

# LAND and LIBERTY

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DOCTOR'S DREAM: Page 70

STIRRING  
TROUBLE:  
THE BISHOP  
AND THE  
LAND TAX



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# LAND and LIBERTY

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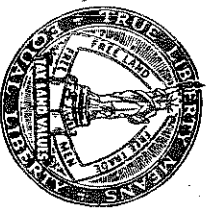
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COVER PHOTO: The Bishop of  
Shrewsbury who wants to be a  
"stirrer upper" on the vexed issue  
of local government finance in Brit-  
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## Torch of freedom

**AFTER** the euphoria, the phobia. The destruction of Marxism by the weight of economic reality has unleashed the prejudices that have lain dormant for decades in Eastern Europe and the Soviet Union.

A philosophical vacuum now hangs over a large part of the European continent, waiting to be filled. People (as well as nature) abhor vacuums.

First there was socialism, which came to the fore in 1917 to guide the exploited masses when the corrupt Tsarist system collapsed in the East. Millions of peasants died in Stalin's gulags.

Then fascism filled the void left by the jubilant allies, who could think of nothing but exacting tribute from the Germans after the First World War. That gave Hitler's intellectual perversions a clear run. Millions died in the gas chambers.

**What now?**  
The former socialist countries are attracted by the materialism of the West but their leaders are not imbued with a new philosophy to guide their actions. So the masses chant "market economy," but little else.

Not surprisingly, the worst excesses of nationalism are re-emerging in the East. Even in the West, a new wave of anti-semitism is signalling dissatisfaction with social conditions in capitalist societies.

The world hungers for a new vision.  
It needs to be one that will guide everyone to a better quality of life.

Which can help them to accommodate their neighbour, during times of political stress.

That will enhance respect for the living environment, just as higher expectations are raising the demands on the resources of nature.

In other words, the search is on for a school of thought that is sufficiently comprehensive to enable us to evolve a new social system out of the ashes of the old.

What?  
We stress: evolution - not revolution.

Marx tried to rupture the present from the past, and in doing so tore people away from the cultural continuities that are the crucial reference points which pin people to sane behaviour.

The new philosophy, if it is allowed to emerge, will draw its strengths from the best elements of capitalism and socialism.

The strength of capitalism is its acceptance of the liberty of the individual. Ultimately, the market economy cannot function without the freedom of each person to act according to what he perceives to be in his best interests.

The strength of socialism is its recognition that there is a legitimate social dimension to everyone's life: that men and women are not isolated individuals, that happiness and progress is contingent on cooperation.

What eluded both these systems was a mechanism for linking the individual and social dimensions into a working system that honoured the laws of morality.

Elements of the solution are to be found scattered in the literature, both ancient and modern, but they found their fullest expression in the works of one man: Henry George, a 19th century American social reformer whose seminal *Progress And Poverty* is at once both a work of art, a treatise on morality and a manifesto for political and economic action.

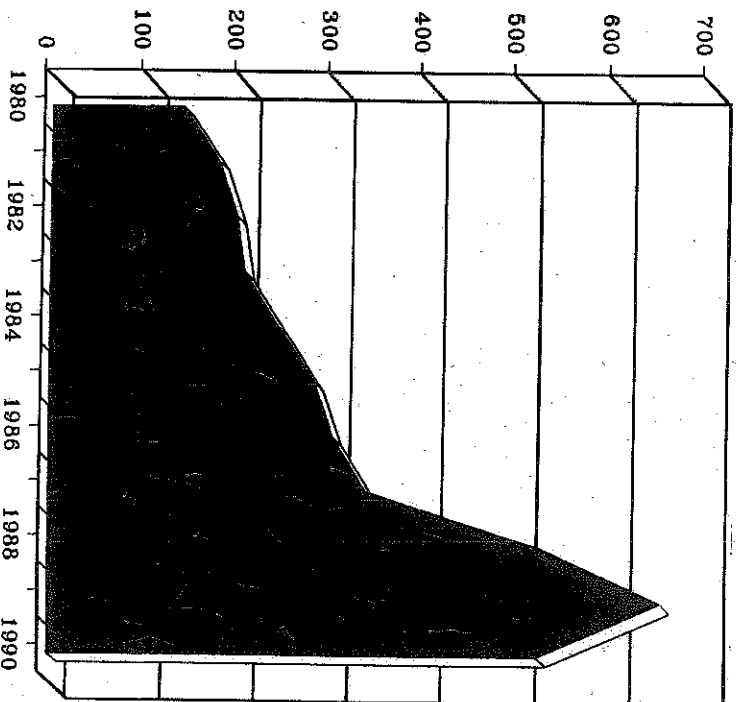
That is why we choose to commend the works of that man. His vision of the good life was evidently not synchronised with the times in which he lived, but it lived on.

We sincerely believe that the time has come to turn his vision into practical politics. That places an onerous burden on those who claim to advocate the humane principles and shrewd fiscal policies that are embedded in *Progress And Poverty*.

For if we miss this opportunity, many people will probably die; and the chance to hand the torch of freedom to everyone in the world will not return again in our lifetimes.

# LAND VALUES

Billion dollars



• Australian land value figures, supplied by the Commonwealth Grants Commission, and estimates by Bryan Kavanagh

## A bullish outlook

THE Organisation of Economic Cooperation and Development, which represents the industrialised market economies, has a bullish view of prospects for the Australian economy.

- Growth of 2.5% is predicted for 1991, a slowdown from 4% last year.
- Unemployment should increase, and by 1991 is expected to edge above the OECD average of 6.6% of the labour force.
- The government is urged to keep interest rates high, and the budget in surplus.
- Reforms, says the Paris-based secretariat, should focus on the labour market. "The main obstacle now appears to be the attitudes of management and labour and the pattern of unions. Management will need to be more forward looking, better, able to manage its human resources and capable of creating a coherent strategy of workplace reform."

# Australia and the last taboo

IN APRIL, 1984, a small team of Melbourne-based supporters of American social reformer Henry George were putting the finishing touches to a report which they were to submit to the Economic Planning Advisory Council on Tax Reform.

The Council, which was to report to the Prime Minister and Cabinet, was looking at the future of the Australian economy. And the Georgists felt that the government ought to take a closer look at the virtues of land value taxation. Many Australian municipalities levy a local tax on site values, but this fiscal policy is not regarded as significant for macro-economic purposes.

Before the Georgists finalised their report, a

INSITE examines the evidence which puts to the test a classic economic theory which explains busts in the business cycle.

copy of a book published in Britain arrived in Melbourne: *The Power In The Land* had been published a few weeks earlier by Shephard Walwyn Ltd. Its author, Fred Harrison, had retrieved from obscurity the notion of 18-year cycles in land values. These cycles were originally traced in the 19th century US economy by Homer Hoyt.

Harrison had subjected the cycles to further examination. He concluded that the 18-year

Continued on Page 68 ►



periodicity was a phenomenon that continued to operate in the 20th century. Furthermore, the cycles were evident in all the industrial countries that he examined: the USA, Britain, Japan and Australia.

