

LAND and LIBERTY

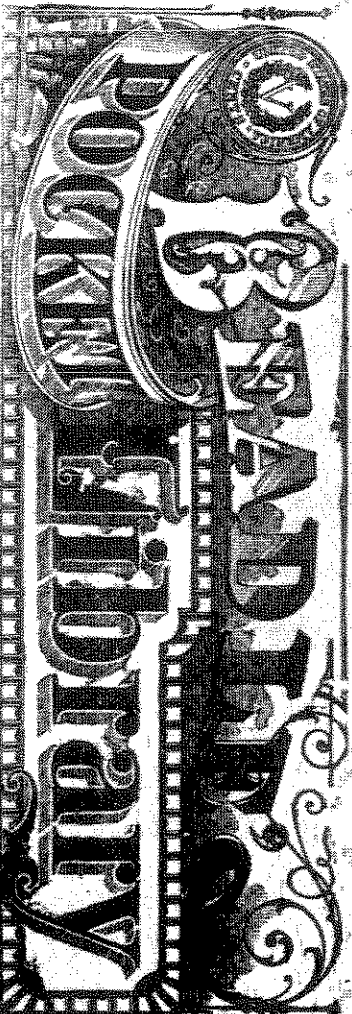
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LAND
and WAR

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**Deadwood Dick in Leadville; Or, A STRANGE STROKE
FOR LIBERTY.**

BY EDWARD L. WHEELER.



CLARENCE JANE HELD A PAIR OF GOGGED RECOILERS, WHICH SHE HAD LEVERED TOWARD
RALPH GARDNER, THREATENINGLY.

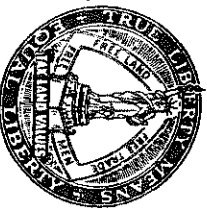
LAND and LIBERTY

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COVER ILLUSTRATION

The Wild West was romanticised in the story books, which highlighted the supremacy of the gun tootin' Good Guys who banished Evil from the Land of the Free. In fact, the era of territorial expansion and resource exploitation was to have a fatal impact on the formation of the character of the American people. **ED DODSON'S** analysis. See Page 72.

LVT cure still best

BRITAIN is about to embark on a damaging experiment in fiscal "reform".

Mrs Thatcher's government has abolished the property tax on people's homes. The consequences should be monitored by reformers throughout the world, because the lessons will be enlightening. The dynamics of the property market will be laid bare for all to see and it will not be a pretty sight.

Property owners will capitalise the absence of a tax on houses into higher prices. The government says the switch to a poll tax, in which everyone pays the same amount to fund local services, will result in an increase of 5% in house prices. Most economists disagree: they say house prices will rise by an average of 20%.

RESULT: wealth and income is switched from the poor, who aspire to own their homes, to the (relatively) rich who already own property. People wanting to buy houses will have to borrow larger sums as the price of entry into the privileged market, where tax breaks are already lucrative (and not available to families that rent their homes).

Higher prices are good for builders, in the short-term, as they cash-in on the bigger profit margins they can make from the land they own. But as landowners raise their prices to mop up these extra profits, there comes a point where fewer people can afford to pay the ruling prices. The housing market shrinks.

RESULT: immobility in the labour market. This has already happened in Britain, which is back in the throes of a new speculative boom in the land market. Unemployed people cannot move to the areas where there are jobs, because they cannot afford the rents or the cost of buying houses.

This has created a large itinerant labour force, which travels south to work during the week, and back north to wives and children at the

weekend. Growth of the economy is stultified, and family life disrupted.

EVENTUALLY, one of Britain's Opposition parties will take over from Mrs Thatcher, and will almost certainly reintroduce the property tax, but not in its old form. What reforms ought to be adopted?

So far, the discussion has been limited to changing the basis of tax assessment from annual (rental) values to capital values. This will not have any dynamic effects.

Britain's fiscal reformers should study the experiment in Pennsylvania, where imaginative city councils are shifting the tax burden from buildings to land values. The effects are crystal clear and eminently desirable.

- Builders accelerate their construction programs.

- Landowners grudgingly release their valuable, but vacant city-centre sites for use by commerce and industry.

- House prices are stabilised.

- The property tax for many home-owners is reduced, as the tax base is broadened to take in the speculators who have been squatting on their sites without paying their dues to the community (who creates the value of land, anyway?)

- The land market is not exactly tamed - the tax rates, as yet, are too low for that - but the move is in the right direction.

Land speculation is an economic cancer; there is no other way to describe its evil effects on the economy.

Like cancer, you don't see it until it's too late; it gets everywhere, and we all pay the price.

However, there is a cure for land speculation: a sensible property tax based exclusively on land values.

One with high enough rates to enable a rational government to reduce the burden of those disruptive taxes which fall on incomes, consumption and capital.

• INSITE investigates
claims that a tax on rent
is a positive incentive to
the creators of wealth.

PENNSYLVANIA'S TWO-RATE PROPERTY TAX CITIES: %			
	Land Tax Rate	Building Tax Rate	
Scranton	4.37	0.80	
Harrisburg	5.52	2.19	
McKeesport	9.00	2.00	
New Castle	6.96	2.20	
Duquesne	6.36	2.70	
Washington	6.056	1.68	
Pittsburgh	15.15	2.70	

IRREFUTABLE EVIDENCE

ALL TAXES are bad. That is the axiomatic claim by today's free market economists, who define "reform" in terms of reducing - or abolishing - taxes.

This sweeping assertion is confusing, because the textbooks still insist that there is one tax which provides benefits: a tax on the rent of land. The evidence to test the claim that a land value tax is a good tax is supplied by Pittsburgh, the Pennsylvanian city which has progressively shifted the property tax from the income generated by buildings and on to the rental value of land.

A good tax should be neutral. In other words, it should not damage the efforts of people to earn income. The injurious effects of taxation result mainly from the fact that they are passed on to final consumers in the form of higher prices.

So the demand for the article or service declines, and the satisfaction of consumers is lower than what it would otherwise be.

