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# LAND AND LIBERTY

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## Economic thinking out of touch with real world, says forecaster

**E**CONOMIC thinking in the West was out of touch with the real world and forecasting was prone to serious error, Professor Paul Ormerod of the Henley Centre forecasting organisation told the meeting. Little in standard economics text books was known to be true.

The ability to predict events was "a fundamental test of the validity of any scientific approach to the world."

He posed four questions to which, he said, economics had no effective answer: why has unemployment risen so strongly in many Western economies in the past 20 years? Why has the unemployment experience of Western countries been so diverse? What determines economic growth in the long term? What will be the rate of growth of the British economy over the next year? He criticised the pressure on eastern European leaders to move to free market economies as soon as possible. "This advice seems to be contrary to virtually the whole of economic history since the industrial revolution."

**ECONOMY: FORECASTERS EXPOSED**

**EARTH: HOSTAGE TO FORTUNE**

**RUSSIA: IDEOLOGY DIVIDES**

**LVT WORKING IN JAPAN**

# LAND AND LIBERTY

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## EDITORIAL

# UNIFORM MISERY IN COMMON MARKET

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THE PROSPECT of free trade was the best reason for defending the existence of the European Economic Community.

A single market, we were told, would promote the production of wealth; and tie the fate of warring nations into a single destiny. Prosperity. Peace.

But what about freedom? Eurocrats and politicians would justify their actions as compatible with freedom, but look at what they mean, when it comes to taxation. The European Community wants all nations to use the Value Added Tax with a minimum rate of 15%. Britain - whose rate is 17.5% - challenged the right of the Euro-centre to dictate tax rates. But why should the EEC care about the tax system employed by its members, so long as the law on the freedom to exchange goods anywhere in the EEC was enforced?

What has the tax system got to do with how people - producers and consumers - make decisions in the markets? Well, actually, quite a lot. But the bureaucrats are justifying the intrusion into the affairs of member nations on grounds that call into question the very ethos of the Treaty of Rome. They argue that, unless taxes are uniform across the EEC, high-tax nations would not de-control trade at the frontiers. Why? Because their citizens would be tempted to nip over the border to buy and bring back cheaper (lower taxed) goods.

In other words, the foundation principle of the EEC - free trade - won't happen, UNLESS the tax system is pitched at the perniciously highest level set by the most unenlightened government. That tax philosophy is the most destructive of all to the production and exchange of wealth. For the sake of uniformity of misery, the bureaucrats want to enforce one kind of "free trade" in Europe, which disallows any one member gaining an advantage by its use of a more efficient system of taxation.

The implications for freedom are serious. What would happen if, say, Denmark - whose citizens threw the spanner in the works of the Euro super-state with the thumbs down in their referendum - decided to restructure her tax system? What if she wanted to favour higher taxes on land, and drastically reduce the other taxes? Denmark is the only European country with the fiscal infrastructure in place to accomplish that reform. It would give her producers an enormous price advantage, for the land-value tax cannot be passed on in higher prices.

There would be uproar. Competitors across the Danish border would bleat. But if governments learnt the lesson, they, too, would similarly restructure their tax systems. That would be the result of competition in a free market.

But not, it seems, if Brussels has anything to do with it.

# LAND LAW: YELTSIN IS A HOSTAGE

THE FUTURE of Russia will be settled in the next 12 months, and that future will turn on what happens with the land. Politicians and intellectuals are confused, for the IMF and the World Bank are urging them to privatise. But their gut instincts tell them to keep land in state ownership.

The new wave of politicians in St. Petersburg frankly acknowledge their social and economic problems, which are visible in the sewerage-filled rivers and in streets designed to test the springs of tractors. This city is run down even by New York standards. But the leaders don't know what to do about it.



BORIS YELTSIN

"Privatisation" keeps the politicians awake at night, and radicals churn out pamphlets warning of the perils of private property without offering an alternative approach. The debate has been sharpened by Presi-

dent Boris Yeltsin's decree that the freehold of land should be sold. But city politicians know that their president is an ideological hostage of western bankers, because he needs dollars to bail out the collapsing economy.

*City governments, therefore, face a dilemma: does a decree signed by the president supercede the law of Russia, which states that land is a social asset?*

The gut feeling that land should not be privatised is supported by just one coherent alternative philosophy, imported into Russia by the advocates of Henry George, the American land reformer who had an ardent fan in Leo Tolstoy.

George, in *Progress and Poverty* (1879), explained how to set up an efficient market economy while reserving the rent of land to pay for public services. This model would be the perfect solution for Russia, today, but the West favours land privatisation.

I can report, however, that there are signs that the political struggle just might go in favour of the Georgist model.

At a conference organised by the Mayor of St. Petersburg in August, some of the top-level speakers used concepts that were recognisably Georgist. Key officials of the Research and Design Institute of Urbanism realise that western entrepreneurs could locate their investments on land leased from the state.

Progress towards a land-value tax

solution is beginning to move fast here in St. Petersburg. I return on Sept. 21 with US land assessor Ted Gwartney and Fred Harrison of the London-based Centre for Incentive Taxation to help the Institute of Urbanism to establish a course on land valuation. This means that St. Petersburg is establishing the tax-and-tenure infrastructure for leasing land to users in return for rental income, similar to what happens in Hong Kong.

In charge of the new course will be Tamara Chistyakova, director of Ecograd, a research centre within the Institute of Urbanism. She impressed me with her dynamism and awareness of the case for land-value taxation. I therefore have great hopes that St. Petersburg will blaze the trail: the City of Moscow, unfortunately, is hamstrung by interference from Yeltsin's federal government.

Russians are racing against the desperate need to invigorate the economy. St. Petersburg, in attempting to kick-start a market economy, is privatising small businesses - shops, hotels, soap factories: you name it, and it is for sale.

It's a different story with the big enterprises, where workers want to know what is in it for them. When the Berlin Wall came down, the political barriers were dismantled: the West now has the duty to make sure that it does not infect the former Soviet economy with the economic viruses that have destroyed millions of jobs in Europe and North America.

## TOLSTOY IN RUSSIAN

DAVID REDFEARN'S new study of Leo Tolstoy as social activist is being translated into Russian. Political activists in Moscow who have read the English edition - published in London by Shephard-Walwyn - were delighted, for David Redfearn (pictured right) argues that Russia would have enjoyed a happier fate if the tsar had accepted Tolstoy's land tax-and-tenure reforms.



# Cart Horse and Albatross

WHEN Mr John Smith and Mrs Margaret Beckett were elected leader and deputy leader of the Labour Party recently, they had the 190,000 block vote of the Confederation of Health Service Employees behind them. This union, which militates in the public sector and was noisily critical of the Government before and during the General Election campaign earlier in the year, held a postal ballot of its members on the issue. The response was rampantly apathetic, with fewer than 5% bothering to back Mr Smith.

Only someone over 30 is likely to recall the power of the big names in the big unions, and to remember when the Government (any government) could decide nothing without consulting them or taking elaborate steps to forestall their reaction. Yet the TUC is about to open the 1992 political conference season, and its leaders, largely unrecognised by an uninterested public, will seek what glory they can, as little fish in a shrinking pool.

Today's reality is that the Labour Party clings to the unions for their money alone. Unions present the wrong image (as, of course, does the very name, Labour). They represent the "smokestack" industries, old-fashioned dirt and manual labour. The modern Labour MP has never worn a blue collar. The new Labour activist is more likely to have a white-collar job in local government or belong to the National Union of Teachers than to be a member of the National Union of Mineworkers.

The Conservatives are conventionally associated with big business and are undoubtedly supported by financial contributions from it. Nobody, though, believes that what the CBI says at its conference is of fundamental importance for the Conservative Party, and Conservatives do not give a thought to allowing businessmen to take part in selecting their party leader or in determining their policies. This is not to deny that there is considerable business influence, but the Conservative Party remains free to decide whom to listen to. After all, business is not monolithic; interests do not necessarily coincide; indeed frequently they clash. Business is free to reduce or withhold contributions and to maintain regular contacts with other parties. When John Smith was on the luncheon circuit in the City, the traffic in ideas was not all one way.