The Australian land taxers read the book and decided to back the historical record with a prediction. At the last minute, they incorporated the following statement into an addendum: "The next property boom should peak worldwide in mid-1991."

The report, which was submitted by the Association For Land Value Taxation, justified the risks associated with such crystal-ball gazing in these terms: "It is surely the predictability of recessions following massive land booms which should be the proof of any scientific explanation."

COMING soon after the recession that crippled the global economy in the early 1980s, that prediction was certainly a bold one. It relied on a theory that claimed to foresee a major turning point in the business cycle a full seven years down the line.

Some Australian Georgists were worried. "What if we are wrong?" they challenged Bryan Kavanagh, a property valuer who played a major role in drafting the report.

Kavanagh stuck with the prediction. In his profession's journal, *The Valuer*, he wrote in July 1987: "... as land prices rise sharply across the board, it can be accepted that the productive side of the economy will wilt - that unemployment will increase and the return on capital will wane. It is empirical study of the effects of this natural law which allows Georgists to predict the recession which will follow the peak of the next worldwide land boom in 1991/92."

At the time, land prices were, indeed, booming in Australia (see graph). The cash-rich Japanese were leading the spending spree, followed hard on their heels by Australian speculators.

In 1988, Kavanagh and his associates repeated their prediction in a submission to the Bishops' Committee for Justice, Development And Peace. They declared that a "world recession will follow the bursting of the speculative 'bubble' in land prices in mid-1991."

A year later, in October 1989, Bryan Kavanagh declared in an article in *Progress*, the journal of Tax Reform Australia: "If history is a guide the current explosion in world land prices will come to a sudden halt by late 1991."

He added: "For analysts to glibly assign the cause of the ensuing economic collapse to 'unsustainable debt levels', without acknowledging the

critical role played by land price, would be to explain this chapter in our history most inadequately."

LAST YEAR, Australia's residential property market began to weaken. This was to be an early signal supporting the periodicity which Kavanagh and his associates have emphasised.

Ravi Batra, an American scholar whose prediction turned his book *The Great Depression of 1990* into a best-seller, visited Australia. Kavanagh was not impressed, and he reported to *Land and Liberty* in August 1989: "I still think our time frame for the collapse is superior to his. The current situation seems more a function of interest rates than the structural 'crunch'."

Then, early in 1990, events in the Australian property market began to move fast - downhill. And by the summer, the Press published screaming headlines that began to vindicate the Georgists.

In one report, written by Pam Walkley in the *Australian Financial Review* (May 30), the depression of the early 1970s was recalled: "Forget the Australian property market crash of 1974, the crash of the early 1990s is shaping up to be far worse."

The distressed sale of property worth A\$3bn is damaging the market, and analysts say a further \$10bn is overhanging the market as terrified owners seek to reduce their exposure. Their fears are traced by new estimates by Kavanagh, who as a supervising valuer with the Australian Tax Office is well placed to judge trends in property values. His latest estimates show that the land market has gone into a tailspin. He informed *Land and Liberty* in June: "Melbourne values have declined 15% to 25%. Commercial and industrial development sites are the most affected." The decline was even more dramatic in Sydney.

What does this mean for the prediction of a depression? In his book, Harrison had argued that the land market reaches its cyclical peak about two years before the onset of depression. If this holds true for Australia, the continental economy will be in deep trouble by the end of 1991 - exactly in line with the prediction submitted to the Economic Planning Advisory Council in 1984!

ORTHODOX economists cannot agree on Australia's medium term prospects. Westpac Bank and the Melbourne Institute of Applied Economic and Social Research, whose index of leading indicators fell by 1.4 points in March, has correctly forecast every major change in the Australian economy since the 1950s. Cautiously, the institute's Dr Ernst Boehm said it was too early to say whether the slowdown would develop into a

# Very good read!

**BRYAN KAVANAGH** was working as a property valuer in the Australian Taxation Office when he noticed most of Melbourne's land values doubled between August 1973 and February 1974.

This topped off a remarkable period of escalating prices.

"I had read a bit of the literature of the Henry George League, and, although impressed, was a little sceptical," he told Land And Liberty.

"I thought this sharp, frenetic surge in land values would test Henry George's theory on the boom-and-bust cycle."

When the property market collapsed in 1974, "I was by now most impressed! I set about reading George. In the

early 1980s, I couldn't help myself. I thought 'if you can't fault 'em, John 'em.'

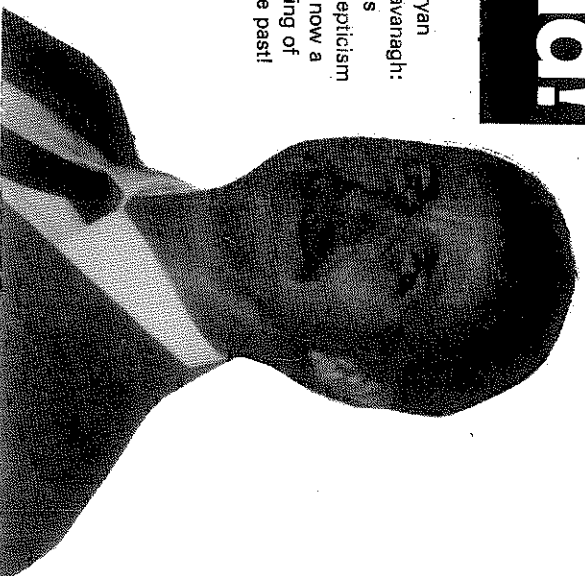
"Despite the general cynicism of property valuers towards these ideas, I've been a convinced Georgist ever since.

"In the profession I am regarded as a bit of an oddity and have been asked to speak several times on the subject of these arcane beliefs to valuers' groups.

"When it comes to why valuers reject the implications of failure to capture economic rent for revenue, they have an interesting response.

"The same people who are quite analytical in their jobs, make no attempt to argue their case. They resort simply to such as:

Bryan Kavanagh: His scepticism is now a thing of the past!



'But that's just Henry George'. As though that very statement simply defeats our case!"

Mr Kavanagh eventually became President of the Melbourne-based Tax Reform Australia, which gave him a platform from which to alert the Australian government on

the macro-economic consequences of land speculation.

Now, as past-president, he is still urging Australian academics to undertake a thorough study of the value of the continent's land and natural resources.

severe recession. But other analysts now fear that the economy may be near to a technical recession.

What makes the original 1984 prediction all the more remarkable, however, is that the Melbourne Georgists realised that the world economy was so synchronised that the depression would be of global proportions. They forecast the land markets would slump around the world in time for the crash at the end of 1991. The evidence is bearing them out. During the first six months of 1990, land values have seriously weakened in Japan, Britain and the United States.

The asset values on which many firms rely as collateral for loans are being crushed by the downturn in real estate markets, leaving them - and many banks - seriously exposed. Worldwide, the consumption boom that began in 1986 was financed on the back of the land boom. This led to a deterioration in the balance of payments of countries such as Britain, compelling governments to strike back with damaging policies (such as high interest rates, which obstruct fresh investment and destroy jobs).

The small band of Melbourne Georgists have

been exonerated for putting their theory to an empirical test. Even if the timing had turned out to be slightly out, their mechanism for the crash is being verified by the turn of events.

