he endorsed it for agricultural land; finally, he agreed to tax urban land "with some limitations."

A mountain goat would admire such agility.

Another Labour spokesman, Frank Dobson, MP, pointed out that Mrs. Thatcher's government was encouraging the health service to sell off publicly-owned land.

He referred to the Hyde Park Corner hospital site which was on land leased from the Duke of Westminster, who owns most of Mayfair, including Grosvenor Square, on which the United States Embassy stands. The lease enabled the duke to recover the hospital site for £23,000 (the original price) even though the present value was about £5m.

Mr. Dobson favoured the common ownership of land, but maintained that Labour had to devise a way in which householders would identify with the land once it was in common ownership.

Mr. Wetzel pointed out that Labour's intention was that land alone would be in common ownership. Buildings would remain in private ownership, and people would not be driven from their homes.

MR. BENN'S draft Bill was being discussed at Labour's national assembly in September.

Although there will be much controversy over the emphasis placed on the planning system and the role of bureaucrats, the Labour Land Campaign Conference and the draft Bill may turn out to be major factors in reviving interest in the important part played by land ownership in the economy.

The anniversary of the Domesday Survey is approaching which seems like a good occasion on which to once again tackle the land question.

Engaged in with

Land Rent, Housing and Urban Planning: A European Perspective, **edited by M. Ball, V. Bentivegna, M. Edwards and M. Follin, Croom Helm, London, £19.95**

By Peter Poole

LANDOWNERS are not price-taking players in a perfectly competitive market. They exercise enormous power which enables them to disrupt the smooth operations of the market economy – a fact which is largely ignored by orthodox economic wisdom.

The essays edited by Ball *et. al.* seek to remedy this error in our perception. They show that rent, when privately appropriated, can hinder wealth-creating activity – determining (in the case of the construction industry) what gets built, the character of the production process, and the distribution of the proceeds.

Rent, then, is not just part of a process of income distribution; it is also the instrument for interfering with the wealth-creating process itself.

This book, alas, is spoilt by the claims made on behalf of Marxist theory. Michael Ball, for example, claims that "only Marxist theory has raised seriously the possibility that land rent may influence production processes in the construction industry". This ignores 100 years of work, drawing on classical theory, that can be traced back to Henry George's classic *Progress and Poverty* (1879).

Ironically, however, some of the key insights in the original works of Marx are either ignored or contradicted. Consider, for example, the claim by Michael Edwards that the revenue from the sale of property cannot in practice be split between the return on the land and the return on the building. Such an exercise he dismisses as "fantasy".

Ball appears to agree, for he maintains that such a division is "theoretically indeterminate as it depends on the contemporary balance of power between builder and landowner". Marx would not have agreed, for he notes that:

> **"landed property acquires the capacity of capturing an** ***ever-increasing portion*** **of this surplus value by means of its land monopoly and thereby, of raising the value of its rent and the price of the land itself . . . the landowner need only appropriate** ***the growing share*** **in the surplus-product and the surplus-value, without having contributed anything to this growth . . . an increasing portion of surplus-value is transformed into ground-rent" (Marx 1962: 623-4).**

According to Marx, it is both practical to divide the spoils between landowner and capitalists, and possible to predict theoretically the division based on the stage reached in the long-run decline in the rate of interest (profits). The latter process entails a diminishing share of revenue going to the owners of capital improvements on land, and a rising share going to landowners.

Edwards even challenges one of Marx's most profound insights when he asserts that "changed landownership relations do not of themselves change the essentially capitalist character of production relations."

Marx claimed that "The nationalisation of land will work a complete change in the relations between labour and capital" (Marx and Engels 1969: 290), and that the monopoly of property in land was the basis of the monopoly of capital (Marx 1974: 343).

A change in landownership relations, then, appears to have dramatic implications for the character of productive relationships, which might explain why Marx put "Abolition of property in land and application of all rents of land to public purposes" as item No. 1 in *The Communist Manifesto.*

Having revealed themselves as controversial Marxists, however, the editors of *Land Rent, Housing and Urban Planning* would like to appropriate for the Marxist cause the crucial insights that emerge from a reflection on the role of rent in capitalist society.

There is no legitimate basis for this attitude, however. For the lessons that can be derived from an analysis of monopoly rent (and of the beneficial consequences arising from the public appropriation of rent) *also* logically flow from the earlier, classical concepts of economics.