Big business neither needs nor is allowed any formal control over Conservative Party affairs. Labour must wish it had a similar relationship with the TUC and the unions. Labour politicians know that the unions are widely mistrusted. They are not popular even with their own mem-

bers, except in their benevolent society role.

The modern "growth" and service industries reject old-fashioned trades unionism. Today's workers do not join unions or they join unions which do not affiliate to the TUC. Women workers are even less interested in unions than their menfolk. There seems to be very little future for the TUC, except as a talking-shop, on the CBI model.

The challenge facing the old trades unions is whether their best interests are being served by still acting as paymasters to the Labour Party. What do they hope to get for their money? Are we seeing the TUC clinging to Labour solely because its tired old men can think of nothing else? Are there no bright young men and women who cannot see how continued attachment to the Labour

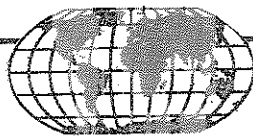
Party is bringing them down? The Labour Party is now no more than the biggest of the minority parties. How can the unions attract members who are hostile to Labour or

indifferent to it? Do they want the freedom to exert a more general influence? How much longer will they stay where they are wanted only for their wallets?

How many of the unemployed does the TUC think will turn on the television set at conference time and expect to hear some sign that new thinking is needed? Bashing the Conservatives and paying dues to Labour, Brothers, is no longer enough. The unions must reclaim the freedom to act in their own, and their member's interests.

## TRADE, NOT AID.

CAN ANYONE name a single nation of the "third world" which has prospered as the direct result of foreign aid? Have we not witnessed instead preservation of corrupt regimes, expanding bureaucracy, and expenditure on modern armaments to keep the military amused and cow both the neighbours and the local populace? Might we not be better advised to dismantle the trade barriers against "third world" primary products? Sugar is an excellent example. Europe's Common Agricultural Policy keeps out cane to protect a strikingly less efficient local beet industry. Consumers lose, poor overseas producers lose, and European exporters lose because the "third world" is not earning enough to pay for the goods it would like.



# Round the world

## LONDON Gutted properties

Britain's tax on business properties - which falls on the value of buildings as well as land - is encouraging owners to vandalise their assets.

To avoid the tax in a dead market, buildings are being systematically gutted. That way, owners make a massive saving on their taxes - around £280,000 a year for Wates City, the owner of Winchester House in the City of London. A growing number of companies are resorting to this tactic.

About 20% of buildings are vacant in the City of London. By vandalising the buildings, owners can claim that the structures are "incapable of beneficial use".

## HARARE Land grab

Ian Smith, the last white prime minister of Rhodesia (now Zimbabwe), warns that the Land Acquisition Act spells disaster. "My wonderful country is going to the dogs," says Mr Smith. The government plans to expropriate white-owned land without giving compensation at market prices. "That is absolutely evil," says Mr Smith, who owns tens of thousands of acres.

## EDINBURGH Green mail

Money does NOT grow on trees in Scotland. A sheep farmer has been awarded £250,000 for promising not to plant trees on a Site of Special Scientific Interest (SSSI). This is the "profit" that John McNaughton would have made, had he still been eligible for tree-planting grants under a

scheme that was abolished in 1989 due to the widespread destruction it caused to peat bogs.

Mr McNaughton was a member of the Lands Tribunal Committee which had earlier awarded a neighbouring farmer, John Cameron, £1m "compensation" under the same scheme.

The Labour Party's Scottish agricultural spokesman, Brian Wilson, angrily denounced the arrangements: "Once the land-owning fraternity discover a source of income on this scale they do not desist in the public interest. It works like this. You have on your land an SSSI, which is something held in trust for the nation. Then as a landowner you say you are going to destroy it. You tell the government body that 'Unless you award me substantial compensation I am going to proceed with this act of vandalism'."

"If you threatened to blow up an ancient monument you would rightly be identified as some sort of blackmailer, but that is exactly what you are encouraged to do under the 1981 Wildlife and Countryside Act."

## MOSCOW "No third way"

Confusion continues about the pace of perestroika. Dr. Larissa Piyasheva quit her job as deputy director in the mayor's office in charge of Moscow's privatisation programme because of uncertainty over her land voucher scheme. She believes every citizen should be issued with a voucher, but now believes that the state will retain ownership.

"Instead of true and full reforms of property, nothing more than a change of signboards will take place," she

predicts. "There is no third way between socialism and capitalism."

◆ Investors in the Far East are reluctant to pump capital into new businesses in Vladivostok, Russia's largest eastern city, because of uncertainty over rights of land use.

## TOKYO The higher they are...

Over the last six years, capital gains on stock which totalled ¥352 trillion (\$2.71 trillion) were nearly wiped out by capital losses of ¥324 trillion, according to the government's Economic White Paper.

For land, however, the capital gains of ¥1,037 trillion have not been badly damaged by losses of ¥107 trillion, leading to widespread anxiety that Japanese banks and financial institutions are disguising the collapse in land prices.

The Nikkei Weekly editorialised on August 15: "Unless the time bomb of inflated land prices is eliminated, piecemeal measures to shore up stock prices will be meaningless."

◆ Trade talks between Japan and the USA resumed in August. Washington is dissatisfied with progress in reforms to Japan's land use laws. The Tokyo government has not countered with objections to US land use laws.

## ANKARA Feudal opposition

Attempts to develop poverty-stricken south-east Turkey have created political tension. The aghas, or feudal landlords, oppose land reform. Economists say that incomes cannot rise unless peasants are given land. Attempts to redistribute land in the 1970s were reversed in 1980, following a military

coup. Today, over 25% of cultivated land is owned by less than 1% of farmers; 61% of farmers (150,000 families) farm holdings of under five hectares.

## ATHENS Monkish habits

Mount Athos, the all-male Greek monastic community, has struck in protest at plans to introduce a property tax designed to ease the government's budget shortfall.

## AUCKLAND "Soak the rich"

Plans for a new land tax have split New Zealand's new third-party Alliance. The New Labour Party proposed a "soak-the-rich" tax on the unimproved value of sites worth over \$100,000. The proposal has been attacked by the Greens, Democrats and Mana Motuhake. The fifth partner in the Alliance, the Liberal Party, has not opposed the plan.

The Mana Motuhake leader, the Hon. Matiu Rata, said any tax increase would be "technically and economically correct but politically untenable".

## INDIA Dammed!

A World Bank-financed dam in central India is causing damage to 240,000 tribal people and their lands, but more than half of them will be denied land compensation because they are deemed to be illegal squatters. Many landowners will benefit, however, as the Sardar Sarovar dam will irrigate 1.8m hectares through 75,000 kilometers of canals. Owners are not being asked to contribute to the cost of the works out of the enhanced value of their land.



BANK OF ENGLAND economists now admit that they do not know when Britain will emerge from the slump of '92. The Treasury computer model of the economy - and City and university economists who search the plethora of data churned out by official agencies - failed to forecast the slump; many of them sent out false signals of "green shoots" appearing on the horizon; and they now admit that their theories failed the people who are losing their jobs by the tens of thousands each month.

It need not have been so. *Land & Liberty* warned of the global crash in its Jan.-Feb. 1988 issue, where I wrote: "I confidently predict that the next major economic recession - the one that will cause widespread unemployment and business closures - will occur in 1992."

Over the last four years, *L&L* and *Economic Intelligence* published analyses based on the land-price data which is the core of an effective forecasting model. Economists would not listen, and now the banks are collapsing (the USA) or are teetering on the edge of doing so (Japan): all because they financed speculation in land.

NOW COMES a second agency willing to claim that land values are a key indicator of what is happening in the economy. Hillier Parker, a major British real estate agency, has published the first of its reports on what it calls "Residual Land Values".

Their "residual land value" is no more than the price of land in the marketplace. "Residual land values are theoretical in that they are calculated by taking the capital value of a potential development and then subtracting the total development cost," reports Hillier Parker. "The results make possible an objective comparison of land values for different property types across the country and over time."

Hillier Parker's theoretical approach to logging land values is understandable, because - with a few exceptions - government agencies do not publish authoritative data derived from direct monitoring of market prices.

