

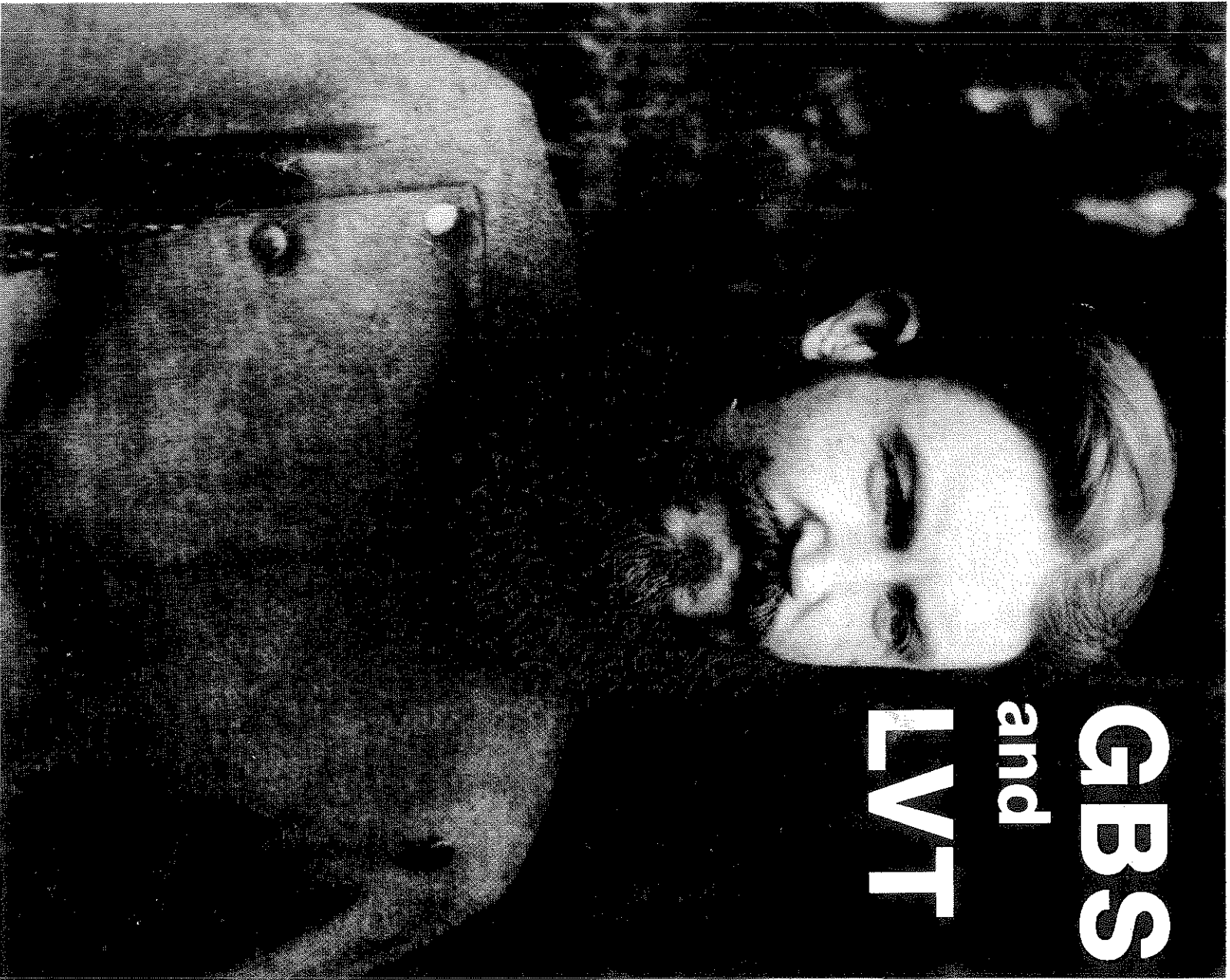
LAND and LIBERTY

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ROOTING FOR
THE RUSSIANS See Page 67

GBS and LVT



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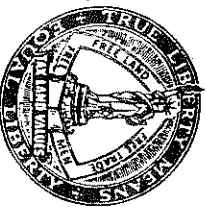
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• FRONT PICTURE: Shaw in stock-inette Jaeger suit in 1886		

FATAL ABUSE

POLITICAL economy as a social science is now 200 years old but its practitioners are no nearer to articulating solutions to the disturbing booms and slumps that jeopardise people's aspirations.

Yet the foundation principles, if logically and honestly employed, offer guides that would enable men and women to release themselves from the material constraints on their lives which persist despite the progress of the last two centuries.

The path forward can be signposted by a glance at the errors of the past.

THE HISTORY of economics can be broadly divided into two phases. The century that followed the publication of Adam Smith's *The Wealth of Nations* (1776) constitutes the classical period.

During the dying years of the 19th century, political economy underwent a change that was more radical than is generally appreciated. The importance of this transition does not reside in the fact that neo-classical economists devised new tools, for little seemed to go right during this second century of scientific experiment despite the efforts of pragmatists like John Maynard Keynes.

The essential character of the change can be found in the biography of a leading social reformer of this period. Henry George stood at the crossroads between the two periods. The American social reformer's seminal *Progress and Poverty* was published in 1879. He was the last of the classical economists.

At the conceptual level, if there was a transformation in the perception of any one theory of economics which separated the two phases, it was the one which dealt with the rent of land, the theory which had received its first rigorous treatment from the pen of David Ricardo and popularised by Henry George.

In the history books, George's name is indivisibly related with

the fiscal policy that logically flows from the theory of rent. His eclipse as a force for social change also saw the decline in scholastic interest in the land market. Land, by which the economists mean the resources of nature in general, was no longer of special importance; it was a "given".

The genius of Henry George lay in his ability to translate theory into terms that were accessible to the layman. He insisted that the fundamental elements of classical economics provided all the ingredients for the industrial economy to create a peaceful, poverty-free society.

To assist the politicians, George highlighted the policies that stemmed from those theories; in the end, these were ignored. The clarity of the theory of rent, and therefore the policies that flowed from it, was obscured. Intelligent men embarked on a new course that proved fatal.

Despite a veritable army of supporters who rallied to the Georgist banner of reform around the world, the theoretical insights were not to prove powerful enough to outweigh the vested interests of those who dominated the politicians. A tragic turning point in modern history had been reached.