HAD THE Australian government taken their advice in 1984, it could have restructured the tax system in favour of a higher tax on land values: the administrative apparatus was already in place for the fiscal reform that would have spiked the land boom which, we now know, was in the offing.

The tax reformers knew their advice would fall on deaf ears. They wrote this assessment into their 1984 report: "It seems land value taxation is the last taboo of the western economist, for, to argue that land booms are an unnecessary knot in our system is seen by many to strike at the very heart of 'free enterprise'."

"The cogs of free enterprise can be oiled by recognising the destructive influence of property booms and acting to curtail them. We must be prepared to accept the truism that the so-called property 'hedge' initiates and encourages inflation and unemployment, before we can make significant inroads into our substantial economic problems."

# A Social fantasy?

MARGRIT KENNEDY knew there was something deeply wrong. Why, she wondered, was it so difficult to persuade people to invest in ecologically-friendly living environments?

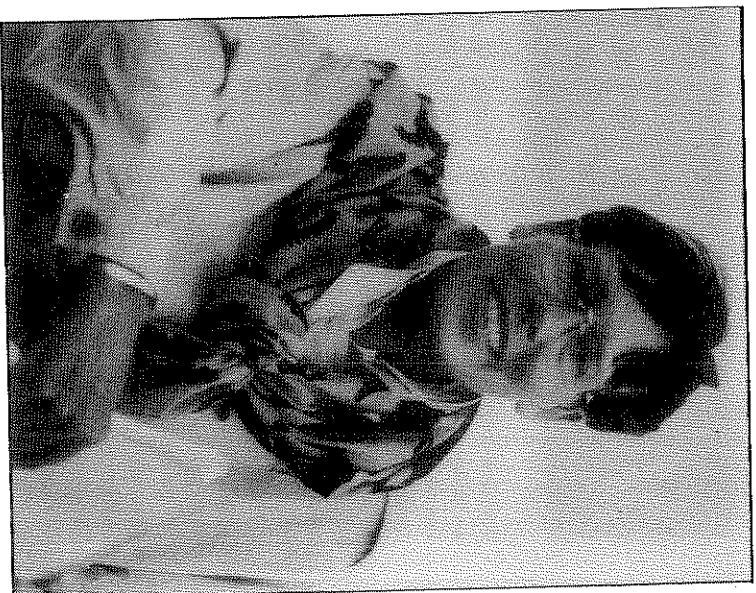
There were no technical difficulties. She had the qualifications to know that; a PhD from the University of Pittsburgh, consultancies all over the world for UNESCO and the OECD; responsibility for research in ecology and energy for the International Building Exhibition in West Berlin, a wealth of knowledge distilled in many articles and books.

Her expertise as an architect and planner had led her to believe that the time had come to design buildings fit for the times in which we live, but time and again she was thwarted, told that her ecological outlook clashed with economic reality.

Back in her native Germany, she worked restlessly to discover the answers. Then, one day, she was offered an explanation; the cost of borrowing money was prohibitive. Basically, people were deterred from investing in environmentally-sound technology because prices were distorted by the amount of interest which had to be paid for loans.

She found the answer to that problem in Silvio Gesell's *Natural Economic Order*.<sup>1</sup> He had devised a scheme for creating money that could circulate without impeding people's

*INSITE explores the vision of a German architect who dares to "fantasise" about a new world social order.*



• Dr Margrit Kennedy

aspirations; for example, the arrangements would be so constructed that people would not hoard the cash which others needed to use.

*By speeding up the circulation of money, and ruling out the payment of interest, communities would be liberated from the tyranny of compound interest.*

In Germany, for example, she said in a lecture at the Royal Institute of British Architects in London on July 3, the cost of interest on capital borrowed to provide a public-sector home was 77% of total costs.

Because people had to pay interest, they produced only those goods that would yield the going rate. But, she concluded, by abolishing interest, people would be able to create sustainable communities that harmonised with the ecological imperatives of the times. And she has no doubt that, without this change, the prospects for mankind are bleak.

"The earth is telling us it is not tolerating this kind of behaviour any more. We have the ozone effect, storms in Britain, hot win-

ters, cold summers, our whole ecological system is out of balance."

BUT WHILE lecturing on the need for sound money to an audience in Holland, she was confronted with another problem which, she was told, was also important: the problems associated with land tenure and taxation.

Dr Kennedy investigated further. She found that, in West Germany, 70% of the land is owned by 20% of the population. But if the western system of private ownership was faulty, so was the socialist system of communal use of land. Again, there had to be an answer. She found it in the book written by American social reformer Henry George.<sup>2</sup>

And in her book, which has now been translated into six languages, she explained: "A combination of private use and communal ownership would be the most advantageous solution for achieving social justice and allowing individual growth.

"In practical terms today, it would mean that a community

would buy up all its land (over a period of time) and lease it out to its inhabitants (some to the original owners, some to the new leases).

"Countries with a progressive constitution would have no trouble implementing this change from a legal point of view. Thus the constitution of the Federal Republic of Germany describes land as an asset which carries a 'social' responsibility.

"Up to this date, however, this social responsibility has not been met. [In West Germany] on the average, people had to work three times as long in 1982 as they did in 1950, in order to pay for a piece of property".<sup>3</sup>

Dr. Kennedy explained to her British audience: "If you know that you have to pay 3% on land that you do not use, you will immediately try to get rid of it. A lot of land would come on to the market, so land prices would drop. Everybody would profit. It makes a lot of sense."

To complete her package of reforms, she concluded that there had to be a further fiscal reform: taxes should be shifted off incomes and onto products.

DR. KENNEDY thinks big: she believes the time has come for the world to explore alternatives.

Socialism no longer offers an escape route from the excesses of 19th century capitalism, and the western system cannot continue to function without radical reform.

"The time has come for social fantasies," she told INSITE. Hence her search for a "fantasy" that would meet the challenge of our times, and become the new reality.

Critics would say that her vision does not meet the test of practicality. For example, Gesell's money plan is not accepted as feasible even at the level of theory - whereas the fiscal policy of Henry George,

which is built on the well-tested formulations of the classical economists, is at least acknowledged as *theoretically* sound in the textbooks.

In support of her proposal for abolishing interest charges on money, Dr. Kennedy cites a short-lived scheme in Wörgl, a village in Austria, during the inter-war years; the local citizens created their own money, which was used in tandem with the Central Bank's currency.

On such a small scale, the scheme can work, but for how long? Eventually, people need to interact with the rest of the world's economic system. Well, replies Dr. Kennedy, that is only a problem of scale: why can't the same principles operate everywhere in the world?

The answer, alas, appears to be that it is not possible to function without a system in which people pay interest on borrowed money. And Dr. Kennedy cites two examples that favours this point:

- When the Popes banned the payment of interest in the Christian community during the Middle Ages in Europe, she admits, this "just shifted the problem to the Jews, who became the leading bankers of the world. While the Jews were not allowed to take interest from each other, they could do so from the Gentiles."

Evidently there was a demand for loans, despite the strictures of the Popes, and some people were willing to pay for the benefits.