Based on Hillier Parker's scrutiny of what has gone wrong with the UK economy, the report claims:

◆ The index is "the most sensitive indicator of the property market to

# LAND PRICE

## Threat to Forecasters

by Fred Harrison

date" - on, for example, the viability of construction;

◆ Land values reveal when pressure is building, which might help developers and banks to avoid excesses;

◆ Had the series existed a few years ago, "it would have acted as an early warning of the recession to come".

THIS LAST claim, which empirical analysis over the last four years in *Economic Intelligence* has proved to be correct, undermines the integrity of existing macro-economic forecasting models.

Forecasters pay no heed to trends in the land market, and have paid the price in the collapse of their credibility - which exposes a yawning gap in the theory that is supposed to guide policy-making.

Hillier Parker concentrate their calculations on the non-residential sector (the Department of Environment publishes good data on housing land prices).

The results illustrate lessons which are well established among a small group of land economists around the world. For example, the selling price of land is subject to more volatile movement than rents. Hillier Parker discovered that "residual land values are a useful indicator for predicting rental movements. The residual peaks up to two years ahead of the rental value. The residual values also fall by a greater amount than the rent."

In all five sectors analysed by Hillier Parker, "residuals peaked significantly earlier than rents... The time between the peaks of the residual and the rent is consistent at between 18 months and two years except for Central London Offices where the difference is reduced to six months".

In the industrial sector, for example, manufacturers who wanted to expand production facilities were confronted by a sudden upsurge in

the price of access to land in 1987. This triggered a crazy bout of speculation in industrial land which took prices to unaffordable heights. The collapse came in late 1989, leaving in its wake the heightened expectations of landlords who demanded rents which were also higher than many tenants could afford.

Unfortunately, Hillier Parker offer no theoretical insights into the mechanisms which transmit the impact of the land-price boom/slump into the rest of the economy. This is understandable, for they represent land-owning interests that would find themselves in the "hot seat" for generating the instability that leads to massive waste of capital (look at all the idle office buildings), and heart-rending levels of unemployment.

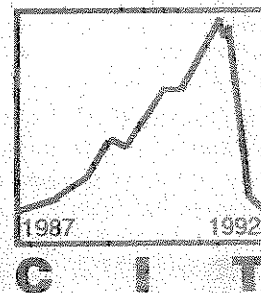
But this split loyalty to commercial interests should not create dilemmas for university forecasters, and least of all for a popularly-elected government. For apart from landowners, the property sector is also made up of the construction industry, which relies on land as an input in the value-creation process rather than a commodity in which to speculate.

The British construction sector represents 6% of gross domestic product. According to Department of Environment figures, the latest drop in orders (19% between the first and second quarters of this year) will feed through the economy to knock another 1% off GDP.

The government, therefore, if it wishes to be kept properly informed of trends in the economy, appears to have a special responsibility for incorporating land market trends in its forecasting model. That, however, means rewriting the equations after relearning how the industrial economy - given the present tax-and-tenure distortions to the land market - really works.

# CENTRE FOR INCENTIVE TAXATION ECONOMIC INTELLIGENCE

EI/34 SEPTEMBER 1992



## LVT: SHOCK THERAPY WORKS IN JAPAN

A TOP British real estate agency has launched an index of land values, which it says could be used to forecast trends in the economy.

Four years ago, when the Centre for Incentive Taxation launched EI as a monthly economics bulletin, we warned that land prices were a major signal of the state of health of the economy. Few of the experts listened.

During those Lawson boom years, EI was the sole harbinger of bad news based on an analysis of the dangers of exponential growth in land prices. Month-by-month we tracked the economy and explained that land prices would be the first to peak and turn down - followed by a crash in construction, which would lead the economy into a pit.

Now Hillier Parker, whose head of research is EI reader Russell Schiller, has published *Residual Land Values*. Affirms Mr Schiller: "Had such an indicator been in existence four years ago (sic), some of the damage caused by too much development, leading to oversupply, could have been avoided." Such an indicator was, of course, available four years ago to EI readers!

Hillier Parker's calculations of profits to be made out of land deals indicate that values fell during the late-1980s boom - as EI warned at the time (the trend for industrial land is shown in the graph). Explains Mr Schiller: "When the residual land value of a site is calculated to be lower than the open market land value, the site is not worth developing."

The Hillier Parker index (reviewed in *Land & Liberty*, Sept.-Oct., 1992, p.6) adds further evidence for the cyclical pattern of 18-year land prices which have repeated themselves around the world for the last 200 years.<sup>1</sup> Hillier-Parker records the rise in land values from 1985 to the peak (1988-89). The accelerated growth in UK land prices was documented in

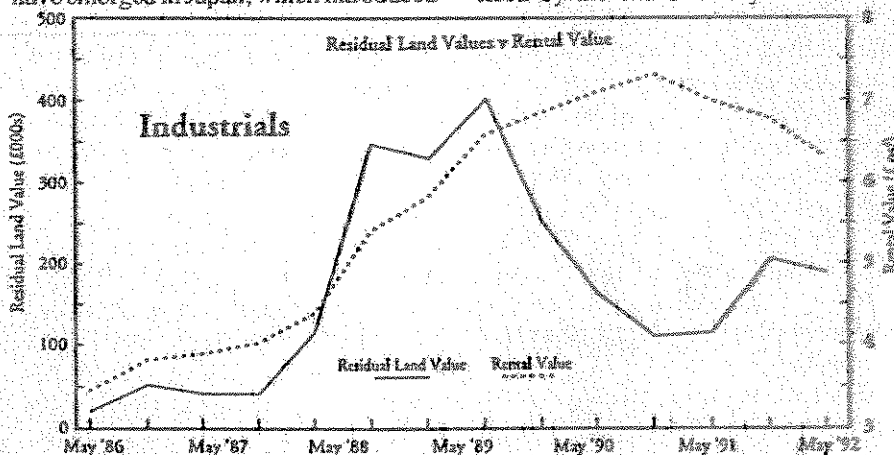
*Costing the Earth*, a CIT study published in 1989.<sup>2</sup> Updated figures have regularly appeared in EI, whose focus now shifts to the problem of restoring full employment: see pages 2-4.

LAND DATA, by itself, cannot help the policymakers. Forecasters will now have to redeem themselves by rewriting the parameters of their models on the basis of a theory that makes sense of the real world.

◆ Clues to the appropriate reforms have emerged in Japan, which introduced

buying their shares. Foreign investors' holdings in Daiwa House Industry shares have jumped to over 16%.

The OECD and the Japan Center for Economic Research forecast a growth rate for this year which is the lowest since 1974 - the last time Japan suffered a land-led crash. The index of industrial production has been negative since last October. But analysts now say that the stimulative effects of the housing upturn will be felt in the rest of the economy: they hope the macro-economic benefits will be registered by the end of this year.



a land-value tax (LVT) this year (see *Land & Liberty*, May/June, p.3). The tax was designed to curb land speculation, and is already working. After a disastrous crash in house-building last year, the economy is now experiencing a recovery in construction - the only buoyant sector in Japan, right now. Reason: the land-value tax is forcing idle urban land into use.

Owners used to pretend their valuable acres were farmland (frequently, they did not even bother to gather in the rice). This forced land prices upwards as cities sprawled outwards. Japanese "farmers" are now leading the way in the house-building sector. Firms that make steel-frame prefabricated houses report a recovery in business. Foreign investors are

EI is less optimistic: the land-led crisis in the real estate sector will continue for more than another year, with banks tightening credit in response to their sour real estate loans. But there is no doubt that it was the shock therapy of LVT on over-priced paddy fields which has nurtured the first seeds of recovery.

Meanwhile, in Britain, the construction sector has registered a 19% drop in orders. Half the UK's senior property directors and fund managers now say there will be no pick-up before the end of 1994, and a quarter of them pessimistically forecast recovery in 1995 or later.

1. *The Power in the Land*, Fred Harrison, Shephard-Walwyn, 1983.
2. *Costing the Earth* (editor: Ronald Banks), London: Shephard-Walwyn, 1989.

"The jolt from EMS membership is just what British Governments require if they are to be forced to change their policies of excessive housing subsidy and NIMBY [planning] controls. If EMS membership has to wait for housing reform, neither will occur."