'Ignored – 100 years of classical theory'

This is illustrated by Christian Topalov's empirical analysis of rents and construction in postwar France. Ground rents were at their lowest level in 1955, rising as a proportion of house prices to their peak in the early 1970s.

This account conforms nicely to the similar upward trend in land values (of 18-year duration) that has been recorded for the UK, USA, Japan and Australia (Harrison 1983). Such a cyclical pattern appears to have been present throughout the past 200 years of industrial history, and has been discerned by using the

Find

Charlie Pye-Smith and Chris Rose, *Crisis and Conservation: conflict in the British Countryside,* Penguin, £3.95

THE biggest obstacle to effective reform of any kind is probably not the strength of opponents, but the inertia of those who stand to gain by it.

Proponents of land reform are up against this problem, as Charlie Pye-Smith, co-author of a recent book on the nature conservation movement, will no doubt testify.

One reviewer, Michael Winter, wrote in *New Society* on 16 August last year that it "offers an all-too-familiar catalogue of the destruction of the British countryside by government subsidised agriculture, forestry and the water industry . . ." He added:

The originality of the book, for the

rents arguments Marx

classical concepts developed by Adam Smith and David Ricardo.

DOES IT matter which theoretical framework is used to analyse rent and the housing sector? Yes, because there are macro-economic implications which (if we employed the analytical framework adopted by Ball *et. al.* might be lost to us. This can be seen in the contribution from Marino Folin.

Folin offers a European-wide analysis of housing development processes. The peaks in output were in 1968 (Great Britain), 1969 (Sweden), 1972 (France), and 1973 (West Germany and the Netherlands), i.e. before the impact of the OPEC oil price rises. Folin rejects conventional explanations for the downturn in construction (elimination of absolute shortage of houses; the recession of the post-1974 period). He seeks an alternative solution, but fails. Why? Because he begins by denying that there is anything distinctively different between land and the capital improvements upon land (houses).

Yet he dutifully quotes evidence offered by the United Nations that, until 1973, the cost of land had risen more rapidly than either building costs or the cost of living. This was predictable on the basis of Marx's use of classical theories!

- Could the sectoral recession have been caused by landowners who harnessed power to squeeze an ever-increasing proportion of "surplus value" – to the point where there was insufficient incentive to continue with construction?
- Could it be that entrepreneurs turned to land speculation at the expense of wealth-creating activity?
- Could it be that so much money flowed into the land market that other sectors were starved of funds?
- Did the rise in rents lead to a curb on consumption to the point where production had to be reduced, at the expense of employment?

These are the macro-economic questions to which economic analysis should now turn. To do so, however, economists need to recognise the unique attributes of land, and of how these are employed to devasting effect under tenure and taxation policies.

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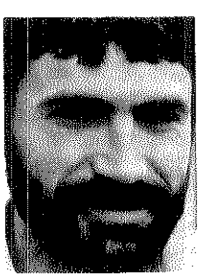
a common problem



By David Richards

1980s, lies in a revival of Henry George's ideas on land reform through a land tax and community control. Intriguing – but hardly a serious contribution to the need for immediate reform of land use policies in Britain.

In other words, if we want particular results, now, it is no good attempting to turn society upside down, which is what Henry George's "land tax" would certainly do.

"We already take some rent in taxation", wrote George in *Progress and Poverty*. "We have only to make some changes in our modes of taxation to take it all."

But that is striking at the very foundation of the established order. It amounts to an economic and social revolution which cannot be disguised as mere tax reform. And to anyone interested solely in nature conservation, it looks like calling for a sledgehammer to crack a nut.

In its Annual Report of 1983, the Nature Conservancy Council gave us just ten years in which to "ensure continuity for Britain's wild plants and animals".

Even Chris Rose, Pye-Smith's co-author, believes that this fact rules out land reform. Defending Friends of the Earth's *Proposals for a Natural Heritage Bill* (1984), which relies on the extension of planning controls, he stated that "FOE has no remit to argue for that. We have no choice. We must go for what is practicable and achievable in the short term."

So when will the time for land reform arrive?

It is clear that no single issue is big enough to justify calls for deep-seated, revolutionary change. Only when a common problem is discovered at the heart of many issues is it worthy of legislation that has repercusisons for all.

Pye-Smith slips up in just this respect when he writes (p.132): "Times, of course, have changed. Industrial depressions, which George attributed to the land monopoly, have little or nothing to do with who owns and uses land."

Until the institution of landownership itself is clearly exposed as one of the root problems of society, ramifying in many directions and blighting the lives of all, the cause of radical land reform cannot prosper.