- Then there is the current case of Islam, where "people do

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2. *Progress And Poverty* (1879), Centenary edn 1979, New York: Robert Schalkenbach Foundation).
3. *Interest And Inflation Free Money: How To Create An Exchange Medium That Works For Everybody*, Steyerberg, W. Germany: Permakulture Institut, 1988, pp.31-32.
4. *Ibid.*, p.58.

not pay interest for a loan, but the lending banks or individuals become shareholders in their business - and share part of the ensuing profits. In some cases, this may be better - in others worse - than paying interest."<sup>4</sup>

If "interest" (however disguised) cannot be banished in the Middle East, despite the overwhelming authority of religious doctrine, what chance is there of stopping the emergence of a black market in loans and interest?

It is easy to sympathise with Dr. Kennedy's strictures on usury, but money - whether cowrie shells or bits of colourful paper - which facilitates the circulation of real wealth, need not destabilise the economic system.

Governments, like the princes of old who debased the coinage, do tend to behave badly; inflation is a convenient way of concealing taxation. In an enlightened democracy the citizen has the power to exact revenge at the polling booths.

Dr. Kennedy would reply by invoking a conspiracy of bankers and corporations, which denies people the information they need to make considered judgments. The stakes are huge: she points out that firms like Siemens and Daimler Benz earn more money through investments in the money markets than in the production sector: "they have been characterised in the German press as large banks with a production front."

IN HER analysis, Dr. Kennedy primarily focuses on the impact of interest rates on the system, particularly as it relates to the redistribution of income. This is a pity, for closer inspection would disclose that her proposal for correcting the land market is not only a necessary, but also a sufficient, reform. It would deliver the social and economic



# THE SECRET TAX: PLANNING GAINS

THE FLUID nature of proprietorial rights over land is illustrated by the evolution of a secret tax under the guise of "planning gain".

In Britain, the community's legal right to regulate the use to which land is put has long been established. But in the last 30 years, local governments have worked towards a situation where they can levy a huge tax on landowners. It works like this.

Usually behind closed doors, developers negotiate for permission to develop a site. Cash-strapped councillors keen to improve the amenities of their communities agree, but exact a price for granting permission: the developer has to finance the provision of facilities that are not always directly related to their projects.

• In the 1970s, the rural housing boom strained the infrastructure, so councils began to demand the provision of new roads and sewage works.

According to one estimate, the value of road-related agreements in England and Wales has increased from £42m to £134m over the past three years, with deals worth a further £500m in the pipeline.

• In the 1980s the emphasis shifted

## PROPERTY RIGHTS: Part Three

ted in favour of schools, youth centres and recreational facilities.

• In the 1980s, suggests a new report by Prof. Martin Elson<sup>1</sup> "green" issues will dictate the content of these deals, including, for example, pollution-cutting public transport facilities and the reclamation of contaminated and waste land.

Who pays? Ultimately, the landowner. For developers operate in a competitive milieu. Their profits are kept to a level dictated by the yields from alternative uses to which their capital could be put.

So when a developer seeks permission to build on a site, he does so before settling a price with the landowner. And the price of the

"planning gain" is added to total development costs, which cuts the surplus that can be paid to the landowner.

The British government acknowledges that this is a tax on landowners. The Department of the Environment states: "... plan policies should be explicit about the provision which developers will be expected to make to costs of infrastructure and community facilities, and about social housing provision so that land values take account of these costs."<sup>2</sup>

Some landowners are thus taxed on the windfall gains arising from a change in the use of their sites.

Planning gains have been criticised as "a local land tax thinly disguised," arbitrary in its incidence, random in its exactions.

But until a fair, nation-wide tax on the rental value of all land is instituted, it is the only way for a community to claw back some of the "surplus value" which — through its presence and everyday activities — it creates.

Planning gain does not have a very long formal history, but in the article below Dr. FRANCIS SMITH argues that its roots can be traced back to the philanthropist entrepreneurs of the 19th century.

## Planning gain: case made

By DR FRANCIS SMITH

IN VICTORIAN times industrial entrepreneurs in the North of England amassed large fortunes from their cotton mills in Lancashire and from woollen goods in Yorkshire. They realised that their success depended on two factors: the cheap labour which flocked into the towns from the surrounding agricultural areas and their increasingly privileged positions as owners and employers.

In these circumstances it seemed natural to many of them that they should return to the community some of the wealth they had acquired. They presented or bequeathed parks,

churches, libraries, art galleries and schools and thereby recorded their names and their generosity for posterity.

No doubt their benevolence was a form of paternalism rather than a recognition of the benefits they derived from the exclusive use of land and its natural products. It was a common attitude amongst big land owners and persists to a limited extent today.

In general, however, the slumps and booms of the twentieth century in industrialised coun-



tries like Britain, have brought with them a tougher approach to the interplay of market forces and country-gentlemen/land-owners have been replaced by hard-nosed property developers who see no need for the paternalism of yesteryear.

They regard the financial gains to be made from increases in land values as the prize to be fairly won by speculation, foresight and enterprise and by being in the know.

Thus we have seen the property developers' bonanza of the 1960s follow the economic boom period, in its turn to collapse with the economic down-turn of the 1970s. The connection with land values was still not apparent to the general observer who regarded the rise in values of property as a natural event from which the astute businessman benefited, and the collapse in value of property as somehow the penalty for lack of business acumen.

During this time the Town and Country Planning Acts of 1968 and 1971 were introduced, calling for the drawing up of county structure plans and local district plans intended to set the scene for 20 years ahead. This seemed a sensible way of protecting the countryside from undesirable development and a method of guiding such development as there was into acceptable forms of land use. Initially there was not a lot of pressure on the planning constraints because the late 1970s was a period of economic depression with extensive closures of traditional industry and a rapid rise in unemployment.

In the 1980s a new conflict developed which drew attention to rising land values in dramatic ways plain for everyone to see. The rapid rise in house prices in the south east of Britain and a proportion of those in more desirable areas of the provinces started in 1984 and continued at over 25% a year until 1988. It is being generally accepted that rising land values were at the root of this trend.

Then a great deal of publicity was given to the sale of in-fill sites for small numbers of houses where the arithmetic required to arrive at the land cost per house is not too difficult. The cost of the land as opposed to the cost of the buildings seems both puzzling and unreasonable to the man in the street. More striking situations arise from the conjunction of three factors:

1. The speculative development of private office, housing estates, industrial and retail sites and leisure centres prompted by rapidly rising land values.
2. The encouragement of such developments by government subsidies.

3. The restrictions imposed on the plans by the Town and Country Planning Acts.

The simplistic approach of right-wing politicians is to demand the release of *MORE LAND* to relieve a supposed shortage which they claim is causing the high prices. The release of more land, it is suggested, can be achieved by encouraging the use of land held by local authorities and by encroaching on the protected Green Belt around urban areas or even into the open country, and by selling off land belonging to state industries (the Water Boards, British Railways, etc.) as they are privatised.

Public opinion is strongly against the spread of developments into green field sites and local authorities are reluctant to give up urban sites without some kind of recompense. Developers are encouraged by the government to submit planning requests since they can provide private finance; at the same time local authorities are financially constrained by central government and cannot afford infrastructure such as roads or to finance development themselves.