SO WROTE Samuel Brittan in the *Financial Times* on January 18, 1990. The discipline of the Exchange Rate Mechanism would make high interest rates inevitable by removing the devaluation option as a cushion for the inflationary pressures in the economy, which are centered on the land market. To avoid punishingly high interest rates it would be necessary to demote capital gains in land, which are promoted by "tax expenditures", as a source of personal and company wealth.

Brittan observed on July 30 this year that "the more and the less recession-prone countries" are distinguished not by exchange rate arrangements, but by "a massive credit boom in the late 1980s and...now suffering from a debt overhang."

As *The Economist* noted on August 8: "It will be no bad thing if Britons are made less obsessive about investing every penny in houses. Prices rose to unsustainable levels in the 1980s - propelled by an ingrained British belief that this was one area where the laws of gravity did not apply - and carry much of the blame for the subsequent surge in inflation and Britain's current economic woes. A country less conditioned to expect house-price inflation would enjoy an economy less prone to booms and busts".

Professor Walter Eltis, an adviser to the government, has also sought to fend off critics of the ERM by pin-pointing the root cause of our economic woes: "Our trade is likely to remain in substantial deficit for reasons entirely unconnected with the competitiveness of British manufacturers. If any economy has an excess of investment over savings, its trade will be in automatic deficit...[S]uch a country will inevitably borrow from overseas and have a corresponding current account deficit...A propensity to borrow has been at the root of Britain's deficits" (FT, July 29).

Given this analysis, it seems clear that the squeeze that is now being applied to the country is not being caused by the anti-inflationary policy of keeping sterling strong, but by a reluctance to be flexible in our expectations of future land

price increases. These expectations are due to the refusal of politicians to tackle the tax-distorted land market. Devaluationists are looking at the wrong side of the vice.

UNFORTUNATELY, the apologists for the ERM are not channelling the attention of critics in a constructive direction.

◆ Professor Eltis, for example, did not add that prospective capital gains in land have been the cause of our high propensity to borrow.

Banks, of course, use land as collateral, which - in a regime of rapidly rising land prices - encourages an expansion of money, credit, and consumer demand, at rates that exceed supply. Ergo: inflation.

◆ *The Economist*, like the Government, is relying on the historical evidence that "eventually the market will pick itself up." (The past may not be a good guide to the 1990s, however.) Sensibly, it is concerned that the current woes of the land market are bringing out demands for new tax favours for housing: "The greater the indulgence shown to the housing market now, the greater the risk of another future burst of illusory well-being and its attendant inflation."

Even so, *The Economist* does not go all the way with the therapy of letting fingers burn and then abolishing mortgage interest tax relief (MITR). It is prepared to countenance some humanitarian relief at the expense of a lesson well-learned in the downside of land investment:

(1) MITR could be concentrated on first-time buyers to spur them into action to relieve sorry sellers; and

(2) the Government could stop competing for savings with building societies and buoying up mortgage interest rates (but start competing more strongly for savings elsewhere, presumably - which is exactly the reason *The Economist* does not normally advocate such favouritism.)

◆ And Samuel Brittan? What has he been saying to ram home his message that the EMS requires swift treatment of housing distortions in order to make life comfortable again? Nothing at all (until August 20, when he merely endorsed the minimalist reform strategy already adopted in 1991).

## THROTTLING THE LAND PRICE VICE

The nearest he has come to showing us how the land market might be tailored to fit the new anti-inflationary regime has been his support for reform of the commercial leasing system. Twenty-five-year leases with five-yearly upwards-only rent reviews may have provided security of investment for institutions and security of tenure for tenants but they are now a cost-inflating relic of Britain's "upwards only" price mentality" (FT, August 6). The wide 1980s U-bend in retail rents per sq ft, shown in his chart, was the result.

Security of tenure legislation should go, as part of the process of negotiating upwards-only provisions out of existence. "Do you think these belated efforts...would survive if the government gave in to the siren voices demanding that it should throw in the [ERM] towel?" (FT, July 30)

*Economic Intelligence* warned in October 1988 that the inflexibility of the rent review process was exaggerating the economic cycle. However, this is not the tax-induced distortion of the land market that Samuel Brittan was thinking of in the quote at the beginning of this article. He remains silent on that.

The pundits believe that reducing the tax favours for housing now would only make property prices fall further and perhaps tip the recession into protracted slump. But, of course, when house prices do eventually turn up, that will be an equally inopportune moment to kick them back down again ("After all we've been through, we property owners deserve a break!").

In fact, the world seems desperate for another fix of rising land prices to cure the industrial economy of the problems created by the last fix. In Tokyo, where for all their inscrutability the Japanese do not mince words, that is exactly what the financiers are demanding: they want their government to buy their land off them - presumably at artificially high prices.

If Britain is to realign itself onto the path of economic sobriety, another macro-economic policy criterion is needed to accompany the Maastricht criteria and the steady pound. This is it: *the national land price index should neither rise nor fall*. How this might be achieved is examined on the next two pages.



# A COUNTDOWN TO LIFT OFF

STABLE PROPERTY PRICES are crucial to growth. That means a zero rise in land prices. The prices of buildings should not be targetted, for they are part of the economy's output and their prices are encompassed by the low inflation target for product prices. Individual products should be free to vary in price relative to other products according to supply and demand. That goes for the rent of the factor land, too. But land price, a derivative investment asset, should be strictly pinned down.

There are four sources of variation in land prices:

- (1) change in rents;
- (2) change in real interest rates;
- (3) change in the anticipated rate of change of land prices;
- (4) change in taxation of land rents.

The first two are primary, the third can be targetted, and the fourth can be manipulated to achieve the target.

Real interest rates are variable in the short term, but rents tend to have a secular upward trend because the overall supply of land remains fixed while the uses for it multiply. Rents tend to rise at a rate even faster than economic growth, because well-located space is a "superior" good to which we devote an increasing share of our incomes as they rise. In the chart (inset), the upward trend of first-time buyers' mortgage costs as a percentage of earnings (M/E, right scale) is not primarily due to rising interest rates. Higher interest rates reduce the prices offered, rather than encourage buyers to take on higher annual repayments.

To prevent a rise in land prices, the rate of tax on land rents must increase over time. In the short term, however - as is now happening throughout the world - it may be that land rents are falling and interest rates are rising. In such circumstances, it may make sense in the short term - if we are trying to stabilise plummeting markets - to reduce land tax rates, in order to stabilise land prices. That is why 1992 is an inappropriate time to dismantle the distortions in the land market. Those distortions, historically, stemmed from the exemption of land from taxation (which was the surest way to stimulate land speculation and generate instability in the markets).

There is, of course, the political consideration. NO time is appropriate for introducing taxation unless politicians are as cunning as doves and as wise as serpents. Times of crisis offer the greatest opportunities for reform. On page 4 we examine one way to lower the price of particular sites today, and that method could have a wider application. Or it could complement other methods, by making zero land price inflation palatable to those with "negative equity".

Another route would be via real interest rates. Prime Minister John Major could give no more firm a declaration of intent to kill inflation than to commit himself to the criterion of zero land price rises and order the necessary tax machinery to be put into place. The imminent Council Tax presents him with a golden opportunity. The announcement in mid-1991 of the

Council Tax as an emergency measure to replace the poll tax has no doubt prolonged the slide of land prices (just as the announcement in early 1986 that the tax on domestic property would be abolished heralded the rise of residential land prices). Mr Major could trumpet this return of the property tax as a step already taken in the correct direction, bringing housing land into line with business land.

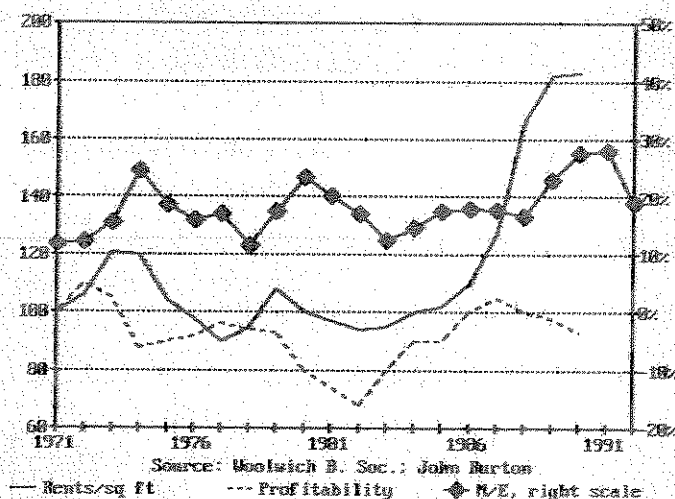
One visible step Mr Major could immediately take would be the instruction to professional valuers to produce a comprehensive data-bank of values for all classes of land use, of the kind now available in Denmark.