A tax on the rent of land is not passed on; it therefore does not reduce the demand for land, or distort the pattern of land use. As Professor Samuelson explains in his widely-studied textbook: "... the tax is 'shifted' completely to the supplier, who absorbs it all out of economic rent. The consumer buys exactly as much

of the good or service as before and at no higher price."¹

Under current conditions, in fact, a reform of the property tax - which entails an *increase* in the tax burden on land! - would actually reduce the price of land.

This is because many sites that now stand idle within the city boundaries, held by speculators who expect to make a large capital gain in the future, would come onto the market. The adjustment in the land market would increase the supply and moderate rental levels.

BUT IS it true that a reformed property tax would encourage new investment?

Steven Bourassa, an assistant professor of city and regional planning at Memphis State University, studied the economic effects of Pittsburgh's dual-rate property tax, and discovered that a 1% decrease in the tax on buildings resulted in a 2.36% increase in the amount of new housing construction.²

Concludes the professor: "The need for fundamental changes in the property tax stems from the fact that local tax policies are at odds with economic development goals.

"It is an economic truism that increases in taxes result in decreases in supply. This applies to buildings and other improvements to land. The higher the

real estate tax rate, the lower the construction rate.

"The fact is recognized, at least implicitly, in Memphis and in numerous other cities with tax freeze or abatement programs. By holding taxes constant as improvements are made, municipalities hope to encourage development that would not otherwise take place. In Memphis, tax freezes are granted by the Center City Revenue Finance Corporation as a means for spurring downtown development.

"If taxes on buildings discourage development, then why not abolish such taxes altogether? The obvious answer to this question is that local governments lack a suitable alternative source of revenue.

"In fact, there is a good alternative to taxing buildings. The real estate tax itself can be modified to yield the same amount of revenue and encourage development.

"The evidence from Pittsburgh strongly supports the idea that cities concerned with economic development should shift their real estate taxes from buildings to land, to maintain revenues while encouraging development."

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1. P. Samuelson, and W. Nordhaus, *Economics*, NY: McGraw-Hill, 12 edn., 1985, p.402.
2. "Land Value Taxation and New Housing Development in Pittsburgh," in *Growth and Change*, Vol.18, No.4 (Fall, 1987), pp. 44-56.

Property tax reform hope

PHILADELPHIA came close to a radical reform of its property tax this year. As part of his package for a \$165m increase in taxes, Mayor W. Wilson Goode proposed that the tax rate on land should be 2.5 times higher than on buildings.

He was backed by the Pennsylvanian city's new Finance Director, Betsy Reveal, who said the reform would encourage development, discourage land speculation and minimise the impact of the tax increase on homeowners.

Two critical political errors were made, however, and the council decided not to adopt the measure this year.

• Mayor Goode sprang the proposal on the council just three weeks before a decision had to be taken for this year's budget. No time had been allowed for preparation. So opponents were able to claim that no-one understood how the reformed property tax would work.

"There is no consensus for the land tax because no-one understands it," said Lucient Blackwell, chairman of the Finance Committee. "It might be something for the future, but not right now."

• James Tayoun — one of the politically most astute politicians in this city that has a large black population — tried to educate his colleagues. But a leaflet circulated on his behalf revealed that the tax had

been successful in South Africa.

"We're not going to take our financing plans from South Africa," declared Councilwoman Augusta Clark. "P.K. Botha is not our guru."

This was followed up by Joan Krajewski, who said: "I make a motion that the land tax is forgotten." It was.

THE CITY's property tax reformers now plan to create a coalition in favour of the dual-rate tax. They have nearly 12 months

BY PETER POOLE

A ray of sunshine in Philly

to educate council members.

Ms Reveal, a graduate of the universities of Cornell, Michigan and Harvard, who prior to taking up her position as city treasurer was Administrative Dean of the John F. Kennedy School of Government at Harvard, does not need educating on the virtues of the land tax. It would, she says, encourage economic development.

"You move the tax burden to where the economic development occurs and provide incentives for people who own vacant properties to develop that property... and not sit on a piece of property in a high-value area and hold it for speculative purposes."

Despite her expert testimony, what the Press perceived as a political power-play — a jockeying for electoral favour in advance of the next mayoral election — resulted in the land value tax being rejected.

But, warned Michael Weinstein, chairman of the Department of Economics at Haverford College, "It would be tragic if Goode's untimely proposal dissuaded City Council from considering a land-value tax for future adoption."

There was one group of people who had no difficulty grasping

then have amounted to 56%.

• On the flat-rate tax, the burden on homes would be 6% higher, but under the two-rate tax, most homeowners and tenants would benefit by a fall in their property tax payments, as the tax base was broadened at the expense of the owners of vacant or under-used sites.

City Finance Director Betsy Reveal said that it was unfortunate that "because of the confusion [people] are missing the key point: that it is one of the few tools we have to minimize the impact on residential taxpayers."

GOODE VIBRATIONS

THE DUAL-RATE property tax proposed by Mayor Goode would have taxed land at 16.70% of assessed land values, and 6.68% on the assessed value of buildings. This is how it would have worked.

• The tax on a vacant site assessed at \$5,000 would have risen by \$79 on the single tax rate, but by \$449 more under the dual-rate tax.

• The property tax now falls mainly on the value of buildings — 76% of a flat-rate tax; under the two-rate tax, that burden would have been reduced, and would

ALIQUIPPA SHOWS ITS METTLE

THE CITY council of Aliquippa, PA has voted to shift a large part of its property tax off buildings and onto land. For 1988, the tax rate on land will be 81 mills (8.1% of land assessments) coupled with only 5 mills on buildings (0.5%), instead of 24.76 mills on both. As a result:

- Aliquippa becomes the eighth city in the U.S. to go two-rate.
- It will have the lowest building tax rate among Pennsylvania's 53 cities.
- It will no longer have the highest tax rate on buildings in the county. Its building tax rate is now about one-fourth of the only other city in its county, Beaver Falls.

Because of this shift, \$1.25m a year in property taxes will be shifted off building owners and onto landowners.