THE PROBLEMS now facing mankind point inexorably to the need to revive interest in the dynamics of the land market. Poverty is still with us; so are new problems, those now associated with the ecology of Earth. These, too, can be analysed and researched by the logical — and honest — application of the theory of rent.

It is towards a renewed interest in the way in which we use and abuse the resources of nature that this journal is dedicated. By clarifying the issues, the rent in the veil of ignorance will uncover solutions. That's when Henry George will be rediscovered, and taught to the next generation.



• Gorbachev

SOVIET UNION'S UNIQUE CHANCE The socialist economy — a model for change

MIKHAIL Gorbachev has defined change within the USSR as one that raises living standards by releasing creative talents, while preserving the harmonious social relationships that spring from a strong sense of community.

The Soviet President recognises that internal transformation cannot be approached in isolation from the rest of the world; that the venture would be compromised if sovereign nations continued to adopt aggressive postures across their territorial borders; if the natural environment was damaged beyond repair.

A practical solution has to embrace these imperatives. There is a programme of action that would simultaneously solve both the Soviet Union's *internal material* needs and define the framework for *international* cooperation to meet the needs of Mankind and the biosphere.

The Soviet Union should start by learning from the mistakes of Communist China.

THE PRODUCTION and distribution of food is the most urgent problem in the socialist countries. Relating people directly to "their" piece of land is the most efficient way to produce food. China sensibly re-established family-sized farms.

She divided up collectively-worked farms. The State retained legal ownership of land, but granted 50-year leases to the peasants. The mistake was to provide the land at a price (rent) below the "market" level. The predictable consequences have now materialised.

With part of the rent added to the wages of the leaseholders, a new class of rich people has been created that is causing discontent in the countryside.

Agitation by the leaseholders for outright ownership of the land stems largely from the distortions arising from the

• The Soviet Union can initiate a transformation that would serve as a model for Third World and capitalist countries. The historic conditions now exist for change to produce a unique socio-economic system that would solve the enigmas of poverty alongside progress; of conflict when people long for coexistence; of ecological despoliation when the natural instinct of Mankind is to revere and conserve his habitat. At the heart of the conditions that produce these paradoxes is the way in which we use, and define the rights to, the resources of nature. Once that fact is recognised it becomes possible to visualise a richer, safer and sustainable global system. This outcome, claims FRED HARRISON, is contingent on the adoption of a simple — single — fiscal policy: the taxation of the rental value of natural resources.



bureaucratic regulation of prices, which have deterred farmers from optimising the output of food. Instead of freeing prices,

China agreed to amend the law to allow children to inherit the land. This does nothing to stimulate production, in the face of an unrealistic pricing policy, but it does serve to harden a class structure based on unearned income.

If the market was allowed to determine the price of food, this would not only encourage an optimum output but would also maximise rent. Holding prices below their market levels limits the rental income, but this is a very inefficient way of affecting income distribution. The introduction of a 100% tax on the full market-determined rental value of land synchronises the needs of farmers and consumers and balances the distribution of income.

This formula entails no more than the payment of a full rent

for the secure possession and use of land (which is what tenant farmers in the West pay, today, for the right to use land).

THE USSR, in seeking to create an enterprise economy, has to accomplish two things. It must provide the means of production to individual users, and it must encourage the risk-taking that leads to innovation and the optimum use of resources.

The Soviet leaders do not have much time at their disposal: that is why they need a programme which both achieves quick results and reassures citizens that the plan is bold enough to lay the foundations for achieving medium-term goals.

• Auctioning use rights. The State should auction the right to use parcels of land held by collective farms. Farmers, by having to bid a rent for the right to possess and use the land,

Continued on Page 68 ➤

would set the first benchmarks of a new mechanism.

Farmers and not the bureaucrats would determine the level of rents payable to the State. This is the only effective method for measuring the commitment of individuals to use land in an optimal way, one which produces the highest financial surplus consistent with ecologically-sound methods of farming.

Provision would have to be made for dealing with mischievous bidders who might try to force rents up to levels that legitimate farmers could not match. Participants in the bidding process would be liable for a penalty if they offered a price that deterred legitimate farmers from obtaining land. For example, bidders would be legally required to pay the rent they bid, even if they did not take possession of the land.

The auction system serves to differentiate the workforce. It identifies those who wish to remain as employees from those who wish to become risk-takers. It enables potential business leaders to come forward.

The auction room becomes the focal point for establishing the legitimacy of competition

Why Third World

failed

THE IMPORTANCE of the opportunity now confronting the USSR can be highlighted by noting the failures of developmental economics as applied to Third World countries. For over 30 years, well-meaning attempts to assist under-developed countries to transform their economies and raise living standards have failed for the following reasons:

- The dependence of former colonies on the metropolitan countries. Strings are always attached to foreign aid, which tie the recipients to the inappropriate ideology

and inappropriate technology of capitalist economies, whose export sectors are always given priority consideration; and

- The political influence of multinational corporations. These nurture links to the local elites to ensure that their corporate interests are protected.

This, then, inhibits significant reforms to the system of taxation and property rights, which would undermine the commercial

interests of the foreign-owned corporations.

Significantly, a large part of the valuable natural resources of a developing country is owned by foreign corporations!

When combined, these two circumstances actively retard the growth of living standards (profits, for example, are expatriated, rather than re-invested locally), and prevent the introduction of a rational fiscal policy: a tax on the rental value of the country's natural resources, which ought to underwrite the development of the local economy.

and the pricing mechanism.

It is important to stress that, in this economic model, there are *no losers. This is a win-win arrangement, for farmers who fail to secure use rights to land would nonetheless know that the rental income bid by their competitors was going into the government exchequer to finance socially-necessary expenditures.*

- A Learning Process. The auction method of reallocating

land becomes a vital learning process for the urban sector. It is

crucial for winning acceptance of the need for individuals to take risks and to bid a price for productive resources on the basis of what they believe they can afford (given their awareness of both the produce to be provided, and their assessment of the existence of a market).

The process of bidding rent for land forces prospective

JAPANESE

THE SOVIET Union's scope for action is not limited by old ideological debts or financial obligations to the West. She is resource-rich and the people mature. There is therefore no need to accept Western assistance tied to a directional change that drives the Soviet Union down the path already trodden by the imperfectly functioning capitalist countries.

The USSR is free to begin afresh. There is a precedent for this clean-sheet start: Meiji Japan.

In the 1870s, Japan adopted a set of policies designed to accelerate the transformation of a feudal economy into an industrial system that was strong enough to put it on

LEAD FOR

RUSSIANS

an equal footing with foreign trading powers. At the heart of this strategy was a fiscal policy intended to capture the economic surplus from the rural economy to finance the infrastructural and educational needs of the new system: land value taxation.