By thus striking at one of the roots of the British inflation mentality, Mr Major could dispel the crisis of confidence in the currency markets which is adding a risk premium to interest rates. Sterling would bounce from the floor to the roof of its 6% band and scream for the Chancellor to slash the base rate to prevent it bumping its head. As the real interest rate fell, property markets unjammed, and land prices changed direction,

the new tax machinery would begin to whirl into action: the opportunities of this new fiscal regime will be examined in the next issue of EL.

Samuel Brittan was quite right. Without the exchange rate constraint the British government might never have become so desperate for a way to impress the foreign exchange markets. It could stop brazening it out and act now by grasping the surest means to hand.

1st-time buyers' mortgage costs % of earnings: retail rents & profitability



Continued from next page

however, it might be necessary to consider this scheme in conjunction with current calls for the government to relax its full-fund rule. This obliges it to fund the PSBR without resort to borrowing from banks and building societies through treasury bills, which would enable them on the strength of their additional assets to increase the money supply.

"Under-funding" the PSBR is appropriate for recessionary times, it is argued, to stimulate the money supply, reduce long rates of interest and raise equity prices. Under-funding means that the government issues fewer bonds, which would make room for more private bonds without reducing bond prices. To the extent that private bonds replaced gilts they would prevent the effects of under-funding from coming through. But that would only re-route the stimulus for the economy. The economic aim of the private bond scheme is to free the housing market of the jam caused by those who cannot move till they can sell their homes for enough to repay their mortgages.

The number of residential property sales (about 1 million a year) is now less than in the 1970s, when there were only two-thirds as many privately-owned homes. The economy is being immobilised - literally.

# ANOTHER SILLY SEASON FIX?

THE Abbey National Building Society's call for cash compensation and tax credits for those who sell their houses at a loss is audacious.

Apart from calls for the Public Sector Borrowing Requirement (PSBR) to be "under-funded", or for a public sector wage freeze, the housing market is the focus of attention of all the silly season nostrums. Even those who call for devaluation or exit from the Exchange Rate Mechanism nurture the prospect of homeowners floating out of their debt-traps on rising prices. But at least the locus of these measures is the land market.

The fatal flaw in the Abbey plan is its massive cost. An alternative version of the Abbey's plan which fits in with overall economic strategy is outlined below.

TO ENCOURAGE a house vendor to sell at the lowest possible price the government could bridge the gap between the selling price and the vendor's original purchase price (physical depreciation apart) by creating non-redeemable bonds in the name of the vendor. The bonds would have a stock market value equal to the shortfall. That value would be assured through the appropriate fixed interest rate - about 9% now.

The trick would be to fund the interest by a charge on the property that has been sold, determined as a proportion of the property's site rent.

Though the government would collect and distribute the charge, the borrowing through the medium of the bonds would be by the private vendor, and the servicing of the bonds would be by the private buyer. The PSBR and the level of taxation would be affected only by administration costs and the income tax receipts from the bond interest payments.

The idea of a house buyer paying interest on behalf of someone else may seem incredible. But because a charge on land is reflected in a lower purchase price, it makes perfect sense. The lower price means that the buyer pays the charge (and thus, in this case, the interest on the seller's bond) instead of paying interest on the loan for purchase. The buyer is no worse off, and in fact his position might be improved.

A calculation has to be made to accommodate the further effect (shown in brackets) of the property charge on the sale price. If there were no effect, the cost would be borne by the purchaser. But he would discount the charge in the offered price. This is where we need to be clear about the exact nature of the property and the charge upon it.

A house is both bricks and mortar and land, which have specific values. Say a valuer apportiones the £50,000 realistic price (i.e., low enough to sell fairly quickly) as £20,000 for the site and £30,000 for the building. The site price reflects an implicit annual rental income, which has been capitalised

according to the following equation (assuming that a continuing 5% per annum decline in land price is also anticipated and capitalised):

$$V = \frac{a}{i - g}$$

$$\text{i.e., land price} = \frac{\text{annual land rent}}{\text{interest rate} - \text{capital gain rate}}$$

$$20,000 = \frac{a}{0.09 - (-0.05)}$$

$$a = 20,000 \times 0.14 = 2,800$$

The £900 annual charge on the land rent imputed to the property therefore represents a rate of 32%. This reduces the rent enjoyed after the charge by the landowner, and hence reduces the site price to £13,571 (£2,800 - 900/0.14). Knowing that the charge has to be paid, the landowner would only offer £43,571 (£13,571/ site, £30,000/building).

However, that increases the capital loss and raises the amount of bonds that are needed, and the charge - hence the second line of brackets. The final outcome of this iterative process is shown in the third line of brackets.

This means that a 90% charge will be made on the rental value of the site, so

the purchaser will offer only £2,000 for the site, and £32,000 for the whole property, instead of £50,000. Despite the charge, the purchaser will be no worse off. His or her offer fully discounts the charge. The £2,520 pound annual outgoing is less than the interest (nearly £2,000 at current mortgage rates) on the additional £18,000 loan that would have been necessary to buy the house, plus the anticipated annual loss in the resale price of the land (£1,000 in the first year).

The opportunity to avoid debt - or pay the equivalent of guaranteed fixed long term interest rates rather than variable short rates, at a time when the former are considerably lower - might even stimulate demand from first-time buyers. Credit-poor house seekers would benefit, and the new demand would be targetted at homes where the occupiers are "debt-trapped".

The question mark hanging over this scheme is its effect on capital markets. Would £28,000 cash be available to buy the bonds in the example? £18,000 should be, because that is the amount of loans (or own savings) the buyer no longer has to find. Of the other £10,000, not all would be a new call on the market. The seller at the end of the housing chain would keep the savings pool topped up to an unpredictable extent.

To avoid upward pressure on long term interest rates,

## Example (see text for explanation of brackets): £s

Original purchase price of house	=	60,000		
Current saleable price	=	50,000	(43,571)	(32,000)
Capital loss (= land price decline)	=	10,000	(16,429)	(28,000)
Stock market value of vendor's bonds	=	10,000	(16,429)	(28,000)
Annual cost of bonds (at 9%)	=	900	(1,479)	(2,520)
Annual charge on property	=	900	(1,479)	(2,520)

Continued on previous page

# EARTH: hostage to fortune in the North / South divide

*The Rio Earth Summit was billed as "the last chance to save the planet". In fact, writes DAVID RICHARDS, it was about the bottom line: the claims of nations on natural resources and created wealth.*

Over 100 heads of state, and ministers from 178 countries, attended the United Nations Conference on Environment and Development (UNCED) in June. Formally about safeguarding the world's environment for future generations, the summit was in substance mainly about enlisting the help of the North to safeguard the South from poverty.

There had been a previous summit on this issue, at Cancun in Mexico in 1981. And the GATT negotiations over world trade, still under way in the Uruguay Round, were very pertinent to it. But never before had the South held a valuable hostage with which to bargain. The poorer nations hold most of the world's environment under their control.

At a previous UN summit on the environment (at Stockholm in 1972), it was not so evident quite how bound up with the rich/poor divide were environmental issues; nor had a hole yet been detected in the ozone shield that protects earth.

The drama in Rio hinged on whether the USA, the largest consumer of natural resources, would agree to stay its hand, or would insist on carrying on with business as normal. If the latter, other nations would have little compunction about seeking to emulate its environmentally destructive lifestyle.

The problem for the US was that business as normal involves running just to stand still - even without bowing to moral pressure to stop elbowing others aside at nature's table. For two decades real wages, as measured, have failed to increase (though that should encourage politicians to measure US environmental standards, which have generally improved). The US government budget

deficit is now the highest it has ever been in peace time in relation to the country's income - almost 7%.