Despite a 10% increase in property tax revenue, Councilwoman Mable Jarrett reports that more than 80% of the homeowners will enjoy a reduction in their city property taxes.

ALIQUIPPA is a steel-mill town in western Pennsylvania, not far from the Ohio border. The population is

about 17,000. Its chief employer by far has been the LTV Steel Corp., but its ageing plant is now nearly entirely shut down. LTV is in Chapter 11 bankruptcy (although other branches of the parent company are doing well financially); it has reneged on its pension payments, and like many industrial concerns throughout Pennsylvania, it has appealed its assessments and has won a big reduction, much to the detriment of the city's budget.

In fact the city would be bankrupt if it had not obtained \$350,000 in last-minute low-interest financing arranged with the help of the state's Dept. of Community Affairs and Rep. Charles Laughlin (Bvr. Cty.), who throughout this crisis has been of great help to Aliquippa.

As it happens, the city will get more property tax revenue from the LTV mill with the 81/5 two-rate approach. Without it, Aliquippa's other property owners would be saddled with an additional \$381,000 in property taxes.

Aliquippa applied for and became a legal city of the third-class in Pennsylvania (moving up from borough status) specifically to take advantage of P.L.37531 (Purdon) which allows third-class cities to adopt the two-rate property tax.

ing the implications of the land value tax. According to Larry Fish, a reporter on *The Philadelphia Inquirer*, "Large landowners quickly grasped the essentials."

They claimed the tax burden would drive businesses out of the city, and that the users of large tracts of land - particularly Chevron, the owners of a refinery in the city who claimed their property tax would more than double to about \$2m a year - would be penalised.

The *Inquirer's* cover of the City Hall story was a balanced one, but the *Philadelphia Daily News* was hostile to the dual-rate property tax. In an editorial, they declared: "A dumb idea was officially forgotten."

The professorial verdict, however, was more sympathetic. Said Susan Wachter, associate professor of finance at the Wharton School: "In terms of the city as a whole, it is an efficient way to raise taxes without discouraging... use of the land."

Mayor Goode incorporated the dual-rate property tax into



• Elizabeth Reveal

his budget plans because the finance department had discussed it with officials in Pittsburgh, who expressed confidence in the fiscal policy.

Land tax activists in Philadelphia are confident that, now that they have been given the time, they will be able to educate members of the council in time for the measure to be adopted during the budget proposals next May.

Jacob Himmelstein, chairman of the advisory board of the Henry George School - named

after the Philadelphia-born citizen who became famous for his advocacy of the land value tax policy throughout the world - told *Land and Liberty*: "The council adopted a lot of taxes that are oppressive on business - instead of the land value tax, which would help to expand economic activity in this city, which is the 21st largest in the world."

"Next year there won't be the proposal for a large tax increase, which will make it easier for council members to understand that the land value tax shifts the tax burden off home-owners. This year, they couldn't see that."

"We are going to do more lobbying and educational work in the next 12 months, and we confidently expect that the policy will be adopted."

The council decided on a new package of tax increases to raise an extra \$100.1m. This included a 60% increase in the real estate transfer tax (extra revenue: \$33m) which obstructs the rational use of property.

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The new rates are 6.1968% on land, 2.202% on

FACTS: If New Castle taxed land and buildings at the same rate, the property tax on buildings would have to be increased 40%. 58% of New Castle's property tax still falls on buildings (it would be 82% with a single-rate property tax).

Farrell and Sharon (all three cities are adjacent and share the same economy).

The annual construction increase in New Castle after going two-rate was an astounding 70% – so astounding that some politically-active citizens in New Castle could not believe it!

issue of new building permits. Sharon's new construction fell 90% per annum, and Farrell's was down 66% (1986 study by C.L.T.R., 121 E. 30th St., New York, N.Y. 10016).

• Nine under-developed downtown sites in New Castle were studied and it was found they would be more profitably developed under a two-rate approach than with a one-rate approach (1981 study financed by N.C. City Council).

• 78.14% of homeowners in New Castle paid less with the two-rate building-to-land switch in the property tax (1980 N.C. Administration study).

study).

The property tax rates for 1988 represented a fairly substantial increase for New Castle property owners over 1987 (inflation was the chief culprit), but the two-rate approach moderated the increase for most homeowners. The increase would be much greater for them without the two-rate approach.

A SPEECH in 1893 marked the beginning of a debate that has continued ever since among historians. Speaking in Chicago at a conference of the American Historical Association was a 32-year-old historian who revolutionized historical thought in the United States – Frederick Jackson Turner, originator of what has come to be known as the “frontier hypothesis”.

Jackson’s approach to American history stressed the crucial role played by the sparsely populated interior in forging both a uniquely American democracy and a people of common national character.

Running through Turner’s original presentation was an emphasis on the importance of free land and how this distinguished North America from Europe. Turner felt that the Americanizing of European immigrants occurred not in the established centers of commerce and government along the Atlantic coast, but at the frontier and beyond.

Not until the new arrivals broke from the European-like cities of Boston, Philadelphia, Baltimore or New York did a new and distinct character arise, the two most important influences on these migrants being the wilderness itself and the people who had roamed the continent before its settlement by Europeans.

Historians have both vehemently challenged and defended him at great length. What is apparent, and what I believe most important, is that Turner was one of the few academicians of his era to recognize the forces – both positive and negative – let loose by the widespread access to free or very cheap land. In his A.H.A. speech he observed:

“So long as free land exists, the opportunity for a competency exists, and economic power secures political power. But the democracy born of free land, strong in selfishness and individualism, intolerant of administrative experience and education, and pressing individual liberty beyond its proper bounds, has its dangers as well as its benefits.”

“Individualism in America has allowed a laxity in regard to governmental affairs which has rendered possible the spoils system and all the manifest evils that follow from the lack of a highly developed civic spirit.”

Yes, the frontier presented opportunity – far greater opportunity for the unpropertied masses than had existed in Europe or even in the Atlantic coastal colonies, governed as they were by transplanted European land barons or tightly controlled charter companies.