IN RECENT years it has been recognised that the developer will gain significantly from increasing land values when planning permis-



• Dr Francis Smith

sion is granted. The developer is therefore willing to "pay" for this planning permission and at the same time to speed up the decision.

Schedule 52 of the Town and Country Planning Act recognises this situation but applied limitations which have been tested in the courts and up-dated by further government circulars. Fundamentally the "payment" must not be confused with a "bribe" and can only be given for some additional building or infra-structure directly related to the original application.

Thus it could be a wing to a new hospital

# Welfare or Reform?

By  
DAVID  
REDFEARN

THE HISTORY of reasoned thought on the nature of economic justice, of which Professor Lister gives a modern definition, goes back at least as far as Plato (428-348 B.C.). Here are Plato's conclusions:<sup>1</sup>

*And the chief aims of their decisions (i.e. the Rulers) will be that neither party shall have what belongs to another or be deprived of what is his own.*

Yes.

*Because that is just?*

Yes.

*So here again justice admittedly means that a man should possess and concern himself with what property belongs to him?*

True.

Since a previous discussion had established a separation of occupations, including that of shopkeeper, as the economic basis of the ideal community, it is clearly to be understood that "what properly belongs" to a man includes both what he has made himself and kept, and what he has bought with the proceeds of the sale of the rest.

Roughly 2,200 years later, the

*Ruth Lister, The Exclusive Society: Citizenship And The Poor, London: Child Poverty Action Group, 1990. £4.95.*

American Henry George (1839-1897) would be writing:<sup>2</sup>

Here are two simple principles, both of which are self-evident:

1) That all men have equal rights to the use and enjoyment of the elements provided by nature.

2) That each man has an exclusive right to the use and enjoyment of what is produced by his own labour.

If Plato did not feel obliged to enunciate what was to be George's first principle, it was probably because, at the time he wrote, land distribution in Athens was reasonably equitable.<sup>3</sup>

The same was certainly not true of George's time, since when change has not always been for the better. But the important thing to note about the two men is the complementary quality of their aims. Plato wished to prevent unjust

differences in wealth, George to proclaim both their cause and the remedy for them, which is related to the cause.

The importance of these facts is emphasized by the parallel development of quite a different practice, for which the motive was not to tackle the cause of the unjust differences, but to ameliorate the condition of those suffering from them.

This too begins in classical antiquity, but on a large scale only as a subsidiary part of the plan of Gaius Gracchus (153-121 B.C.) to resume from a position of power the work started under less favourable conditions by his brother Tiberius Sempronius (163-135 B.C.).

The ultimate aim was to return the economy of an empire-building Rome to its pristine condition, which was more in accordance with economic justice.<sup>4</sup>

Tiberius Sempronius Gracchus, seeing that the declining number of family farms, and the proliferation of great estates worked by slave labour, were between them ruining Rome, had initi-

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where a superstore food retailer is allowed to build on the adjoining old hospital site; alternatively it could be road works or parking facilities; it could be meeting rooms; a public house or a swimming pool associated with the building of a housing estate.

The concept is not new: a large department store in Washington D.C. paid for the station facilities at Metro Center, a unique station which has direct access to the store.

Where the land which is subject to change of use still belongs to the original owner, a farmer maybe, the local council sees him receive a massive benefit when he sells the land to the developer, a benefit which the local community does not share. Local people are becoming angered at this unjustified *PLANNING GAIN*

and are beginning to ask what can be done about it.

The right-wing "think tanks" suggest that we should recognise the reality of the situation and allow developers to tender for planning permission, the contract going to the highest bidder. In practice this is the only way, short of land value taxation, that would force developers to calculate the discounted benefit over future years. The developer sees the "gain" as an additional cost which goes to the community out of his rightful profits.

Nevertheless we can see that planning gain is establishing the principle that land values increase with the granting of "change of use" by the community and we are now moving towards the concept that more of the benefits from this change of use should be returned to the community.

# CAPE TOWN LVT SWITCH

A MAJOR victory for tax reformers is imminent in South Africa, writes Peter Poole.

An independent commission, appointed by Cape Town City Council, has recommended a reform to the property tax, in which land values would be taxed ten times greater than the value of the improvements.

The commission was headed by former judge and Urban Foundation chief Jan Steyn.

Cape Town currently uses a flat rating system, in which the total value of both land and buildings is assessed for tax purposes. Prominent among the opponents of this system is Councillor Patricia Sulcas, who strongly advocated a switch to taxation of site values alone.

The commission's 'compote' rating system is to come before the council,



• Godfrey Dunkley

and is expected to be implemented next year.

Ms Sulcas states:

"It's one of the best things that's happened for Cape Town for a long time ... the move away from taxing improvements has been a long and arduous road."

Tax reformer Mr Godfrey Dunkley, of Johannesburg, told *Land And Liberty*: "It is fully adopted it will represent a major break-through. That

would leave only Port Elizabeth as a major city on flat rating."

Mr Dunkley has just published a study of the tax system,<sup>1</sup> which demonstrates the overwhelming public support for the property tax on site values.

But the opposition to the reform has been powerful, and led by Cape Town Chamber of Commerce, which represents most of the large commercial property owners.

In its evidence to the commission, the Chamber claimed that site-value rating did not reflect the extent to which property owners enjoyed council services. The owner of a large building,

<sup>1</sup> *That All May Live*, A. Whyte Publishers, The Law Shop, PO Box 48146, Rosebank Park, 2129, South Africa.

with more occupants, benefited more from services than the owner of a small building with fewer occupants - even though both buildings may occupy sites of the same size and value.

The commission also made several other related recommendations:

• Customers should be directly charged for using sewerage and cleansing services. These user charges should be introduced simultaneously with the reform of the property tax, and not used to increase council revenue.

• The property valuation roll should be updated. Assessments have not changed since 1979. Since then, according to Ms Sulcas, the market value of land has increased by 900%, whereas the composite value of land and improvements has increased by 300%.

iated an agrarian law by which all public lands, either usurped or held on lease in quantities exceeding the holders' reasonable requirements, should be resumed on behalf of the state, and distributed to landless citizens in lots of 30 *ingera* as inalienable heritable leaseholds.

The reform was carried out, and showed good results; but it went so contrary to the interest of the corrupt oligarchy that they had the elder Gracchus murdered. Four years after his death, the distributions were suspended.

Gaius Gracchus, having had himself elected as tribune of the people, and established his position with a law authorising reelection, proceeded not only to secure resumption of the work started by his brother, but also to gain powerful political allies in the mercantile class and the city proletariat.

The various baits offered to the former need not concern us

here; but his offering to the latter is of vital current interest, in that it was both the foundation of the fatal "bread and circuses" policy of Imperial Rome, and an early simple example of what we now call the welfare state.

He made a permanent feature of the Roman economy out of the previously occasional practice of distributions of corn in the capital at purely nominal prices.

Gaius, like Tiberius Sempronius, ended by being hounded to death. One part of his work, the corn distributions, lived on to complete the demoralisation of the Roman populace. Another, the weakening of the power of the Senate, created a pattern for the future absolute rule of one man.