President Bush claimed that the country just did not have the wherewithal to be generous to those at the back of the queue. In terms of domestic politics, in an election year, he was right. The US economy is built on low taxes and high energy consumption. Free enterprise and the automobile are its essence. For the US, a fairer sharing in the jungle involves higher taxes and much lower energy consumption. How can the jungle's most powerful leopard be persuaded to change its spots?

The weaker beasts threaten to take away the jungle. But they, too, depend on it. A credible way forward will have to serve the self-interest of, and be visible to, every short-sighted beast in the jungle.

IT IS POSSIBLE that the earth's carrying capacity may be stretched much further through judicious exploitation. The one thing that all politically constrained negotiators at Rio were agreed upon was that development must take place. Disagreements revolved around how to make it "sustainable".

The key to sustainable development is that it must be, and be seen to be, both efficient and equitable. Global economic growth will be sustainable only if opportunities are shared fairly and markets are made to work efficiently. The rhetoric of Rio implied both these axioms.

The failure was one of fundamental philosophy. The United Nations has no definition of what is meant by fair sharing of opportunities, so let us provide

one as a prerequisite for making judgements.

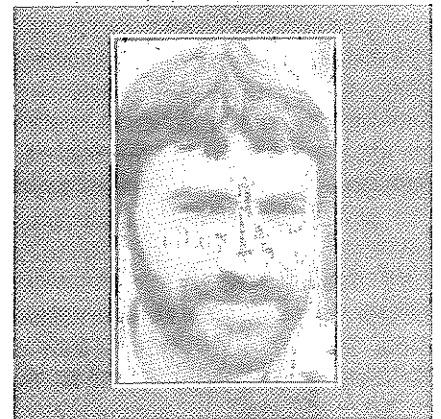
*Fair sharing among individuals and nations depends upon equal entitlements to natural resources and the individual's right to the fruits of his labour as valued by undistorted markets.*

These two ingredients of principled and sustainable development find expression wherever genuine moves towards land reform and free trade take place. They are two sides of the same coin.

"FREE TRADE" is shorthand for efficient market institutions. Such institutions often have to be created by governments. In the case of "public goods", for example, they do not emerge from *laissez faire* attitudes. Clean air is a public good, which can only be preserved by common action. It cannot be created, packaged and marketed by individuals.

Placing economic value on the environment was common currency at Rio. Rather than allowing nature's capital to be run down in order to have development on the cheap, the full replacement cost of a natural resource should be included in the price charged for using it.

That is the opposite of policies that have been pursued in the Amazon rainforest, for example. The resources of the jungle were not only regarded as free, their destruction was actually subsidised. Merely removing the subsidies has helped to reduce the rate of destruction by half since 1989, the Brazilian government claims.





Energy and water are squandered world-wide due to government subsidies.

Proceeding to incorporate the full replacement cost in the price of a resource, however, involves the further step of deciding who is entitled to the economic value of that resource. This issue straddles our two axiomatic principles.

Sustainable forestry, for example, involves investment and labour in re-planting, as well as felling. Interest and wages are earned. In addition, however, the enhanced price of timber due to reduced supply provides rental income for those plantations which happen to be in the more fertile or accessible locations. That belongs to the owner of the location. But who should the owner be? This is where land reform comes in.

Another commonplace at Rio was the view that the natural environment belongs to everyone. In practice, the term "environment" is used to cover all those natural resources that are not yet owned by anyone, but the distinction is artificial. The natural environment encompasses all that a human being is born into apart from other human beings and their social and physical artifacts. That heritage (deny it if you dare) is the equal birthright of everyone. But, because many parts of it can be parcelled up and sold, they have been.

This is another case, as with public goods, where governments must act. Resources which are natural - which are not the product of effort - and which therefore need no incentives to be produced, should not be allowed to pass into private ownership simply because they can be conveniently bounded and claimed. The economic value of those resources should help to pay for the public goods which individuals without any common organisation have no incentive to produce.

The obstacle to moving from the current *laissez faire* system of environment ownership to a principled system mediated by governments, is the vested interests of those who have already purchased, inherited, or claimed legal entitlement to the environment.

Even those natural resources which apparently have no owners are effec-

tively claimed by users. Timber supplied by truly sustainable tropical hardwood enterprises would be more scarce and so command a higher price than today's timber, much of which would be "rent". Today's consumers do not have to pay that rent, so they effectively exercise ownership of financial equity in the natural forests. But because they cannot store the equity as assets, they blow it through over-consumption.

In the case of crude oil, OPEC governments have at times been able to wrest the financial equity away from consumers. By restricting output (thus prolonging its life) they ensured that a price nearer to replacement cost was commanded (as evidenced by the stimulus given to oil substitutes research) and reaped natural resource rents which were then used for whatever investment or consumption they chose.

THE MOST difficult question - which countries should pay for whatever actions were chosen - should not have been a problem. An effective "green" package must involve crystallizing for sovereign owners of natural resources the rents previously dissipated to consumers through over-consumption. That rent forms a natural fund for paying for the package, including compensation to those disadvantaged, which it is not beyond the wit of governments to capture.

What Rio needed to sort out was the ownership of the resources and the compensation to consumers for higher prices. In the event, because these issues were not addressed, and therefore no source of funds other than higher taxes in the North was considered, action was paralysed.

All nations were at pains to safeguard their sovereignty over the natural resources, including plant and animal species, within their boundaries. The advantages of common action to restrict the use of those resources and reap rents for themselves, as OPEC had done in the 1970s, were foregone. The South contains many of the most valuable natural resources, so such efforts would have been to their advantage.

The primary industries minister of Malaysia, the hard-line leader of the

Group of 77 less developed countries, has said: "I'm poor and need my forests to get on in life so, if you want them, you must pay - and give me technology and investment."

Malaysia plans to log half its forests by the end of the decade. To keep much of that forest intact as a global trove of biodiversity and a global cooling plant it will need to be offered "enough to compensate for the loss of revenue we could gain from our forests," the prime minister has said.

If the Group of 7 leading industrial nations, for example, really wishes to import those environmental services, it will arrange procedures whereby adequate rental payments are made available. Setting aside global land for nature will increase pressure on other global land uses and raise the rental value of all land, including the forests, which will provide a source of funds for those payments.

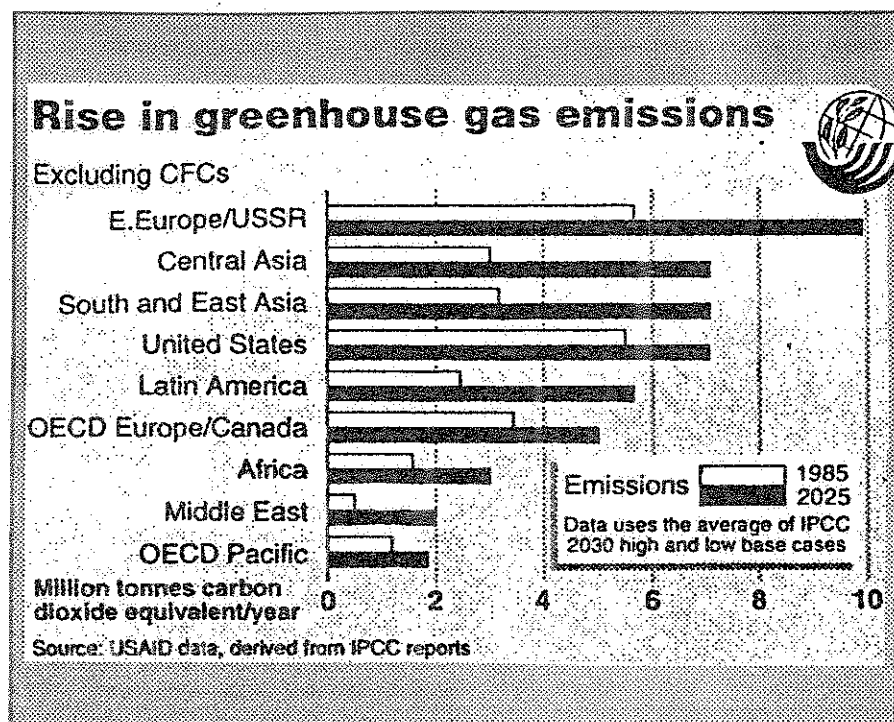
SUCH A common commitment to higher costs for the sake of maintaining common resources requires the ability to organise a common response among nations. The European Community's failure to agree on a self-imposed "carbon tax" was not an encouraging precedent. However, the political obstacles are surmountable.