The land tax, because it falls on the *surplus* income after all the costs of production have been met, achieved two things.

- It freed the food-growers to raise their living standards in line with an increase in output.
- It provided an expanding tax base for the Japanese government. This removed the need to adopt the other forms of taxation which deter

the formation of fixed capital and the creation of jobs.

This fiscal strategy laid the foundations for the unique Japanese industrial economy. The tragedy is that, after 20 years, the landlords took control of the political process and started to reduce the share of government revenue derived from the surplus revenue (this story is summarised by Fred Harrison in *Power in the Land*, London: Shephard Walwyn, 1983: Chs. 11 and 12).

The USSR now has the chance to learn from Meiji Japan and provide herself with an even more vibrant springboard from which to raise her productive capacity.

News round-up from around the world

AQUINO LAND CRISIS

MANILA: President Cory Aquino's land reform program has been struck by crisis, following allegations of corruption and obstruction by red tape. Last year, the government distributed 150,000 land titles covering 103,000 hectares. But critics say the program, expected to cost US\$10 bn., will be no more successful than the dozen previous attempts at land reform since the 1930s.

A plan to give landowners the option of establishing profit-sharing deals for workers in lieu of transferring titles has locked Mrs Aquino's family in controversy. The Aquino family chose this option for their 5,000-hectare sugar cane

estate in central Luzon. Implementation was suspended when it was discovered that the Aquino family had grossly undervalued their property.

In another case, the government was asked to pay \$2.5m for 1,889 hectares in Camarines Sur Province. The sale was blocked when investigators found the land was worth only \$142,857.

According to Jaime Tadeo, leader of the Philippines Peasant Movement: "If land reform means to set the peasant free from the political and economic domination of the landlord, which is the essence of a genuine agricultural reform program, then, on the whole, it failed to break land monopoly. What it gave were just crumbs, a few leftovers."

Even the new Agrarian Reform Secretary, Miriam Defensor Santiago (she got the job when her predecessor resigned amid scandal) calls the current land reform law "a hodge-podge full of inconsistencies".



• Aquino: Values underestimated

Aussies' property swoop

NEW YORK: Despite crisis in the Australian economy, Australians continue to be major investors in US real estate. According to one estimate, Australia — with about \$1 billion invested in US land — is in the group of top five foreign countries that are investing in the American market.

BANGKOK: Land speculators in Thailand are being hit by the government's decision to urge the Bank of Thailand to introduce stricter borrowing require-

ments.

Fiscal finance. The economic challenge confronting the Soviet Union entails extensive financial costs, in terms of the provision of infrastructure (for example, roads and railways). The whole basis of research has to be changed in favour of consumer-oriented production, to provide entrepreneurs in the industrial sector with help to meet the needs of the people.

These costs can be financed out of the value of the community's natural resources. Land values rise as the productivity of the nation increases.

In other words, land values provide a buoyant tax base for the government out of which to finance the socially-necessary projects.

(TO BE CONTINUED)

INDEPENDENT INDIANS

VANCOUVER: The Haida Indians, who live on a chain of islands off the British Columbia coast, have declared their independence from Canada and are now issuing passports. The Indians,

who have had a long-running feud with logging companies, are seeking to revive their aboriginal culture, which they say is inextricably linked to traditional patterns of land use.

RAW TEST

THE STRIKING contrast in the burden of state and local taxes in the United States offers raw material to test one of the classical theories of economics, writes *Paul Knight*.

Top of the league table in 1986 was Alaska, whose revenue was over 25% of personal income (see table). Bottom of the league — the place of honour, most taxpayers would claim! — was New Hampshire.

The New England state does not levy income and sales taxes. Instead, it relies heavily on the property tax for revenue. And the tax-take was 8.36%, according to the latest US Census Bureau data.

The hypothesis to which this information could be applied is associated with the names of David Ricardo, who first formulated the theory of rent, and American social reformer Henry George, who developed the theory for the benefit of policymakers in *Progress and Poverty* (1879).

Between them, they showed that taxes ultimately fall on the income that is surplus to an economy's costs of production. In other words, labour and capital having taken its share from income, the remainder is captured by land as rent.

Since competition reduces wages and the interest on capital to the minimum, a government levy has to be passed on (through higher prices) to

Pledge that counts

SOME politicians in New Hampshire want a more broadly based system for raising tax revenue. They claim that the property tax is too high. They assert that a sales tax "is much better because it is democratic."

One Republican politician, Douglas Hall, will propose a 3.5% income tax this autumn — with a corresponding decrease in property taxes.

Their campaign does not impress Joseph McQuaid, editor of the Manchester Union Leader, who declared in his newspaper's comment column on August 20: "The income taxers use essentially the same

line, telling the voter that a state tax of 'only' 2 or 3 per cent will do just wonders. Then, a year or two after their fat foot is in the door, they'll be back to raise that percentage — but 'only' by a point or two."

McQuaid requires that every politician seeking public office must take The Pledge — a promise not to propose an income or sales tax — before his newspaper endorses his campaign. Voters, according to McQuaid (in an interview with the Wall Street Journal), "have clobbered any candidate who wouldn't take the pledge."

STATE AND LOCAL TAX REVENUE

As a percentage of personal income — 1986.

Alabama	9.65	Montana	12.43
Alaska	25.29	Nebraska	10.03
Arizona	12.01	Nevada	11.07
Arkansas	9.71	New Hampshire	8.36
California	11.00	New Jersey	10.93
Colorado	10.14	New Mexico	11.60
Connecticut	10.82	New York	15.81
Delaware	11.85	North Carolina	10.65
Florida	9.52	North Dakota	10.57
Georgia	10.43	Ohio	10.68
Hawaii	13.02	Oklahoma	10.51
Idaho	9.46	Oregon	11.42
Illinois	10.51	Pennsylvania	10.89
Indiana	9.87	Rhode Island	11.09
Iowa	11.13	South Carolina	10.85
Kansas	10.16	South Dakota	10.23
Kentucky	10.20	Tennessee	9.66
Louisiana	11.17	Texas	9.76
Maine	12.00	Utah	12.46
Maryland	11.16	Vermont	12.38
Massachusetts	11.82	Virginia	9.29
Michigan	12.60	Washington	11.59
Minnesota	12.24	West Virginia	11.80
Mississippi	10.55	Wisconsin	13.18
Missouri	8.76	Wyoming	9.79
Washington, DC	15.11		

reduce, in the end, the surplus income (rent) received by landowners.