The great attempt, however, to establish economic justice by means of more equal access to natural resources came to nothing. It is likely, however, that in the end the plans of the Gracchi

would have been of no avail; for similar ones have since been carried out in revolutionary France and late nineteenth-century Ireland, with no further result than the expansion of the class privileged to hold land, and the continued depression of the rest.

What is required, as Henry George saw,<sup>2</sup> is not a physical redistribution of the land, but a fulfilment of the equal right of all to its use. This would be achieved by the collection on behalf of the state of the rent, or return to landownership over and above the return necessary to induce use. It would then be ensured that landholding was for use, and not for speculation or the extraction of rent from others.

There would be no need for tenants to worry: they are already paying to private people whatever is surplus to their pro-

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# TWENTY YEARS OF LVT WISDOM

\* Susan L. Roakes and Harvey M. Jacobs (1988), *Land Value Taxation And Urban Land Use Planning: An Annotated Bibliography*, No. 216, available from the Council of Planning Librarians, 1313 East 80th St., Chicago, IL, 60637.

A BALANCED introduction to the literature published since 1970 on the subject of land value taxation (LVT) is now available.\*

The bibliography concentrates on the physical impact of this fiscal policy, but the authors offer a considered review of both the economic and social effects to be expected from a change in the tax structure.

The *theory* strongly favours LVT and the authors note that "recent trends in public opinion indicate support for LVT." But they fairly acknowledge that the empirical evidence in support of the policy is mixed. There are several reasons for this, not least the shortage of fiscal jurisdictions that have implemented the policy.

But even where the policy is in action – in places like New Zealand and Australia – studies often produce ambiguous verdicts. There may be good reasons for this. For example, authors Roakes and Jacobs fail to point out that the conclusions are derived from jurisdictions where the tax rates are very low indeed; there would be fewer ambiguities if the rent of land was taxed at rates similar to those that apply, say, to the wages of electricians and bricklayers.

The compilers of this bibliography are urban planners; even so, their summary of the economic virtues of LVT is an admirable one. The beneficial impact on the construction industry is analysed, providing researchers with clues as to where to look for further evidence.

The discussion on the adequacy of rent as a revenue base is not satisfying, but that is to be expected; after all, many of the most ardent advocates of LVT have failed to develop their case much beyond the original analysis in Henry George's *Progress And Poverty*.

PAUL KNIGHT

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duction costs; and it would be useless to expect them to pay more.

Unfortunately, George's proposals have so far been applied only locally and in part. They have, however, had the interesting results of bringing more land into use, spreading its ownership, and increasing general wellbeing to some extent, all without further state action.

The same degree of success can hardly be claimed by the advocates of Marxist socialism, advanced originally as the only way to achieve economic justice, and given full scope for its application. Its weaknesses are now being amply demonstrated.

THE SECOND general plan of action, that of ignoring the basic injustice that causes gross inequality in the distribution of wealth, and instead concentrating on the mitigation of its effects, reached its culminating point in the welfare system constructed by the British labour government of 1945 on the model of the Beveridge Report, and now being steadily demolished by a conservative one.

It is in the context of all these theories and events that Ruth Lister's book, one of a series of publications of the Child Poverty Action Group, needs to be considered.

She is propounding the comparatively new idea, contrasting strongly with previous ones, that economic justice consists, not in securing to each man what is properly his, according to Plato and George, not yet in securing to all an equal right to access to natural resources, according to George, but in a universal right to welfare benefits, untampered by the means test.

Welfare benefits, according to Ruth Lister, should be for all, without exception. Nor is she

alone in this opinion; for her text is supported by no fewer than 251 references and quotations – an average of 3.7 to a page.

What she and most of her quoted authors are advocating is in fact a remodelling, more fitted to the refinements of modern civilised life, of Gaius Gracchus' institutionalised distributions of corn.

But, whereas he acted with the ulterior motive of attracting to his own movement the proletarian hangers-on of the aristocracy, in the hope that they would pack the *comitia* and maintain what he thought would be a permanently beneficent land reform, Ruth Lister and those of like mind are thinking of their measure as in itself permanently beneficent.

There can be no doubt on this score. Such statements recur as:

*But housing, food and health are not gifts or benefactions. They are the first rights to be claimed by every citizen in civilised societies.*

*Or: It is perhaps a testimony to the strength and resilience of the citizenship ideal that, despite its imperfect incarnation in the post-war welfare state and its gradual demise as a principle guiding social policy, it is now acting as an inspiration once more to those who want to rebuild the welfare state on the foundations of justice and democratic participation.*

It must be that the welfare itself constitutes the justice; for no other interpretation is even hinted at.

The linking of citizenship with welfare is elaborated in this way. Citizenship implies a right to welfare; and its duties may be impossible of fulfilment for those not provided with it.

Democratic participation in the welfare state may be extended by claimants' being allowed to share in the administration of the benefit system, and par-

# Economics for real

**OCCASIONALLY** a book comes along that is full of sense, and this is one of them, writes Ian Barron. Christopher Huhne is economics editor of *The Independent On Sunday*, one of the New Wave newspapers to be launched in Britain.

In his book he eschews dogma and gets down to a hard-headed appraisal of the facts. As such, this volume becomes one of the starting points for a reassessment of the economics of the 1990s.

In terms of policies, in the last 30 years the world has had the lot: from Keynesianism to monetarism to Thatcherism (Reaganism was a simple-minded variety of the latter).

Today, all bets are off: where do we go from here? Huhne argues that the Market v Government dichotomy is ludicrous: "No economy can survive without a measured dollop of both, and the only real question is the correct field of action for each."

Governments, at the very least, have to lay down the rules within which markets can operate; but they are, of course, through their monetary and fiscal policies, also players in the market.

Huhne confronts all the major questions, ranging from the economics of the Welfare State to the Third World debt; from the crippling impact of the EEC's agricultural policies to the causes of the mid-'80s consumption boom that has compromised the Thatcher "revolution."

Most noteworthy, however – because of the neglect which the subject receives from the pens of other economists – is Huhne's treatment of the land market. In six pages he neatly summarises the impact of land speculation on the affordability of housing; the knock-effects on the labour market,

Christopher Huhne, *Real World Economics: Essays On Imperfect Markets and Fallible Governments*, London: Macmillan, £19.



• Christopher Huhne

and the concomitant influence on wage bargaining; and the quality of life in the derelict inner city.

The correct policy, he points out, is a tax on land values. Tax buildings, he notes, and you deter investment; tax land, and you encourage construction. In the light of this fine contribution, it would be churlish to nit-pick; but it is worth doing so, because the property tax is a live topic in Britain, and will feature as a major policy issue in the next general election.

Huhne thinks that the dispersed nature of property rights in land may be a hindrance to development; that "a critical mass is necessary". This view, alas, is influenced by the distorted nature of recent urban history, which is the story of the land speculator.

The finest neighbourhoods evolved and renewed themselves organically, building by building, site by site – not, usually, on the basis of large-scale development. The latter strategy was adopted by frustrated politicians who intervened to rectify the failures not of

the market but of the fiscal system.