The EC Commission's proposed carbon tax, levied at a rate of \$10 per barrel of oil equivalent on fossil fuels, is designed to reduce consumption of non-renewable energy resources and to cut back the carbon dioxide emissions which are likely to cause global warming. It would put a price on the atmosphere, allocate atmospheric use-rights, and claim a natural resource rent for use by the community.

The rental value of the atmosphere for use as a dustbin is evenly distributed - except where ventilation is restricted, as in Los Angeles and Mexico City, where it rises. A uniform tax per unit of carbon dumped is therefore proportional to rental value. (A uniform tax per acre of land would not be, as land rents vary spatially.) It asserts the equal ownership of each citizen of a part of the economic value of natural resources.

The individual's share of value may





be received in many ways. The provision of public goods which benefit all is an obvious priority. In the case of the EC carbon tax, funding of "overseas aid" would appear to be a prudent investment on behalf of the EC citizen.

In simple terms, no more direct action could be taken to avert the population growth in the South which so worries Northern citizens than the establishment of educational institutions, especially involving women. Educated women in poor countries have on average only two offspring (which means a stable population); uneducated women have four.

The less the population of the South grows, the less the equity ownership of the atmosphere by Northern citizens is diluted. In recent years OECD countries have contributed half the global carbon dioxide emissions, developing countries a quarter. These proportions will be reversed, on present trends, by the middle of the next century. Figure 1, published in the *Financial Times*, tells a similar story.

Short-sighted opposition to the carbon tax has been mounted by European politicians, especially from the weaker economies. They fear that higher energy costs will make industry less competitive. (A tax on rent cannot raise prices, but in this instance rent is not already

included in the price, and the tax's job is to include it). The EC plan, therefore, makes introduction of the tax conditional upon similar measures in the USA and Japan. As the USA will not introduce a carbon tax, the plan is a dead letter. Even so, the EC nations are not endorsing it.

A better approach, it has been argued, would be to proceed with, say, a \$1 levy per barrel, and increase the levy in line with any energy efficiency measures in the USA, which would probably involve more costs in the USA than carbon taxes. The competitive disadvantage would thus be annulled, and the opportunities for increase legion.

Taking a global perspective, the World Bank points out in its 1992 World Development report that if a carbon tax was being levied at \$25 a ton of carbon and the proceeds shared out between nations on the basis of population density, the rich countries would be paying the poorer countries compensation for using their share of the atmosphere a sum roughly equivalent to all official overseas aid - \$70 billion in 1989. The billions of new dollars actually committed at Rio can be counted on the fingers of one hand. If the richer countries are unwilling to settle the bill for a better future, a worse one will be their reward.

THERE IS a politically viable way forward which does not involve taking away from voters what they already have. Governments may reduce voters' expectations of windfall gains in the future, by pruning the sources of windfalls.

Green taxes may be used to ensure that increments in private income from appreciation of the market value of natural resources are no longer anticipated. That will bring an end to rises in the capital values of those incomes. Reduced capital gain expectations will cause the rate of saving to rise, in order to meet future income requirements. That will cause interest rates to fall.

More capital supplied at lower interest rates will benefit capital projects with longer term pay-offs - just the sort of projects involved in environmental protection and enhancement. Falls in interest rates will lower the capitalisation rate of rental incomes, raise capital prices and shield owners against capital losses when taxes on rents are introduced. Capital gains will be prevented in the future by taxing rent increments at 100%.

During the second week of the Rio summit, *The Economist* noted that "since most environmental damage is caused by selling nature's resources too cheaply, governments have opportunities to make green policies a source of revenue, not a drain on cash." The danger is that such opportunities may be taken in terms of selling off the remaining commons to private owners, as is generally advocated by free market economists.

Milton Freidman, for example, according to a letter just before Rio in the *Financial Times* from Prof. Steve Hanke, is of the view that, "given the despoilation left by public ownership throughout the world, what we really need isn't an Earth Summit, but a Privatisation Summit."

Federally-owned lands in the US are in worse shape than comparable private lands because they are notoriously under-priced. Full market rents should be charged to users. Selling the public domain in private parcels, including pollution rights, which may increase in sale value and hence reduce the incentive of owners to save, is not the way forward for green capitalism.

THE FLAG of Spain that Columbus planted on a guileless San Salvador has long cast its shadow on primitive peoples in every corner of the globe. World history since 1492 is a black record of simple communities everywhere being deprived of their lands and their livelihoods by ruthless invaders from other continents.

It might have been thought that, by the twentieth century, with little of the planet remaining to be "discovered", the years of the predator and the landgrabber would be over, but recent events in Brazil and its neighbouring states show that this was a forlorn hope. Now, apparently, it is the turn of the semi-nomadic Indians of the Amazon rainforest to be trampled under the jack-boot as government industrialisation and "colonisation" projects swallow up their natural habitat.

Such is the pace and extent of the destruction that tribes such as the Yanomami, the Waorani, the Kayapo and the Tukano are facing virtual extinction. Indeed, the very future of the rainforest now seems to be under serious threat.

One man roused to action by the devastation and repression now apparently in full spate in Brazil is George Monbiot. In 1989 he made an extensive tour of the country, seeing at first hand the extent of the human and ecological tragedy being played out in its sub-tropical hinterland and attempting, as he put it, "to find the real villains" responsible.

He found that the picture obtained on the spot was more revealing than that gained at long distance from the newspapers and television. Although cattle-ranching, government-sponsored settlement and dam-building were, indeed, gobbling up significant areas of the rainforest, these factors were paling in significance against others whose appetite for land were potentially much greater. Armies of private settlers, for example, were flooding into the basin from other parts of Brazil, carving out tens of thousands of homesteads from the virgin forest; gigantic swathes of destruction were being caused by large-scale road-building, with scant regard for the environment, by the armed forces; and an exploding timber industry was threatening to outdo everything else in the devastation it

## TRAGEDY IN THE AMAZON

*Amazon Watershed,*  
By George Monbiot,  
Michael Joseph, London.

was leaving in its wake.

Investigating the first of these factors and probing the underlying reasons why hundreds of thousands of peasant colonists should move from their traditional homes and make the long and weary trek into the Amazon, Monbiot found that they are not doing so through choice. Most of them are leaving more fertile land than they are finding in the Amazon, where only 7% of the soils are suitable for peasant agriculture.

THE REASON for this seemingly paradoxical behaviour, Monbiot found, is that the peasants are not so much migrants as refugees. They are being forced off their family small-holdings by landlords more concerned with maximizing profits than with the well-being of their tenants.

Monbiot sees land and power in Brazil as indivisible. The political control of the countryside has long been exercised by the landowners, from whose ranks come the politicians and the military chiefs who run the country. In recent times, thousands of peasants have seen their tiny holdings declared by the authorities to be the property of the large landowners. In consequence, 1% of the landowners now own 43% of the land, an area the size of India is used for nothing but financial speculation and 35 million rural peasants have no land of their own.

The peasants have been fighting back, and Workers' Party candidates have been contesting elections, but the landlords have responded by expelling the peasants from their land and using "death squad" tactics to induce them to leave. Between 1980 and 1990 over one thousand peasants, as well as many of the priests, lawyers and union leaders aiding them, have been murdered. With no help from the authorities - for practical purposes the tool of the landowners - the persecuted peasants have

had no alternative but to accept they are the victims of a twentieth century "enclosure movement" - and take to the road. Some move to the shantytowns of the big cities, but the overwhelming majority make the trek to the Amazon.

MONBIOT looked especially at the state of Maranhão, in the north-east, where more peasants are murdered or dispossessed than in any other state. His experiences at the hands of a brutal police force and of the hired thugs of some of the big landbarons, leave no doubt about the repression and lawlessness that stalk large areas of Brazil to-day.

Monbiot also spent much time in areas of the Amazon being devastated by gangs of goldminers. Here, more and more migrants join a modern-day goldrush that rarely benefits the participants but inevitably destroys the land of the Indian tribes. To produce a few ounces of gold, the rivers are polluted, the game gets driven away, the areas cultivated for food-supply are laid to waste and diseases brought by the outsiders increase the suffering of true natives to breaking point.