That same frontier society, unfettered by inherited social and political arrangements and without a new and just foundation, also contributed to the subversion of republican spirit in favor of unbridled individualism.

Nevertheless, one cannot but agree with Turner that the American frontier permitted a postponement of the day of reckoning for the oligarchies of Europe and Eurasia, by absorbing the Old World’s propertyless and allowing those societies to survive beyond what natural pressures from within would have sustained.

America the safety valve, the land of hope, the world’s melting pot was also the land of castoffs, of racial and ethnic hatreds, of rising conflict between classes, of religious intolerance, of violent labor strikes and monopoly-capitalist retaliations, of slavery and a disregard for the environment, of ghetto tenements and child labor; and, of the near annihilation of fiercely proud but technologically inferior peoples – at whose expense what we call the “frontier” arose, literally over the

Legal of the frontier chaos

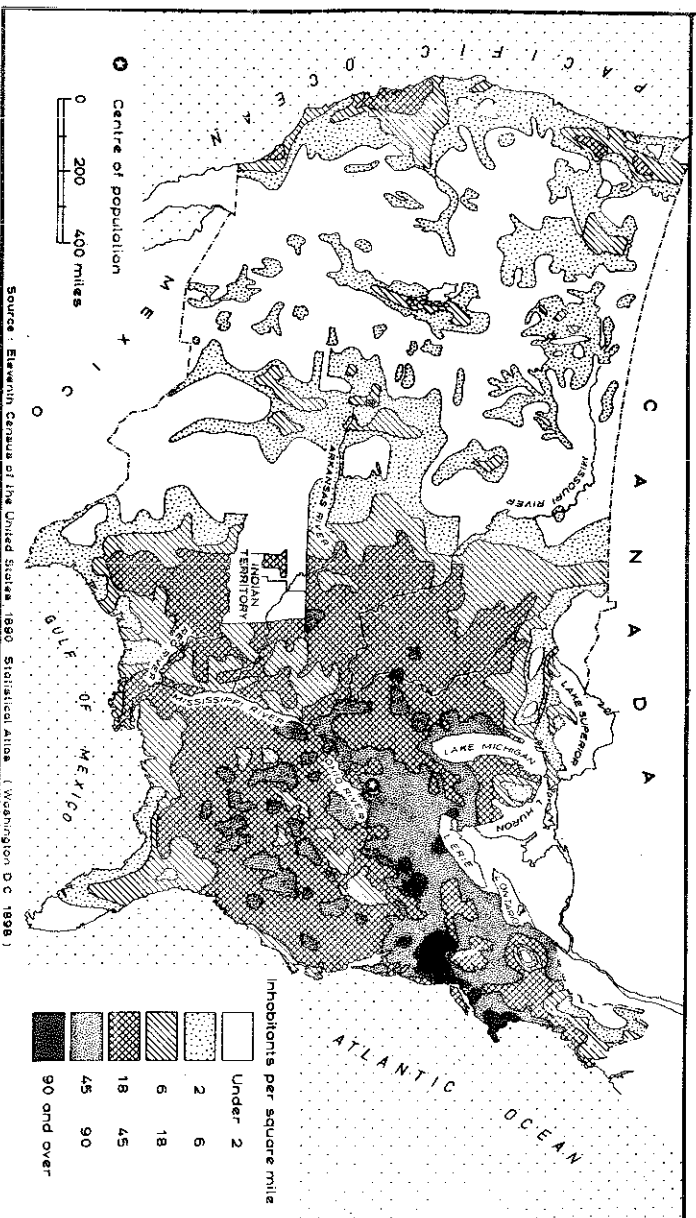
graves left behind by their defeated. Turner optimistically called the first chapters in the history of the West gave the oppressed of all the

The reality held far less promise, overwhelming majority of the land controlled by absentee-landowners who had produced famine; or African slavery and later given the freed in the North or sharecrop overlords; or, the Chinaman, experienced economic deprivation homeland.

Reality meant that despite the ease and starting a new life required by immigrants lived and died before. For some, particularly the non-Meanwhile, the very concept of land grants to the railroads and domain in favor of monied interests. If, as Turner felt, the quest to maintenance of democratic institutions extremely high.

AS A historian, Turner provide neither his contemporaries nor have offered a clear analysis of the socio-political arrangements. From one historian, Steven C. most others who pursued an educational background of the

DISTRIBUTION OF THE POPULATION (excluding Indians not taxed) 1890



tribal civilization. In the period "one of the wonder-races" and concluded that "the vision of hope."

In the vision. It became so for the after fleeing a homeland and enclosures and consolidations ought to America in the chains of compete for subsistence wages new generation of Southern Italian, or German who even worse than in his or her for-ally open interior, getting there kills and money; generations of movement out of poverty began. means, that struggle continues, and disappeared in the face of relentless erosion of the public

er the frontier assured the per- the cost in human terms was

t of the picture; unfortunately, cessors (detractors or admirers) amics which created our system is history.

we are told that Turner (unlike specialization) possessed the ical economist and was well

acquainted with the writing of the nineteenth century's last great political economist, Henry George.

Turner had studied George's *Progress and Poverty* as a graduate student at John Hopkins where he also gained exposure to the new "economics" under Richard Ely (Ely, it should be noted, was one of the few professional economists of the period to give Henry George's thesis a thorough examination).

Also of interest is Turner's presence at Harvard at a time when fellow faculty member Thomas Carver offered the academic community a serious response to George's analysis of American democracy and justice. In his *Essays in Social Justice*, Carver wrote that despite his disagreements with so-called "single taxers" as to whether allowing private interests to claim Ricardian rent was unjust, he recognized that by collecting economic rent through high land taxes, government would greatly reduce the negative effects of land speculation; and, in his words, doing so would "work well for the nation."

Turner, exposed to George directly and at the center of intellectual debate over the "land question", incorporated much of George's earlier insights into his analysis of American history. As Steven Cord observed, Turner's debt to George is clear.