If owners had to pay a hefty tax on the rental income imputed to their land, they would constantly recycle their sites in response to the needs of the community they served – not on the basis of a visionary plan, the inescapable component of the large scale renewal approach which has led to the creation of soulless housing estates and windswept business districts.

On the land value tax, which Huhne advocates, there is one minor error which bears mentioning because it is currently being used by Labour politicians as an excuse not to adopt site-value rating as the alternative to the Poll Tax.

Huhne states: "The basis of the tax is the value of the site in the use allotted to it by the planning authorities ..." Labour's local government spokesman employs this kind of statement to claim that property developers would conspire with planners to destroy communities by the simple expedient of re-zoning land for more profitable uses.

Well, the Huhne formulation is acceptable if the planners have correctly judged the needs of users. But if they have not, then it is not the new planning permission which dictates the amount that would be paid by the owners of the sites, but rather the market. Or, more precisely: competition among prospective users sets the level of land values. The market reveals those prices, and the Inland Revenue accepts them for tax purposes.

It is to be hoped that Macmillan will publish a paperback edition of Christopher Huhne's book, so that it may be accessible to a wider audience.

ticularly in the appeals procedures.

As things are, many "viewed their experience (i.e. at sessions of tribunals) as one of intimidation, alienation and powerlessness".

How the "share" would help

them to overcome these feelings is open to question, especially when one thinks of the author's admissions that many appellants would gain from receiving free legal representation, and that a high proportion of them fail to

understand their appeal papers.

Altogether there is much to criticise here. An individual's only indisputable and unconditional right is to the fruits of his own labour. To try to sub-

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# Berlin 'gold mine'

THE "Peace Dividend" is being mopped up by property owners in West Berlin. With the unification of Germany, prices in the western sector have started to soar. One realtor explained: "Everybody now wants to buy property here. The trouble is there is not enough sellers. People know they are sitting on a gold-mine".

The pickings will also be large in East Berlin, but westerners are not yet allowed to buy property here. Nevertheless, the speculation has begun, aided by the conversion of the currency in favour of the D-mark.

As the economy enters the boom phase of reconstruction, the German authorities are planning to spend about \$1bn on 100,000 low-rent homes or apartments next year.

But the Mayor of Stuttgart - son of the famous Field Marshall Erwin Rommel - says this is not enough,

and that the government should spend at least five times that sum to meet the needs.

BRITAIN'S Conservative Government, under strong criticism for its interest rate policy which has seized up the housing market, has announced plans to bring vacant homes into use. Councils own an estimated 100,000 properties that stand empty; this is overshadowed by the private sector, which has about 600,000 houses and apartments empty. The government plans pressure on councils and incentives for private landlords to bring the homes into use - which, at current rate of building of rented accommodation, is the equivalent to more than 20 years' supply.

ment's own admission, many people fail to apply for welfare benefits to which the rules would entitle them. Why? Because they want to work for their living, not to receive free hand-outs.

When, curious about the financing of universal welfare benefits, one turns to a list of concrete proposals at the end of the book, one finds the following:

*Taxation policies, both national and local, should be based on the principle of the individual's ability to pay.*

This is not a principle, though evidently any attempt to extract taxes from those *unable* to pay would stand little chance of success. It is pure and unjustifiable expediency.

When compared with George's principle that wages should be inviolate, and that rent, arising through human association in sub-divided labour, and through enhanced opportunities for marketing in built-up areas, should be the source of public revenue, it appears ill-considered indeed.

When all this has been said, it must be conceded that this book shows throughout a genuine concern for society's victims, and a desire to restore both their standard of living and their self-respect. There is also a clear indictment of the government for their callousness in eroding the welfare benefit system.

It is formulated, however, because the author and her associates want the splint to stay for ever on the broken leg.

Their complaint is not, as one would have wished, that the government are removing it with no intention of correcting the faulty setting of the fracture, and of so reducing the period for which the splint is needed.

The time is now ripe for following up a reform that has shown some promise, not for repeating an ancient mistake.

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stitute for its rights to a basic income, to housing, to a certain standard of living - without, it may be added, any reasoned justification - is not only to indulge in flights of imagination, it is also to try, unconsciously maybe, to perpetuate the child-like state of dependence induced in a people by long deprivation of their collective right to "the elements provided by nature".

THE GRACCHI had a different conception of the problem of their times. They considered it not impossible that, among the rabble in the city, there might still be found men with enough of the old spirit of diligence and independence to take up their offer of a leasehold on 30 *iugera*; and they were right.

The census for 125 B.C., compared with that for 131 B.C., showed an increase from 319,000 to 395,000 in the number of

citizens capable of bearing arms. This was at a time, of course, when only those men with a stake in the country were liable for military service.

There must be many among our own unemployed, or those employed in an inferior capacity, who would relish the varied opportunities afforded by the greater availability of both rural and urban land that would be brought about by George's reform; and they in their turn would have jobs to offer to those endowed with less personal enterprise.

Certainly, by the govern-

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# BUILDERS' POLL TAX FURY

BRITISH house builders are furious that the government's Poll Tax is hitting their industry.

Councils can now charge a double Poll Tax (called a Community Charge by Premier Thatcher) on empty newly built houses.

Graham Pye, president of the House Builders Federation, wrote in a letter to the government: "It is not a responsible exercise of local authorities discretion to charge housebuilders double Community Charge when, in the short term due to high interest rates, they find themselves unable to sell their houses."

"Although there was a similar power to levy rates on unsold houses under the 1967 Rating Act, this was conceptually justifiable since the domestic rates were a property tax. The Community Charge is a personal tax on the use of services, and as such, it is wholly inappropriate to levy a charge on empty property."

The builders propose that the



• Graham Pye

levy should be either abolished - unless houses were deliberately being kept empty - or reduced by half. "Since the bulk of the expensive local authority personal services are not 'consumed' in an empty house."

LONDON architect Dr John Parker was shown street maps of land values recorded in 1908/9 when he visited the Moscow Research Institute for Town Planning.

Similar maps are also being consulted in Leningrad, as officials - ordered by President Gorbachev to bring perestroika to the land

market - try to figure out how to charge market rents for publicly-owned properties.

In a report on his findings, Dr Parker states that "the encouragement of private enterprise there is now encouraging the re-establishment of a land value market."

"This is not to be created on a speculative basis but possibly through a 'fair-rent' system, so as to help individual firms."

"At present all land has the same value everywhere due to rents being equal. Now old, pre-Revolution land value market maps of the cities are being studied as a guide to how a land value system might be set up to give enterprises' prime sites at 'fair' rental levels."

"The economic forces at work in Moscow's 'Arbat' - the first paved pedestrian street in the USSR - exemplifies how such trends are manifesting themselves... e.g. the co-operative stalls being set up here and in other primary trading positions."

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transformation that she seeks, without having to take on the money markets.

Take the current case of Japan, where interest rates are very low: no obstacle to people wanting to borrow money. Yet families buying a house have to take out a mortgage which, in some cases, has to be repaid over three generations. Why? Because of the astronomical price of land.

Besides, a very low rate of interest is a double-edged sword. Through the capitalisation of rents, they lead to very high land prices!