According to this view, then, we can assume that land is relatively cheap in Alaska, Wyoming and New York, and most expensive in New Hampshire and Missouri.

An empirical test would have to incorporate allowances for such things as density of population. Unfortunately, the most sophisticated examination is likely to be defeated, in the end, by the paucity of data on the land market.

According to an analysis by Fred Foldvary, data on rents published by the federal government is seriously defective. Mr Foldvary examined the statistics for his post-graduate research in public finance at George Mason University, Fairfax, Virginia. It is published in a new book on rents.*

Mr Foldvary exposes serious defects in the collection and presentation of the data, which shows rental income in the US during the 1980s as decreasing. This, declares Mr Foldvary, discredits the statistics, which show a "lack of credibility."

* *Ronald Banks (editor)*, *Costing the Earth, London: Shephard Wainwright/New York: Robert Schalkenbach Foundation, 1989.*

Korean calamity

MANUFACTURERS in Korea, one of the Asian "tigers" whose productivity has challenged the dominance of western economies, are reeling under two pieces of bad news.

The latest data reveals that the economy's performance has slumped to the lowest GNP growth rate in eight years. Economists now predict an upturn in unemployment.

And President Roh Tae-woo has announced a swingeing attack on corporations that hoard land. In a radio broadcast, he declared: "History shows that social unrest and changes take place when land is monopolised by a small number of people."

Industrial leaders, who have not linked the two events, are challenging the government's plans to introduce new taxes on land. The Federation of Korean Industries condemned the land tax plans as violating the "principle of taxation."

FACT: the top 5% of South Koreans own 65% of the nation's 99,222 sq kilometres. Between 1975 and 1988, land prices skyrocketed 8.4 times, compared with 4.7 times for housing prices, 3.1 times for per capita income and 3.7 times for wholesale prices.

The government has become increasingly concerned about the way in which corporations have shifted from producing wealth to speculating in land — buying more than they need, and holding it vacant until they are ready to make a capital gain.

This has been a rational response to price trends. The income from privately-owned land amounted to 10,900 bn won in 1985, equivalent to 15% of



• Archer Torrey

GNP. The figure was equivalent to 35.7% of GNP in 1987, and soared even further last year. It is this income which the President plans to trap with his controversial taxes.

• Owners of idle land whose value has increased at a rate that exceeds the national average land price will have to pay 50% of the difference between the purchase price and the current market price in taxes every three years. On land that increases at a rate 1.5 times the national average, the tax liability will be equivalent to 50% of the difference, payable every year.

• The government also plans to impose restrictions on how much land corporations can own. When firms buy land which is not related to their business, they will be subject to a 15% property acquisition tax, which is 7.5 times higher than the normal 2% rate. If the land is held idle for five years, the firms will also be subjected to additional taxes.

Tax officials have also revealed that they plan to investigate land deals involving corporations. Nominees will not be able to borrow money from banks on behalf of land speculators — the government now insists that the identities of borrowers will have to be disclosed.

Any corporation whose debt is more than two times its capital will not receive tax exemptions on its interest payments when it runs either golf courses, ranches

or other large businesses needing land. This is designed to increase the ratio of equity capital and reduce the dependence on loans.

These tough measures are supported by most Koreans. In an editorial, *The Korea Times* declared that the overall effect will be to "rectify the distorted income distribution structure and ease the worsening conflict among the different income brackets. Speculation in real estate is to be rooted out largely because it is a means of amassing unearned fortunes at the expense of earnestly working people."

FACT: Corporations have made huge profits from land deals. Business firms possess about 4,496 sq kilometres, or 4.5% of the nation's land. Over 67% of this land, about 3,000 sq kilometres, is owned by 403 firms. Many of their tracts are held idle.

The Rev. Archer Torrey, of Jesus Abbey, in Kangwon-do, is lobbying the government for an annual levy on the rental value of all land. But he has publicly congratulated the government and attacked manufacturers "who have been diverting capital which was intended for production (some of it put up by people in order to create jobs) and 'investing' it in urban land speculation.

"Production is their reason for existence.... I have been trying to persuade them that it is to their own interest as well as the interest of the entire country for them to work on behalf of the heavy land value tax. They would thus restore profitability to their productive enterprises instead of being a party to the destruction of the economy."

FROM GEORGE



• George

The so-strange evolution of George Bernard Shaw

AT THE TIME of his death in 1950, George Bernard Shaw was one of those gurus whose works were still being avidly read by most people with any sort of intellectual pretensions. He was, beyond argument, one of the great literary figures of the late 19th century and the first half of the 20th.

His plays have a delight all of their own. Their characters are, for the most part, wholly unconvincing as human beings; but the points which they make bring home arguments with exceptional clarity.

Yet somehow Shaw the man eludes us. How could the young convert to Henry George pass through a rake's progress via Fabian socialism to the eager defence of Stalin during the period of that monster's greatest crimes against humanity? There must be something truly odd about a man who is capable of such an evolution.

Michael Holroyd's book* tells us how it all started, and will presumably be followed by one or more companion volumes, which will bring the story down to the death of the 94-year old sage, long after all the great figures with whom he had been

* Michael Holroyd, *Bernard Shaw*, 1856-1898. Chatto & W

associated in the period Shaw was born into a otherwise; but he appears very drunken, shabby-looking by a wife who held him Later, a curious ménage parents were joined by a have played some part in musical interests.

But the whole relation one; and perhaps in this Shaw's development. He been influenced considerably - and lifelong vegetarian In 1876, aged twenty, Shaw to keep himself alive, fir

ELECTRIFYING

GEORGE Bernard Shaw heard Henry George speak at a London meeting in 1882. He was electrified by the insights which the American was able to offer on the major social problems that dogged society.

George explained the persistence of poverty amid plenty, and he did so with little more than the rigorous application of the principal tenets of classical economics.

In later years, asked by his biographer, Hesketh Pearson, for an explanation as to the cause of poverty, Shaw replied:

"The Ricardian law of rent which nobody understands." On another occasion, Shaw elaborated:

The malignant demon is not Shakespeare's angry ape dressed in a little brief authority, but the impersonal Ricardian law of rent, which remains the pons asinorum of political science. If only it could be knocked into people's heads as effectively as the Apostle's Creed, they would react to it as Henry George did, or Karl Marx, or

ENLIGHT

Sidney Webb, or myself. Shaw had gone on to discover Karl Marx.