What both George and Turner realized was that the settlement of the frontier contributed to the dichotomy of simultaneously producing both privilege and greater equality of opportunity; equality in the short run, growing privilege over time.

Because there was no serious attention given to the establishment of a just system of land tenure, a system that would preserve the benefits of private control yet distribute land's socially-created value, migration into the interior simply fostered an era of tremendous chaos, exploitation, lawlessness, warfare and monopoly. As a result, within the American system was built a certainty of gradual erosion of individual liberties under a growing body of positive law.

Leaping the leeches

• The author is professor of economics at the University of California, Riverside. This article is based on a speech to the UC seminar on Global Conflict and Cooperation, Laguna Beach, 26-27 February 1988.

NATIONAL governments originate historically to acquire, hold and police land. Other functions are assumed later, but sovereignty over land is always the first business. Private parties hold land from the sovereign: every chain of title goes back to a grantor who originally seized the land.

When economists today speak of "rent-seeking" they usually are thinking not of basic land rent, but in subtle and sophisticated terms, looking at dribs and drabs of transfer rent derived from contracting advantages.

They develop abstract models for gaining optimally with imperfect information, and so on. By emphasizing the arcane while ignoring the basic they are in danger of matching the proverbial expert who fine-tunes all the details and elaborations as he forges on to the grand disaster.

Indeed, we have had one such disaster. Viet Nam was viewed by many as an economists' war, rationally planned and led by the best and the brightest systems' analysts, exemplified by the brilliant, energetic Secretary of Defense. One should not be surprised at the post-Viet Nam decline of interest in applying modern economic theory to questions of global conflict.

We would be more useful to statesmen if we looked first at rent-seeking in the grosser sense of "land-grabbing", where the whole bundle is at stake. When William of Normandy conquered England the prize was land rent. He and his retainers disposed the local rent-collectors.

It was simple, gross, and basic, and much more consequential

than the trivial rent-seeking we model today. The bulk of the natives may have been affected only marginally: they just paid Lord B instead of Lord A. But it made all the difference to Lords B and A, the ones who made basic decisions about global conflict and cooperation.

BEGINNING in the 17th century, Europeans invaded North America, dispossessed the natives and each other, until today we meet here, overlooking beach and ocean, paying our daily rent for a little slice of land which has been won and kept by a long chain of wars.

The roof over our heads is different. It is the product of capital formation: someone saved from income, and paid workers to construct the building. Its present value is that less the depreciation and obsolescence, so it is rentable today mainly for its appreciated site, to which an appraiser must impute most of the market value.

But the site never was nor could be the product of capital formation. It pre-existed man, who could only acquire it by taking. It is fair to say that throughout most of history that is what warfare was about, seizing, holding and policing land.

This is not to deny ancillary causes and issues of war, such as disputing the pathway to Heaven, ethnic pride, paranoia, acquisitive genes, and a leader's need to divert people from domestic problems. Economists should certainly make it their

business to address *not* last, a major source of global conflict. Neither is this to deny that territorial expansion is often self-defeating, economically.

Many empires, probably most, cost more than they return, a discovery that accounts for the well-being of small nations like Sweden, Austria, Denmark, and The Netherlands, which gained by abandoning destiny and empire. But we would miss the point to bury particulars in aggregates. By disaggregating benefits and costs we gain the key to understanding. The whole nation loses, but certain parties gain, and it is they who promote and sustain aggressive behavior.

Economists conventionally bury this point when they submit that "national defense is a public good".

"Defense" is a loaded word which rationalizes as it describes. "Military spending" is more neutral, and will be used here. It is worth remembering that the German *Schulz* (as in *Schulz-Stüffel*) and *Wehr* (as in *Wehrmacht*) both translate as "defense". *Lebensraum* is a more forthright term, and explains much more about Nazi aggressions.

"Public good" says that all gain equally. But that is not true even of pure defense proper. What is defended behind the defense wall is land previously seized. The Lords and Barons have much at stake; the serfs and vagrants very little. Rent is what is being defended, along with, no doubt, traditional feelings of machismo and some local folkways and mores.

WAGES, as well as the return for

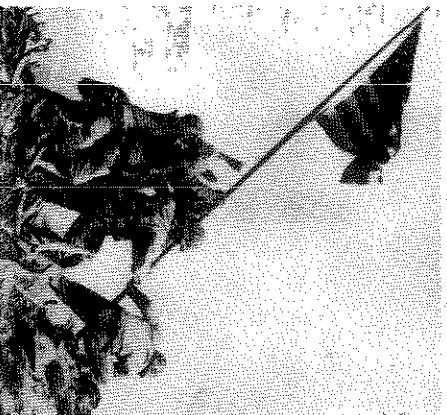
capital formation, ultimately need little defense because they are economically functional. They are paid for real service and sacrifices, and will command a return in almost any viable system. Labor is also more migratory. "Fixed" capital also migrates economically as capital recovery funds are reinvested elsewhere. Land, in contrast, does not migrate among nations. Nations are defined as areas of land.

But it is outside the defense wall of the nation proper that rent-seeking is most dynamic and destabilizing. Military force (often in tandem with finance) is used to project sovereignty into foreign nations, and over non-man's-lands like the oceans, polar regions, radio spectrum, and outer space. Offshore rent-seekers are of two general kinds.

"Caciques". Cacique is a generic term for local cooperating rulers from the native population. It is more neutral than Quisling, and most caciques are more independent than he was. Imperial metropolitan powers normally work through caciques. Turnover among individual caciques is sometimes high, but they are drawn from the matrix of the local landholding oligarchy which is quite stable, often thanks to our support.

We relieve the caciques of collecting and/or paying taxes for their own military, which often double as domestic police as well. The life of some caciques is risky, but the rewards are often very high. The Sultan of Brunei is the richest man in the world; the extravagance of Ferdinand and Imelda Marcos is legendary.

Unit land values in Tokyo exceed those in New York and Chicago by a factor of about 10. One reason (of several) for the



• U.S. Marines at two Jima

difference is that New York and Chicago pay taxes to defend Tokyo, plus what the Japanese once called the Greater East Asia Co-Prosperity Sphere. Roosevelt in 1941 stopped Japan at Viet Nam, precipitating Pearl Harbor. But Eisenhower said in 1959 we must defend Viet Nam to protect the Japanese resource base.