Aboriginal rights 'broken'

AROUND THE WORLD

AUSTRALIA'S Federal government is planning to abandon three of the five principles on which nationwide land rights legislation for aboriginals was to be based.

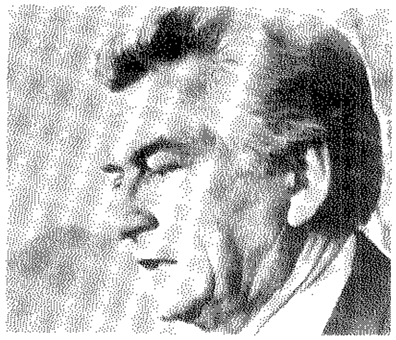
That is the claim by the Copenhagen-based International Work Group for Indigenous Affairs (IWGIA), which has reacted angrily to Premier Bob Hawke's plans.

More than 400 aborigines staged a sit-in at the offices of the Department of Aboriginal Affairs in May to protest against what is called the "Preferred National Model for Land Rights".

This "model" (which has been suspended as official policy while the government consults aboriginals) offends some of the key planks of the policy that has so far been outlined by Clyde Holding, the Minister of Aboriginal Affairs. These principles are:

- Aboriginal land to be held under inalienable freehold title.
- Aboriginal control in relation to mining on aboriginal land.
- Protection of sacred sites.
- Access to mining royalty equivalents.
- Compensation for lost land to be negotiated.

Aboriginal protests against the



● Bob Hawke

government's plans, which are to be introduced in the next fiscal year, are now obstructed by the decision to disband the National Aboriginal Conference, which represents the interests of the continent's original inhabitants.

The government's "Preferred National Model for Land Rights" breaks the first of the three principles. According to the IWGIA:

"The 'Preferred Mode', or anything similar which should replace it, would be disastrous to the future of aboriginal land rights."

The government also wants to amend the Northern Territories Act (1976), which allows for existing aboriginal reserves to be handed over and held under aboriginal title, and allowed some Crown land to be claimed.

In a strongly-worded letter to the government, the IWGIA declare:

"The Federal Government of Australia is not only backing away from its progressive past intentions, but is actually undermining those very principles which had given the indigenous world some hope.

"In addition, at a time when aboriginal organisations have become united in condemnation of the proposed code for land rights, the Federal Government has disbanded a major voice of protest.

"The effect is to stifle aboriginal opposition and confound its unity at a most opportune moment for the government."

The IWGIA letter adds the barbed comment:

"We very much hope for a time when the Federal Government of Australia will match its clear and upright stance on the human rights of Black peoples in South Africa and the indigenous peoples of Kanaky (New Caledonia) with a similar regard for the just claims of those indigenous peoples living in its own country."

VIETNAM EYES CHINA'S MARKET

VIETNAM Peasant farmers produced 17.2m tons of rice last year, which was barely sufficient for the country's needs.

Vietnam's leaders are still agonising over which ideological direction to take in their bid for economic growth. They are watching closely the free market experiment in neighbouring China.

In China, says Mr. Tran Phuong, an economics minister speaking to John Gittings of *The Guardian* (June 28), the state is now like a landlord, giving up all responsibility to the peasant in return for collecting "rent" in the form of taxation.

Since embarking on this course, agricultural productivity in China has soared.

*ZIMBABWE Land was at the centre of the liberation war, but it was not a factor in the recent elections – despite the fact that fewer than expected landless labourers had been settled on their own tracts. Even so, reports David Beresford (*The Guardian*, June 27): "Whatever the future holds, the land issue will continue to be the touchstone to the fate of Zimbabwe."*

★ ★ ★

CYPRUS The U.S. offered a £500m ($645m) aid package to buy peace between Greeks and Turks. Part of the plan is a Central Purchasing Fund, which is designed to resolve the problem of Greek refugees whose homes, land and businesses were abandoned in areas now occupied by Turks.

The Fund would act as a land bank, buying Greek property in Turkish areas and selling it to Turkish Cypriots, and vice versa.

The Fund's strategy would fit the concept of a federal state. It would help to avoid the danger of the larger Greek population "swamping" the Turkish sector, and would also encourage Turkish refugees to abandon ideas of a mass return to the south.

★ ★ ★

NICARAGUA The government has taken over six estates belonging to Enrique Bolanos, president of the Private Enterprise Council, because he refuses to negotiate over the transfer of land to peasants. Landless peasants found their own solution: they occupied the land, near Managua, illegally.

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