Marx was a revelation. His abstract economics, I discovered later, were wrong, but he rent the veil.

The theories may have been wrong, but Marx's perspectives, which emphasised the primacy of the labour and capital markets, held sway. The land market was buried in the well of Hegelian metaphysics. Shaw's heart was in the right place. He preached the brother

! TO STALIN



• Shaw

1: The Search for Love,
n, 1988, 486pp.

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to be as faulty as the
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of mankind has been lost
pursuit of a foolhardy
ment.

**ROY DOUGLAS probes
a chapter in the life of a
great man of letters**



• Stalin

author of some unsuccessful novels, until in the mid-1880s his
serious career as an art and music critic began.

During this early period in London, Shaw heard Henry
George speak at the Memorial Hall in Farringdon Street -
once noted as the dullest hall in London, and later to form the
venue of the foundation meeting of what would later become
the Labour Party. The year was 1882, a time when George's
influence was enormous.

The author seems to understand Shaw, but he doesn't
understand George, whose subject (we are told) was "land
nationalization". We are treated to the information that
George was "fifty years behind the times in most of Europe,"
and (even more astonishingly) "did not realize that land had
begun to decline rapidly as a source of employment."

How, one may ask, does anybody anywhere ever get
employment without land? We are also given to understand
that "the elder Joseph Chamberlain" (who was the younger
one, pray?) was persuaded "of the radical value of George's
proposals as an alternative to socialism" — a massive over-
simplification, to say the least. Oh dear, when people do refer
to Henry George, I wish they would get it right!

Soon after this, Shaw appears to have been converted to
socialism by H.M. Hyndman, who persuaded him to read
Marx. From this point, he took off rapidly in the direction of
the incipient Fabian Society. By the end of the book, Shaw,
now a highly successful playwright, elected to get married. His
marriage, like that of his parents, seems to have been a bit
bizarre right from the start; but what else could we expect from
Shaw?

I did not find this an easy book to read, probably because I
read it in order to amass knowledge about Shaw. The author,
who is undoubtedly a considerable scholar, has much infor-
mation to impart on the matter, but I found the work too
discursive.

If I had read it for fun, it would have been easier to absorb
and most entertaining, for the narrative is racy and amusing.
In that, it is very Shavian. The subject, I think, would have
approved.

Only the overture to a depression

**INSITE tunes
into the home
market slump**

UK HOUSING MARKETS % CHANGES ON PREVIOUS YEARS.

	New House Prices	Sales Volumes	Building Costs	Land Prices	Interest Rates
1986	9.7	7.3	4.5	26.0	10.9
1987	12.1	4.6	5.8	34.4	9.7
1988	23.6	6.1	6.0	70.0	10.1
1989*	20.0	5.0	6.5	55.0	13.5

* *Barclays Bank Economics Department: forecast.*

HOUSING MARKETS in most industrial economies are taking a battering, but little attention is being paid to the fundamental cause. Families complain that house prices have soared beyond their means, but the politicians are not contemplating reforms to avoid a similar squeeze on household incomes in the future.

British builders have launched a desperate propaganda campaign to identify the fundamental problem: the land market. They are paying for full-page advertisements in the national newspapers demanding "More Land for Homes." They complain that the bureaucrats, through their control of the planning system, are at the source of the problem.

The Thatcher government disagrees, and claims that sufficient land has been allocated to meet housing needs.

The facts are beyond dispute (see table). While house prices have gone through the roof since 1985, the cost of construction (wages and building materials) has increased by very moderate amounts.

The price of land, however, has skyrocketed — from an increase of 28% in 1986, over the previous year, to 70% last year. The price of land now constitutes half the

price of a house, in those areas where people want to buy them. Builders say that there is little sign of land prices moderating, despite the slump in sales this year.

Chancellor of the Exchequer Nigel Lawson started raising interest rates from the summer of 1988, in an effort to "cool" the economy. The so-called "overheating" was a rate of consumption that outpaced the supply of domestically-produced goods.

Home-owners drew on the dramatic increase in the value of their assets (specifically: the value of the land under their houses) to go on a buying spree — most of their purchases financed on credit.

Margaret Thatcher's "supply-side revolution" was found want-

ing: Britain suddenly entered a period of record deficits on its balance of trade with the rest of the world.

The residential land market, then, was almost entirely responsible for the current crisis. The government's reaction, however, was a futile one.

- By raising interest rates, the Chancellor did not cut the price of land or increase its supply to those who needed to use it. In the process, however, he did succeed in forcing manufacturers to cut back on their plans for new investment (because of the increased cost of borrowing money). With foreign trade still chalking up record deficits, this means that the supply-side of the economy is suffering more than the demand side!

- Home-owners are being priced out of the market. With construction 22% lower than a year ago, building companies have started going into liquidation: the first signs of the slide into a depression, in which many people will lose their jobs.

- Retailers are reporting a drop in sales — particularly for the goods that are needed to furnish homes. Already, Hoover — one of the world's leading brand names in "white" durable goods — has made workers redundant in their factory in Wales. This is a prelude to a weakening of the retail pro-

ECONOMIC FLAWS

BRITAIN'S parliamentarians have exposed some of the flaws in the practice of economics, writes *Peter Poole*.

They say that the leading industrial nations "do not agree on how the international economic system works or on how their own economies work". The failure to coordinate action was not

surprising, say members of the House of Commons Treasury and Civil Service Committee, "given the prevailing extreme diversity of opinion, not only as between different

countries but also within each country, on how their economies actually work."

The leading economies do not agree on basic issues, such as the effects of fiscal policy. Disarray over monetary policy stems from the failure to agree on questions such as the definition of "money".

* International Monetary Coordination, London; HMSO, 1989, p.xii.

TAXING POLL QUIRKS

MARGARET Thatcher did not realise that there were a few quirks to her novel alternative to a residential property tax, writes *Ian Barron*.

The Poll Tax — or, as the Prime Minister prefers to call it, the "community charge" — came into operation in Scotland this year. It starts in England and Wales next year.

The tax is on the head of every adult over the age of 18, with a few exceptions (such as for the insane).