Corporate Rent-seekers of the second kind are U.S. or allied multinational interests, mostly corporations. The cacique is expected to assign to them, or be complaisant in their taking concessions and resources like minerals, transportation routes, communications, bank charters, plantations, etc.

NATIVES normally control more of the traditional resources like farmland. Foreigners specialize more in less visible, more novel and sophisticated resources like undiscovered minerals (exploration rights), navigation rights, radio spectrum, overflights, bank charters, etc.

Both these groups have the acutest incentive to influence U.S. policies, and large discretionary funds at hand. Therefore they tend to dominate U.S. statecraft. The U.S. government is probably more vulnerable to such foreign influence than most, because of our size and weakly developed sense of

honorable dedication to the national interest. The English once terminated a dynasty, the Stuarts, which was caught taking support from France; but Americans hardly notice when retired Congressmen take work lobbying for foreign sugar producers.

Rivalry to appropriate limited rent-yielding resources must lead to conflict. It has to, because land is not produced, nor stored up like capital by saving. Modern economics glosses over this by stressing that land, like other resources, is allocated by the market. That may be, but *distribution* is something else. Every land title in the world goes back to a taking by force.

It will be objected that one can buy in peacefully once a tenure is firmly established, with alienable titles. There is certainly no intent to deny this. The problem is that a successor-in-interest stands on no firmer footing than the original. There is no laundering: every landholder can consult his chain of title and see how it originated. Indeed, it has been said that those who buy stolen property are the chief cause of crime. Fencing itself is a crime.

However one may side on that question, it helps account for the extreme alarm with which U.S. statecraft startles at any foreign country, however weak and innocuous, which expropriates any such successor-in-interest. Demonstration effects are threatening to the insecure. That is one cause of global conflict.

More destabilizing yet is the ambitious rent-seeker offshore, who finds his biggest gains in the riskiest way, ways that unfortunately impose high risks on the U.S. The biggest gains to rent-seekers come from buying in on the ground floor, cheap,

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when tenures are precarious or uncertain.

Then one invokes the U.S. armed forces and the sanctions of ancillary statecraft to raise the value of one's acquisition. The three main concerns are to firm up precarious tenures (as by supporting the government that granted them); to hold down taxes (as by lending the U.S. armed forces); and to avoid pure competition (as by giving preferential access to the U.S. market, or Pentagon procurers).

There have been many spectacular success stories. Aramco is an example. It originated in 1933 with a capital of \$100,000. By 1970 it was valued at well over \$5 billions. Of course that increase might represent accumulated capital flows from the U.S. owners, but such was not the fact.

There are four sources of value of foreign holdings: capital flows, plowbacks, appropriations, and appreciation. In many cases like Aramco the last two far outweigh the first. But they are products of statecraft and force, not of capital inputs proper.

Tenure granted by unstable governments is not worth much, and is therefore cheap to acquire. In 1960, for example, Patrice Lumumba pledged a substantial share of the Congo in return for a relatively modest loan from a Wall Street financier.

Of course there are also failures and losses, and some one might even try to show that aggregate losses exceed aggregate gains. But Adam Smith observed long ago that when an occupation offers a small number of extremely high rewards, its attractiveness is enhanced out of all proportion to their

aggregate value. It is not just the successes, but all the attempts that provoke global conflict.

We are trained and conditioned to think of land tenure as something stable and inherited, with secure roots in history. In fact, that which was inherited can never be taken as given unless the origins bear examination.

Past appropriation suggest future expropriation. One result of that is a legal system even in "capitalist" America which tolerates rather extreme invasions of land value through zoning, rent control, taxation, and field price controls, without there being a legal "taking" such as might be prohibited by the 5th Amendment.

But in addition, tenure is constantly being created at the interfaces among sovereignties. Each is a potential flashpoint. Title to land is also contested within many sovereignties; current examples being in Guatemala, El Salvador and Nicaragua.

TENURE is created at the margins of settlement and/or exploration; the margins of political stability; and the margins of research and technology. In addition, tenure is constantly being tightened and refined at higher levels of intensity and demand for the services of scarce land. In recent decades the unprecedented resource demands of the United States have been a major dynamic.

The views above have been characterized by some as "Marxist", because of the explicit recognition of special class interests. If this be Marxism make the most of it; the point if any is ad hominem. But the views here differ from Marx's. For one, Marx was an undercon-sumptionist who attributed imperialism to a search for overseas markets, not rent-seeking.

For another, Marx made no sharp consistent distinction between land and capital.

The present views point toward specific policy changes. To minimize global conflict, a nation should use its tax system to recoup rents from beneficiaries of its statecraft. This would deflate the rent-seeking incentive to provocative behavior, as well as the discretionary funds used to gain political support. There is little gain to the nation as a whole, and high cost, in creating rents for a few individuals or corporations. A surtax on income from foreign sources, for example, rather than the present preferential treatment, is indicated.

An analogous movement is already underway in municipal affairs. Edward Freilich, a lawyer sometimes called the "father of growth control", has worked out systems of urban growth whereby newly annexed lands must pay the full costs of their own development, instead of leeching on central cities as has been the custom. This has, where applied, drastically cooled down the passion for leapfrog annexations. I trust the analogy between municipal and national imperialism is evident.

To strengthen the nation and to justify defense as a "public good", a wider sharing of rents is indicated. This is a simple matter of readjusting the tax system. Many oil-rich jurisdictions provide models, albeit modest in degree (like Alaska's social dividend from oil royalties). Canada has a partially-developed system of interprovincial equalization of resource revenues. The result there, as one might expect, has been to heighten the sense of national unity and patriotism in the constructive sense, increasing the numbers of citizens honorably devoted to the nation as such.