This primacy of land in the mechanism of exploitation is well illustrated in India, where people sell themselves into debt-bondage because they cannot pay back the money they borrow from money-lenders. But that condition of slavery does not originate with interest rates: it is

directly linked to the denial of access to land.

Without land, as Dr Kennedy emphasises, people cannot work. And if they cannot work, they cannot generate the wages that would give them a decent living. So, to finance special needs (like weddings), landless Indians submit themselves to the money-lender, whose power is derivative.

*Give the peasant a stake in his land, and he would hold the whip hand over the moneylender!*

IN HER search for a "third level solution", Dr Kennedy has buried her proposals with a series of complexities that are unnecessary.

As a result, she fails to accord sufficient attention to the ecological implications of a tax on the rental value of those resources of nature which we allow users to treat as free. Consider the rivers, oceans, skies, into which we dump waste without

charging rent for the privilege of occupying that space with the by-products of the manufacturing process.

If the community charged rent (= land value tax) for the privilege of using these scarce resources, the price of products would rise. This would render them less attractive compared with environmentally-friendly products.

She would also discover that the additional revenue was sufficient to enable governments to abolish income tax, a fiscal policy favoured by the other philosopher whom she admires - Henry George.

It is down this route that Dr Kennedy should search for her vision of the sustainable economy and society. Her quest, a vital one for all of us in these times of change and opportunity, will present sufficient political difficulties without compounding her problems with interest.

*FRED HARRISON meets the Bishop who listened to the Zulus and now wants to stir trouble for Margaret Thatcher.*

# LAND TAX CRUSADE

**THE RT. REV. John D. Davies is the Bishop of Shrewsbury, one of Britain's loveliest medieval towns set on the hilly banks of the River Severn in Shropshire.**

**Sleeped in conservative tradition, Shrewsbury is not a place for radicals, but the Bishop, for one, is angry. The extent of poverty in South Shropshire, one of the poorest areas in the country, makes him want to cause trouble.**

**And now, he says, with the collapse of Marxism as an ideology to counter the philosophy of capitalism, he wants a new debate about alternatives.**

**"I am willing to act, among my colleagues, as a stirrer upper on this one," said the Bishop as he poured another cup of tea from the pot.**

**"This one" was the idea of a tax on site values – as a substitute for the Poll Tax.**

**The Bishop has long felt that land tenure was a grossly neglected subject. The lesson was driven home to him in South Africa, when he lived among the Zulus. They spoke about the land, and he listened.**

**But when he looked, he could find little in the Christian literature that addressed the land question. "There is nothing, not even in an exceedingly good dictionary of Christian ethics, about land values," he said. "That would amaze the direct disciples of Moses". Then he came across a little book by Frederick Verinder called *My Neighbour's Landmark*, which offered a religious approach to the need for land reform. That book, complete with biblical references, has been the Bishop's constant source of inspiration ever since.**

**He has sought to lecture his colleagues in the Anglican church on the need for more attention to the economics and ethics of land tenure, and the much-hated Poll Tax now offers the prospect of someone listening.**

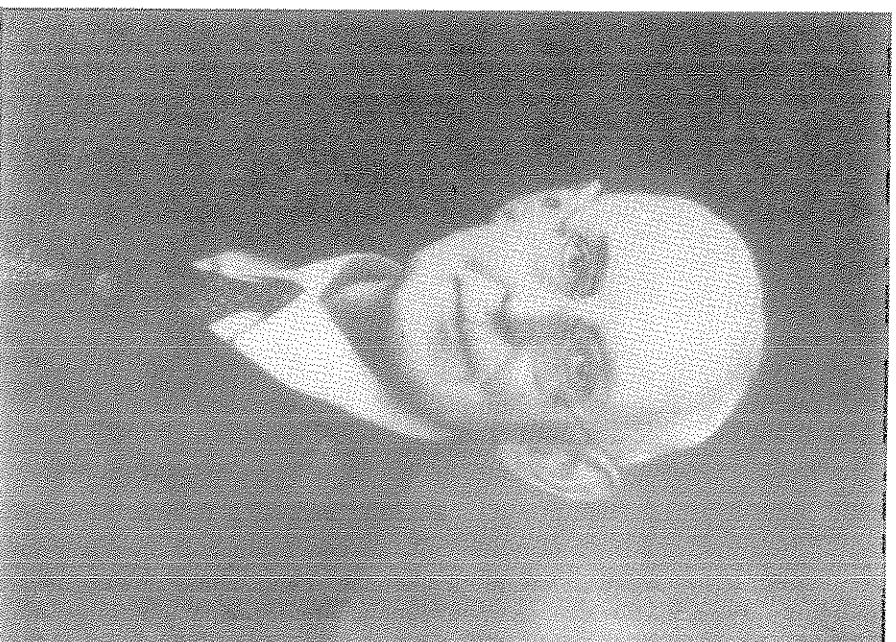
**He sees the convergence of several themes around the land value tax-type issue. "We ought to be grateful to the Tories for putting up an unjust Poll Tax which is in urgent need of scrapping," he said with a flicker of a smile.**

**In the past, he said, to raise land value taxation in debate "seemed almost dilittante." Now, that has changed. "I don't claim to know much about these things, but what I would want to say to my colleagues is that over the years I have been very struck by the arguments in favour of site value rating.**

**"I don't think there's been adequate investigation of this policy, and I do know that this approach has worked and been of significance in other parts of the world. I believe it is very congenial to the heartland of our moral inheritance, so it deserves a real airing."**

**The Bishop is looking for practical solutions to urgent problems, such as the absence of affordable housing in the countryside. In his quest for answers, he is willing to disturb the complacency that may be smothering some enclaves of the Anglican hierarchy.**

**One difficult moral question for the Bishop and other**



• Frederick Verinder: His "Landmark" book inspired the Bishop

**like-minded activists in the higher reaches of the church is the way in which they are required to charge full market prices when they dispose of church property, such as redundant village schools.**

**The Bishop is one of a study group that has concluded that it is the price of land, rather than the cost of bricks and mortar, that is the source of so many problems. He is presenting this view as a representative on the Archbishop's Commission on Rural Areas.**

**The central dilemma for the Bishop, as he puts it, is this: in the marketplace, the rich dictate the level of land prices.**

**This is not strictly correct in a competitive market, the most efficient user tends to set the price of land, since his activities permit him to generate a higher surplus income (= rent). But of course, under current tenure and tax policies, the land market is encumbered with monopolistic features which do not always lead to the most efficient use of land.**

**Even so, how do we overcome the fact that some people are going to be excluded from land – for whatever reason?**

**That is where a high tax on land values is the solution. By bidding the highest price for the right to possess land, prospective owners declare themselves willing to pay the highest taxes – which claws back the rental value of the land for the benefit of the community!**

**If this new revenue is offset by a reduction in the taxes on the lowest wages, the real living standards of the poorest are raised at a stroke.**

**The Bishop sees this, and is willing to represent the policy as a morally justifiable one. But now he has a challenge for the advocates of land value taxation. How, he asks, is site-value rating to be turned into a viable political issue for the next general election?**