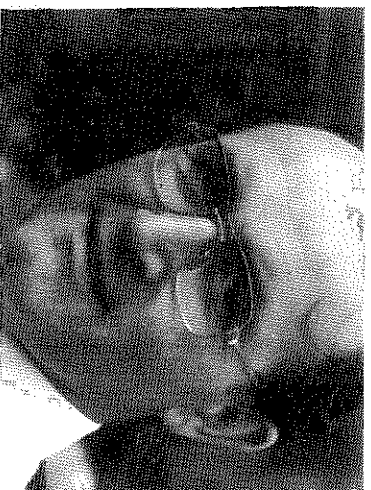
QUIRK 1: many low-income families will receive bills that are larger than their liability for property taxes on their homes. Old age pensioners are particularly vulnerable. But one of Mrs Thatcher's ardent parliamentary supporters, Mr Toby Jessel, the MP for Twickenham, perceives a solution to that delicate problem.

He wrote to one of his constituents, 74-year-old Edward Quirk: "Where there are two adults some will pay more and some will pay less than previously."

Not to worry; as the candid Conservative noted: "As, alas, we all have to die some time, then when one partner goes only one community charge will be paid instead of two."

That was no comfort to Mr Quirk, who would rather retain his wife Pat in good health and be able to pay for their groceries without being further impoverished by the Poll Tax.

QUIRK 2: farmers, whose agricultural land was exempt from the property tax, will now face increased bills. According to Leeds University lecturer Dr Duncan Pickard — he also operates a farm in



• Duncan Pickard

Yorkshire — the Poll Tax will cost farmers about £276m.

That is more than double the farmers' property tax liability, which Dr Pickard estimates at about £119m.

Mrs Thatcher relied on landowning aristocrats in the House of Lords to overcome opposition to her abolition of the residential property tax. The Peers of the Realm dragged themselves in from their country estates to pass the legislation.

They evidently did not do their sums. For the Poll Tax on farmers, their families and workers will push up labour costs. And these, eventually, will have to be paid out of the rent of the land.

Says Dr Pickard, who occupies some of his acres as a tenant: "When the landlord's agent comes to see me, I'm going to tell him that the Poll Tax payments will have to come out of rents I pay him."

perty market.

• Analysts claim that the commercial property market is not showing signs of distress — yet. One construction economist, Dr Richard Roberts of Barclays Bank, claims that the commercial sector will not be over-supplied before 1991 or 1992. When that happens, there will be an

economy-wide crisis in the property market.

IN WASHINGTON, the Federal Reserve has started to loosen credit controls in the hope of preventing a slide into recession.

The Bush administration wants a controlled — "soft" — landing: a cut-back in consumption without

Greens 'used tricks'

BRITAIN'S Green Party made striking advances in the EEC-wide elections in June. Now Mrs Thatcher's Conservative Party has struck back, by publishing what it calls the Green's "hidden manifesto".

One of the policies which the worried Conservatives say was used to "trick" the voters: a tax on land values (the Greens call it a "Community Ground Rent").

The tax, far from being a hidden policy, was highlighted in the national newspapers on at least two occasions during the campaign.

The environmentalists say it is designed to ensure that "the community rather than the landowner benefits from any development and that individual owners could not benefit from uses which are unkind to the land".

a drop in employment. The economic trends are confusing, which enables economists to inject a great deal of wishful thinking into their analyses. Wall Street, on the whole, claims that the US economy is heading for that "soft" landing, which has helped to push the price of stocks back to their pre-Black Monday levels.

The Thatcher government, however, is determined to keep interest rates high. The control of "inflation" is its No.1 priority — even if that means a rise in unemployment. No thought is being given to a radical reform of the land market.

This means that a depression in Britain is unavoidable: historically, peaks in the cycles in land values have always been followed by deep recessions. There is no reason to believe that such an outcome can be avoided this time.

Keeping a balance

BY HENRY LAW

TRANSPORT issues have attracted a great deal of public attention in Britain over the past few months. Road congestion is constantly getting worse. Anyone who travels by train will be aware that the system is being pared to the bone: trains overcrowded, delayed or cancelled through equipment failures, staff shortages or trade union disputes, and spartan new rolling stock with cramped seating designed to strict accountability standards.

The controversy over the Channel Tunnel has dragged on, and the enquiries following the King's Cross and Clapham rail disasters have revealed that both the London Underground and British Rail are suffering from serious under-funding and shortcomings in management. The Government is talking of bringing forward its proposals for privatisation.

Since the start of 1989, the Department of Transport has issued no less than four documents on transport: *Transport in London* and the *Central London Rail Study* set out official views on transport in London. *Roads for Prosperity* announced a major expansion in the motorway construction programme, and *New Roads by New Means* proposed the private finance of new roads.

At a local level, proposals for tram and trolleybus systems are being put forward in towns in many parts of Britain as a possible cure for traffic congestion.

Government policy shows a definite pattern: a bias in favour of roads rather than railways, and reluctance to spend public money on any form of infrastructure or to subsidise public transport. Nevertheless, the Government seems to accept that public transport is the only way of bringing large numbers of workers into the major cities.

This position is summarised in *Transport in London*, which states that, "the cost of running services, of renewing their infrastructure and of investing in new facilities should generally be borne by those who use and benefit from the system", although "there may be justification for public grants where specific external benefits can be identified which cannot be recovered through the charging mechanism.

Accordingly, grants to rail should be available in respect of particular environmental objectives, such as investments to relieve road congestion...there are also specific cases where a government grant may be one way to start a desirable

development, but it will then be appropriate for the developer to make a contribution reflecting the gain to him."

BEHIND this policy lies a philosophy which claims to allow the maximum choice for all users: let the user decide how to travel or how to send his goods; market forces will create the most efficient transport system. But there are major objections to the Government's line of argument.

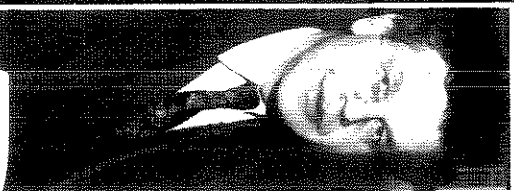
- Setting fares at the highest possible levels will discourage motorists from transferring to public transport, and the benefits of the investment will not be fully realised.

- Different modes of transport give rise to different external costs. Heavy goods vehicles, for instance, are responsible for a disproportionate number of fatal road accidents; large trucks and heavy flows of private cars give rise to heavy environmental damage in the form of noise, pollution, vibration, and damage to buildings, as well as wear and tear on the roads themselves. Rail transport, by contrast, gives rise to far less in the way of environmental costs of this kind.