• Frances Moore Lappé, Rachel Schurman and Kevin Danaher, *Betraying the National Interest*, New York: Grove Press/Food First Books

Stranger than fiction

"The greatest threat to the United States is not change in the Third World. It is a government in Washington that fears such change and is willing to sacrifice democratic principles at home and abroad in order to block change."

ACCORDING to the authors there is a plot (with undertones of Dr. Strangelove) to keep the Third World in its place, and the billions of dollars in foreign aid that congress pours into impoverished countries is increasing dependency and misery.

This is a well documented book that does not leave much doubt that the people in Washington are not running our foreign aid programs the way you or I would.

As Phoenix businessman Saul Diskin responded when he learned that Salvadoreans linked to the death squads were being trained by his city's police:

"I keep asking why do people need training to refrain from murdering and raping nuns and campesinos and committing massacres....That's not something they are going to learn not to do by riding around in Phoenix police cars....Training these people in modern intelligence techniques will only make them more efficient killers."

Probably the most acute observation in this book comes at the end. In discussing the decline of Soviet influence and Washington's resistance to admitting this, the authors ask:

"But what if an emerging society were to question such a dogmatic

approach to the market and private control, putting peoples' need for land, jobs and food first....and such policies were pursued with broad popular support....so that people felt their freedom expanded?

"Might not U.S. citizens observing these developments abroad be encouraged to challenge the control of concentrated wealth here at home, as well as the assumption that those monolithic corporations so determining our well-being are best left beyond democratic control?"

"It should be noted that the concentration of wealth in the United States is no less than in many Third World countries. Here, the richest 1% own more wealth than the bottom 90%."

If the authors had included a discussion of the part that land monopoly plays in allowing concentration of wealth, their book would be even more potent.

While U.S. development assistance should be more effective than security assistance in addressing poverty, if it does not challenge the structure of control over resources - which caused impoverishment in the first place - what is the point?

The "trickle-down" theory of the Sixties was a fraud. A study by Irma Adelman and Cynthia Morris demonstrated that "the absolute position of the poor tends to

deteriorate as a consequence of economic growth."

The John Wayne Grade "B" western mentality operating in Washington plays out the fantasy that we are the good guys and any country with the temerity to want to run things themselves without outside interference from either East or West is where you will find the bad guys.

In other words, he who rocks the boat for American interests in his country is going to get squashed, and "we're just the guys who can do it!"

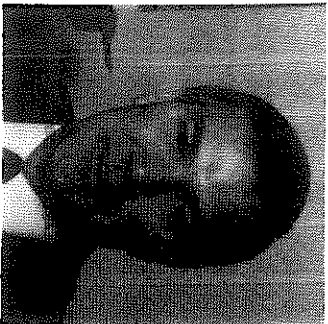
The authors emphasize that they did not write their book merely to elicit outrage. They want Americans to see behind the reassuring rhetoric and official rationale to understand why U.S. foreign aid programs are not working despite the billions of dollars we have shelled out.

CLINGING stubbornly to the idea that Vietnam did not prove the inadequacy of counter-insurgency warfare because *it was never fully tested*, the Reagan administration resuscitated it and developed it into a full-blown, coordinated strategy.

But aware of the American people's aversion to the experience in Vietnam, this operation has been kept secret, with covert operations substituted for foreign policy.

Called "low intensity conflict", these "non-wars" are directed at any Third World government whose agenda Washington does

* Irma Adelman and Cynthia Taft Morris, *Economic Growth and Social Equity in Developing Countries* (Stanford, Calif: Stanford University Press, 1973), 189.



• Alan Cherry

Quality Chaos



• Nicholas Ridley

BRITAIN'S builders are in conflict with the government over the supply and price of land.

The House-Builders Federation wrote to Environment Secretary Nicholas Ridley to tell him that insufficient land was being zoned for residential development.

The letter was published by the angry builders, which stung the minister into a reply which barely concealed his annoyance. He told the builders that opposition to new developments in the countryside was the result of poor quality construction work.

"Your members could do more to reconcile people to the need for more housing by taking care to produce schemes that have greater regard to the local

IAN BARRON reports on a row between the British government and house builders who say they are starved of affordable land.

environment," said Mr Ridley to federation president Alan Cherry. This was an unfair accusation.

• Builders are resorting to high-density developments because prices are now £1m an acre.

• Mr Cherry is not alone among builders in advocating that part of the value of land ought to be spent on improving the living environment — to the benefit of the local community.

• Most people now agree that there is a housing problem. At the beginning of this year, prices

increased at an annualised rate of 40%. Rising house prices are

the main cause of a staggering increase in credit, which has led the Treasury to increase base interest rates. That is hitting exporters (because it forces up the exchange rate), and entrepreneurs who want to invest in new capital equipment. But it is not curbing the supply of cash for mortgages!

That government policy is confused is not surprising, for the government does not appear to understand much about the economics of housing. A letter written by an official in Mr Ridley's department to one major landowner in the south-east contained the statement that an increase in the supply of

not like. And because it is carried on with no loss of U.S. life it can proceed relatively unseen.

As one military strategist put it, how intensely conflict is "a pseudonym for a war without full political support." If it is successful the American people would not even know they were at war!

If the American people can be made to perceive all Third World insurgents as terrorists they will surely condone compromises to America's basic values, the authors observe. So the administration must shape citizens' perceptions of the governments which the U.S. supports.

Thus, after Marcos won a rigged presidential election in 1981, George Bush toasted him: "We

stand with you, sir, ... We love your adherence to democratic principles and democratic processes."

Apparently killing the opposition, abducting their troublesome civilians, controlling dissent and blocking any substantive change to meet majority needs does not disqualify you from being a democrat.

Our programs continue to deny access to land or decently-paid jobs because we prop up right wing governments which prop up multi-national corporations which exploit the natural resources and cheap labour of these countries. The multi-national corporations have replaced the colonial powers, using their methods of exploitation, and with the American taxpayer footing the bill.

It is crucial for Americans and

the people in Washington who run our foreign aid programs to see that if the Third World does not make it, we are not going to make it.

This is truly one world, as Wendell Wilkie put it more than forty years ago: "After centuries of ignorance and full compliance, hundreds of millions of people in eastern Europe and Asia have opened the books...they are no longer willing to be Eastern slaves for Western profits.

"They...know that men's welfare throughout the world is interdependent. They are resolved, as we must be, that there is no more place for imperialism within their own society than in the society of nations. The big house on the hill surrounded by mud huts has lost its awesome charm."

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land for housing would not have a major impact on house prices.

This is astonishing, given the fact that 70% of builders now say that the supply of land is the major constraint on the supply of new houses.

CHRISTOPHER Huhne, economics editor of *The Guardian*, London, has no doubt about what needs to be done to solve the house price boom. He wrote on July 13:

"The house price boom is really a land price boom. The situation is crying out for the sort of land value tax which would encourage owners to develop their land.

"After all, a recent study found that there were 210,000 hectares of vacant land in Britain's inner cities, much of it in private hands. In addition, there are large tracts of relatively undeveloped city land.

"At present, there are inadequate incentives for landowners to release land for building, which is why there is such pressure for planning permission to

CONSTRAINTS ON FUTURE SALES: UK, 1988 Major Minor

Mortgage availability	0	9
Labour availability	19	51
Materials availability	6	48
Lack of purchaser confidence	1	14
Delays/chains 'down the line'	14	53
Inadequate supply of land to meet demand	70	17
Purchasers' inability to pay house prices		
irrespective of land availability	9	45

Note: Percentage figures may not add to 100 due to rounding

be granted in the green belts.

"The best economic way of dealing with the problem, as Henry George knew and several American and Australian cities have discovered, is to levy a tax on the fully developed value of land, whether it is developed or not. If there is planning permission for housing on those city wastelands, the owners should be taxed on their developed value."

Mr Huhne argued that, if the owner of an urban site could put an eight-storey building on his land, he should be taxed on the

full market value of his land. "The owner would soon get building - or sell to someone who would."

His article was illustrated with a photograph of Centrepoin, in Tottenham Court Road, at the eastern end of Oxford Street in London's West End shopping centre. The high-rise building overlooks a row of single-storey buildings on valuable sites which, if properly developed, would create many jobs and ease the pressure for commercial land in other parts of London.

ROBERT SCHALKENBACH FOUNDATION

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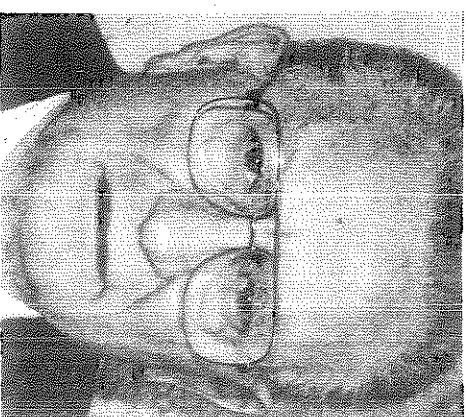
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• Steven Cord

WHAT PRICE USA INC?



• Paul Samuelson

WE KNOW how many workers there are in the United States, and how much they earn. We also know the value of the capital stock that is used to build autos, print magazines, build skyscrapers and send rockets into outer space.

But what about the value of the nation's natural resources? Here we hit a glaring gap in the official statistics, according to Steven Cord, who until recently was professor of history at Indiana University, PA.

As director of the newly-created Center for Economic Studies, based in Columbia, Maryland, Cord reckons that it is important to get a handle on the value of the resources of nature.

"How can the government sensibly implement economic policies if it does not know the value of one of the factors of production?" he asks.

ACCORDING to Paul Samuelson, the author of *Economics* - one of the standard texts for university students hoping for careers in business - there is no reason to get too excited.

After all, he insists, "Historically, pure land rent has become a declining fraction of GNP." He supports a figure of 3%.

This assertion did not ring true for Prof. Cord, who intuitively felt that location values, airwaves used by TV stations, minerals and the rest of what was supplied free by nature was worth a lot more than what Samuelson claimed.

So he decided to add up the numbers. The official figures did not help much: they are seriously defective even on basic things like the value of gross national product.

In fact, the people who use the data - including Prof. Samuelson - are so critical of its value that one wonders why they bother. The figures, they say, distort reality (by failing to adjust for inflation, inadequate sampling, not being collected on time or published prematurely).

So Prof. Cord had to undertake his own lengthy investigation. Using figures published by the Census Bureau and Federal Reserve Board for the year 1981 - long enough ago not to require revisions by Washington's statisticians! - Prof. Cord imputed values to the full range of resources

embraced by the economist's definition of land. And he arrived at the startling conclusion that land rent was \$658 bn., equal to 24% of the national income.

"When coupled with user fees, a tax on land rent could reduce all taxes on labor and capital to zero," he argues.

CORD claims that, where he exercised his judgment, he used conservative assumptions to challenge the orthodox view that land rent is a small fraction of the nation's income.

This claim can be tested. For example, he attributed an annual rental value of \$85 bn to minerals. But an estimate published in the *American Economic Review* in December 1985 attributed a capital value to federal oil and gas rights at \$81.9 bn. Says Cord:

"If we multiply this \$81.9 bn by the going real-estate interest rate in 1981, which was 14%, then we have \$115 bn in land rent for oil and gas on federal land. My original estimate was indeed an under-estimate!"

The policy implications of this controversy are enormous. As Cord notes: "A tax on land rent would yield substantial revenue, enough to abolish all taxes on the productive effort of labor and capital.

"Imagine an economy with every site being efficiently used and labor and capital going tax-free! What economic growth we would then see! Imagine the high wage level and the low unemployment level."

PEOPLE are increasingly sceptical about the value of official statistics, but they continue to use them in the absence of anything better.

In Britain, a House of Commons committee of MPs has persuaded Premier Margaret Thatcher to undertake a review of government statistics, which are condemned as inadequate for the purpose of predicting trends in the economy.

A lot is at stake - investors' money, people's jobs - so a similar review of the value of the official numbers in the United States would evidently be appropriate.