- Choices of transport mode are inevitably distorted by the tax system. Company-car tax concessions encourage the ownership of cars, whilst taxes associated with the purchase and ownership of cars encourage people to maximise their use of them. Taxes on vehicle fuel have the opposite effect. Railways and public road transport, being relatively labour-intensive, are penalised by labour-related taxes such as employers' and employees' National Insurance contributions and PAYE Income Tax.

- Decisions relating to public investment in road and rail are judged by completely different criteria. Road investment is assessed by cost/benefit measurements, which takes into account factors such as "time saved", and attempts to put a price tag on them. Rail investment, on the other hand, is assessed in terms of increase in traffic receipts and savings in operating costs, and expected to yield an 8% return on capital. External benefits due to rail investment are ignored, even though it is known that improvement of train services following electrification has greatly enhanced land values in areas which have benefited.

TAX THE COMMUTING LANDOWNERS



* Walter Eltis

WALTER ELTIS, the Director General of Britain's National Economic Development Office, said in his review of the financing of mass transit systems:

"There is one class of beneficiaries who have so far escaped paying any significant share: the landowners."

"The provision of an enhanced transport infrastructure in some areas, such as the M25 and a better train service to East Anglia,

have directly increased property values. "It has placed these areas within commuting distance of London and thus made them alternative and attractive residential sites."

"The exodus of people to these outer regions bids up property values but the rates [property tax] that these property owners pay — soon to be phased out — do not reflect the higher value."

"Taxing land via

increases in realised site values rather than when it is used is another way in which users, or beneficiaries, can contribute to the cost of the transport infrastructure."

"Given that land cannot be expanded or withdrawn except in a very limited sense, it is very difficult for landowners to pass taxes such as the present capital gains tax (in so far as it applies to land disposals) on to users."

marginal cost of private motoring, and taxing increases in the realised value of land at higher rates, are possible measures which could enhance the finance that central government could devote to the extra capital investment in the infrastructure which will undoubtedly be needed if congestion is not to become even more severe in the early decades of the 21st century than it is today".

- Road investment has, up to now, been paid for out of public funds, whereas rail investment is funded from British Rail's own resources.

- If property owners were to contribute to the cost of infrastructure, a mechanism would have to be devised for collecting the money, since none exists at the moment. It would also be virtually impossible to devise a formula which ensured that those contributions related to the benefits received, which are widely diffused and would not appear until the trains started running; it would certainly be unreasonable to ask property owners for an advance contribution.

OVERALL, these factors give rise to a bias against public transport in general, and against rail transport in particular. But there is clearly a need for a balanced strategy in which all modes of transport have their part to play.

In particular, it is essential to get off the road transport treadmill; the more that transport policy is committed to motorways, the more everyone is dependent on road transport. This is because motorways encourage a diffused pattern of development which can only be serviced by private transport. Railways can then have no role as carriers either of freight or passengers.

Worse still, this kind of diffusion will ultimately create the nightmare which is dreaded by planners and public: a conurbation stretching from the North Sea to the Bristol Channel, and from the South Coast to Birmingham.

To put road and rail investment on a comparable basis, it would be necessary, firstly, to devise a method of measuring the external benefits generated by rail investment, and secondly, to intervene, if necessary, by subsidising those modes

of transport which inflict least damage on the environment.

The existence of a tax on land values would play an important part in the shaping of a balanced transport policy. All of the benefits of investment in transport infrastructure are ultimately reflected in land values. With a tax on the annual rental value of land, these effects would automatically be measured in the valuation process. Valuable advantages would follow:

- With land being valued regularly and systematically, the external benefits of all transport investment would automatically be measured. Consequently, rail investment could be assessed on the same basis as other infrastructure investment.

- In considering proposals for future investment, the existence of comprehensive data on land values would make it possible to forecast the economic benefits with more accuracy than at present.

- The tax would provide a fair and straightforward way of providing for property owners to pay for improvements to the infrastructure, since the payments would be related to benefits already received.

- Capital investment by the government would generate a direct and measurable return, as enhanced land values would increase the tax base and give rise to higher revenue yields.

- A tax on the annual rental value of land would act as an effective clawback mechanism; at present, the increases in land value arising from transport investment and subsidies are a windfall gain to landowners. The tax would capture for the community a proportion of all enhancements to land value arising from investment in transport infrastructure.

Eskimo rights

THE culture of the Eskimos – or Inuit (The People), as they now prefer to be called – has suffered the usual disastrous collision with the European variety. Unlike many other peoples, however, the Inuit have had some success, well documented by Ian Creery,¹ in peacefully resisting the pressures exerted on them. With a more accurate conception of the elements of their problem, they would stand a better chance of achieving their ultimate purpose, namely a return to a free and independent existence.

Their ancestors are believed to have crossed from Siberia to Alaska and Canada about the year 10,000 B.C., or 5,000 years after the glaciers of the last major Ice Age began to melt. Their culture had probably changed little between then and the end of the last century, when they made their first significant contact with people of European extraction.

Their country is that of the tundra between the tree-line and the polar ice-cap. It is inhospitable to man; for the permafrost is but a few inches beneath the surface, while temperatures are sub-zero in the winter, and over 100 degrees fahrenheit during the summer days.

The only method of gaining an independent livelihood is by hunting; so the coast-dwelling Inuit hunted the sea mammals (fish are deficient in essential fats), and the rest either followed, or intercepted in their periodic migrations, the great herds of caribou and musk-oxen that thrived off the barren land.

None of an animal's carcass was wasted. Edible parts were shared with the dog teams that dragged the sleds; skins were made into tents and clothing; and bone and horns into hunting and domestic equipment. The horn of the musk-ox was particularly important as providing the material of the cross-bow, fundamental to the Inuit way of life.

Though, unlike the Palaeo-



• An eskimo shaman making a bow from sections of caribou antler at his Little Lakes summer camp.



BY
DAVID
REDFEARN

lithic hunters of Europe, they practised nothing that could be called fine art, they took a pride in the intricate decoration of their equipment. Their parkas, for instance, would contain inlays of variously coloured pieces of fur; and their wooden meat-trays, sled- and kayak-

frames, made perforce from small pieces of scrub-willow, linked with tenon and mortise joints, were masterpieces of the carpenter's art.

All this and their social life, outlined by Creery, is confirmed in more detail by Farley Mowat,² who lived among the Thlathut tribe of the Inuit from 1947 to 1950, their last years of freedom, learned their language, and listened to the tales they had to tell.

Their tribal organisation was a living proof that the absence of a government does not nec-

essarily mean anarchy; for decisions affecting more than the unitary family were taken by means of consensus; and an unwritten code of conduct governed their everyday life.

For example, though private property in personal equipment was the general rule, any particular item would be at the disposal of anybody who for the time being needed it more than the owner, even if no permission were asked.

To be angry at such an occurrence would be regarded as a sign of madness, as Mowat discovered to his cost when somebody borrowed his rifle.

It was some time before his friends recovered full confidence in him. Indeed, in this and every way, the Inuit led the kind of happy, unselfish and stress-free life that Henry George³ attributed to the cabin passengers, in contrast to those of the steerage, of the ship that he used as a symbol of world society.

Their natures and framework of ideas being such, the Inuit would hardly have understood had they been told in 1670 that King Charles II of Britain had presented the Canadian Arctic to the Hudson Bay Company, or again in 1870 that this valuable property had been transferred to the Canadian Government, who had renamed it the Northwest Territory.

Luckily for them for the time being, the climate and general conditions being unattractive to most white people, no immediate attempt was made to take possession or to levy tribute.

THE FIRST substantial encroachments on the Inuit economy were made by Scottish and American whalers during the 19th century. It has been estimated that, between 1868 and 1911, the Scots alone took

more than 20,000 baluga whales from the Davis Strait, while the Americans followed the herds round the north coast of Alaska, and nearly wiped them out during little more than a decade.

After the whalers came the fur traders, whose approach was more insidious and destructive. In the late 19th century in particular, there was a heavy demand in Europe for the fur of the white fox. In return for these furs, which were obtained by trapping, the traders provided

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1. Ian Greery, *The Inuit (Eskimo) of Canada*, Minority Rights Group, 1983, Report No. 60.
2. Farley Mowat, *People of the Deer*, Souvenir Press, 1989.
3. Henry George, *Progress and Poverty*, New York, Appleton, 1879 (book IX, ch. IV).
4. David Redfearn, *Human Rights — Artificial or Natural? Land & Liberty Press*, 1982.

magazine rifles and large supplies of ammunition.

With these labour-saving devices the Inuit were enabled to hunt more effectively, and so were tribes of Red Indians to the south. Between them, they caused serious depletion of the herds of caribou and musk oxen on which their economy depended.

When the demand for the white fox fur fell off, and as a result the supply of ammunition dried up, the Inuit were left to starve; for in the meantime they had lost the arts of making and using their traditional weapons.

The response of the Canadian authorities, when at last they became aware of the plight of the Inuit, has been predictable. On the one hand, they have furthered the cause of the great industrial projects, such as the

James Bay hydro-electric scheme and the Mackenzie Valley oil and gas pipelines, both of which represent considerable threats to the old Inuit way of life.

On the other hand, the Inuit themselves have been assigned the traditional role of native peoples, that is, the one of cheap labour. They have also been favoured with old-age pensions, child allowances and other "welfare" payments that they do not really want. What they do want, and have bargained for to some effect, is their land, which is being taken from them piecemeal in the name of industrial progress.

They evidently appreciate the point that I have attempted elsewhere to demonstrate,⁴ namely that a people with access to land has automatic freedom to throw off impossible conditions of work or general existence, and does not require the 30 articles of the Universal Declaration of Human Rights.

What they need to rethink is their alternative proposal to the one generally offered to them in exchange for basic aboriginal rights, that is to say a limited area of land of undefined location, a lump sum in compensation, and various so-called benefits. What they have in fact asked for is half the Northwest Territory, to be administered by themselves.

If they were to ask instead for the public collection of the full annual rental value of all land, which would eliminate any temptation to monopolise it, and make it available for use by anybody on the same terms, then they would share in the general prosperity, instead of attempting to create their own and thereby risk inequalities of opportunity among their own people. The germs of such a scheme are already present in the local property tax of some British Columbian cities.

Farming the taxpayer



PETER POOLE
reports from Washington

A MAJOR discovery by the National Academy of Sciences would have deep-seated consequences for the industrial economy, if the politicians follow through with appropriate shifts in policies. The Academy has concluded that farmers who apply little or no chemicals to crops can be as productive as those who use pesticides and synthetic fertilizers.

In a study, the Academy's Board of Agriculture recommends a change in the Federal subsidy programs which encourage the overuse of chemicals. For at least the last forty years, US farm policy has sought to raise productivity by increasingly intensive use of chemicals.

Ecologists have now demonstrated that the soil has been severely damaged by this policy to producing food — much of which has been stockpiled as surplus to requirements, or given away at knock-down prices to the Soviet Union.

But this contradictory policy — a reflection of politics, not economics — has also been pursued throughout Europe, leading to nitrate-filled rivers, the uprooting of hedgerow habitats and the wind-blown erosion of the soil as farming becomes increasingly extensive in its approach.

The total cost of farm subsidies to taxpayers and consumers in the US and EEC is now put at \$200 bn a year, according to the latest estimates by the Paris-based Organisation for Economic Cooperation and Development, which represents the industrialised countries. This burden has caused unquantifiable damage to these economies.

- Living standards — particularly for those at the lowest income levels — were reduced because they had to pay prices that were raised to levels above those ruling in the world markets.

- Manufacturers suffered; for families would have spent a great deal of that \$200 bn on consumer durable goods. The scope for raising industrial output in Europe can be

imagined from the fact that farm subsidies diverted \$119.4 bn from people's pockets last year.

- Employment levels (30 bn people were without work for much of the 1980s) were lower than would have been the case, if the free market had been allowed to flourish. For example, people with higher incomes (because of lower exactions levied in favour of farmers) would have been able to pursue alternative lifestyles, which create jobs as well as raising the quality of life.

- Most damagingly of all, perhaps, is the fact that this distortion in the food sector has destroyed jobs in the Third World. Farmers who could have earned incomes and fed their families have become dependent on food-aid hand-outs from western producers.

THE BUSH Administration now says it wants a cut-back in subsidies: it is talking of "liberalisation" in the farm sector, and is directing its diplomatic pressure against Brussels.

But it has failed to consider the consequences of a serious cut-back in the flow of funds into agriculture. This money has not gone into the wages of farm labourers, or into the incomes of working farmers. Much of it has slushed its way into the land. The greatest proportion of the asset value of farmland rests on these subsidies. Take away the subsidies — as some EEC farmers have recently discovered, as a result of the quotas imposed on milk production — and the price of land will crash.

When the farmers of the Mid-West and California realise the implications, the Bush Administration will find the streets of Washington clogged up with protesting farmers astride their tractors.