So the Amazon is the cockpit of a double tragedy: of dispossessed peasants from developed parts of Brazil being forced to quit their tiny landholdings and, in turn, to threaten the destruction of the rainforest and, with it, the existence of the primitive tribes who have their homes there.

Having investigated the problem, Monbiot puts forward a solution. He suggests that the first measure required is "agrarian reform" under which the peasants would be granted secure titles to their land, this being followed by changes in the planning laws and restrictions on timber-cutting and other forest-destroying activities. Such measures would, no doubt, provide some relief but, even in their total effect, they would do little to correct the grotesque concentration of land ownership which he rightly sees as the major underlying factor in the grim condition of the Brazilian peasant. But no effective improvement can be expected until the vast near-feudal estates are broken up.

# BOOK REVIEWS

## TOLSTOY'S REMEDY FOR BAD DREAMS

*Tolstoy: Principles for a New World Order,*

David Redfearn, London: Shephard-Walwyn, £9.95.

The central theme of David Redfearn's work is Leo Tolstoy's advocacy of Henry George's ideas in his quest for a better world order. Surrounding this, an extraordinary amount of information is packed into this book of less than 200 pages. The author worked for two years on this his final opus, and his research is varied and thorough.

A brief history of Russia is included, enhancing our understanding of the milieu in which Tolstoy lived and worked. There is also a brief biography of the great author and something about the surrounding intellectual atmosphere.

In the first half of Tolstoy's life he produced such masterpieces as *Anna Karenina* and *War and Peace*, and he is thereby universally recognized as the greatest of Russians and one of the world's greatest authors. Less universal is the appreciation of his work in the second half of his life, which to him was much more important. He was appalled by the misery he witnessed, the treachery of governments in their futile and destructive wars, man's inhumanity to man. He sought a better society founded on sound moral principles. These he found in the Sermon on the Mount and in other great world teachings.

Tolstoy was attracted to Henry George's works, *Progress and Poverty* and *Social Problems*. At first, however, he misunderstood George's proposal as land nationalization and wondered if this would not exchange one slavery for another. Later he had a clearer grasp of the remedy of land-value taxation and enthusiastically promoted it.

Despite his prestige, Tolstoy had the same difficulty George's followers have always met with - incomprehension and indifference. His appeal to Tsar Nicholas II to adopt land-value taxation to avoid revolution was met with a total lack of response. One wonders if Nicholas remembered this when he faced the firing squad.

Tolstoy asked his English interpreter, Aylmer Maude, how the single tax movement was going in England, and was told that it was too much for the Conservatives and not enough for the Socialists. Tolstoy despaired of this, and wondered 'who is to do this work that so urgently needs doing?'

The world went on its catastrophic way, erupting in World War I and the Russian Revolution. Though Tolstoy missed these events, having died a few years earlier, his prophetic eye foresaw such disasters if morality was not observed.

David Redfearn carries the story

## OBITUARY

*Land & Liberty* deeply regrets to announce that two of its contributors have died.

David Redfearn, a Quaker, was dedicated to the idea that war could be eradicated. His latest book - a study of Henry George's influence on Leo Tolstoy, which has just been published in Britain - is being translated into Russian, and will be published in Moscow on Sept. 25.

Edgar Buck, a Cardiff solicitor, has for many years contributed penetrating analyses of the way in which private property in land created social problems. Through the United Nations Association he actively campaigned for the relief of poverty in the Third World.

Both were members of the International Union for Land Value Taxation and Free Trade, through which they campaigned for social justice.



● Leo Tolstoy

up to the present time, showing the continuing disorders of the world and how the land question is the bottom question. He also points out that the movement for land-value taxation has, after all, achieved some advances and is in practice in various parts of the world, with beneficial results.

THE BOOK concludes with the new opportunities in Russia with the end of communism and the quest for perestroika. During the communist period, Tolstoy was dismissed as an ineffectual dreamer and Henry George as a bourgeois reformer. But times have changed and it is rather the failed regimes of autocracy and communism that seem like bad dreams.

Recent Georgist efforts in Russia are recounted by Mr. Redfearn. An appreciative Foreword by Anatoly Gorelov of the Academy of Sciences, Moscow, says: 'If Leo Tolstoy were alive in the year 1992, his support of Henry George's single tax on the value of land as a means of achieving common rights to it would, to my mind, remain absolutely unchangeable. As President of the Leo Tolstoy Society, I share this opinion.'

And let us remember, this is not just a needed reform for Russia, but for the world.

*The End of History and the Last Man*,  
Francis Fukuyama,  
New York: The Free Press  
Toronto: Maxwell MacMillan, 1992.

The remarkable thing about Francis Fukuyama's new book is not so much the book itself as the unusual splash it has made.

An entirely mild-mannered tract, it grew out of the controversy which followed publication two years before of the writer's essay in the journal, *The National Interest*. This comprehensive version has provoked even more gnashing of teeth. In its initial version the title carried a question mark, and it came without the subsidiary concept, "The Last Man", which has some bearing on the central thesis, but not much.

The book, added now to my library, is one of the handsomest on the shelves, and makes some of the others around it seem shabby—G.W.F. Hegel's *Philosophical History*, for instance. It carried as appendix some 50 pages of footnotes, a 10-page bibliography with 250 titles, and almost 20 pages of index. There is an unmistakable stamp of establishment blessing on this work, and the critical response to it has been close to savage.

These two elements, the publisher's confidence and the critical response, may seem contradictory, but of course they are not. It was apparent from the fact that the essay's first appearance stirred up enough interest to justify what has been called a "colloquium of rejoinders" that a book with a similar title would sell, and sell not one but two earlier scholars: George W.F. Hegel and the more recent Alexandre Kojève, "the French-Russian philosopher who taught a highly influential series of seminars in [Paris] in the 1930s." Fukuyama has good reason to walk cautiously behind them. Hegel, who first proclaimed History ended, thought it had happened in 1806 after the battle of Jena. And while Kojève champions liberal democracy, Fukuyama admits (not in the text itself, but in a footnote on page 351) his more recent mentor admired Stalin, often said so, and saw "no essential difference between the United States, the Soviet Union and China of the 1950s."

A case can be made that this book is all nonsense, and not worth the time and trouble, which can properly be said about Part Five ("The Last Man"), its fundamental arguments all being based on a shaky foundation. But Fukuyama brings more than a few important concepts into his intellectual structure, having found them in the literature. One such concept, central to the Hegel-Kojève reasoning, is what Fukuyama chooses to call *thymos*, that being the word Plato attributes to Socrates in his book, *Republic*. It means, more or less, "spiritedness," but might more exactly be termed the universal, human hunger for recognition.

Since *thymos* is so important to his thesis, and inasmuch as the book is really a review of the literature, it is a pity Fukuyama did not find space in his 20-page bibliography for Douglass Adair's succinct lecture of 1964 called "Fame and the Founding Fathers." It says as much in a few pages about the impact of *thymos* on history as Fukuyama says in his whole book.

Fukuyama makes a feeble attempt to wrestle with the ancient riddle of free will, since man's fundamental sense of dignity (the essential thing his *thymos* makes him hungry to have recognised) lies "precisely in this capacity for free moral choice." But he persists for only a page or two before admitting he is not sure about free will and so describes it as "something very real and important. Whether or not true free will exists, virtually all human beings act as if it does, and evaluate each other on the basis of their ability to make what they believe to be genuine moral choices."

It is this kind of rough carpentry which first suggested to me the simile of Fukuyama's blindness. But the difficulty with this book is not what he sees only dimly but what he fails to see at all. Unwilling to say himself that History has ended, he reports early that "Kojève claims that we have reached the end of history because life in the universal and homogenous state is completely satisfying to its citizens." That is to say, it is free of any "contradictions," the truth of which some men still want recognized.

FUKUYAMA, following his seeing-eye mentor, refuses stubbornly to be "sidetracked" (Kojève's word for dealing with whatever does not fit his structure) into the obvious realisation that the private ownership of land is the remaining device by which masters control slaves: a relationship fundamental to the book.

He is willing, though, to concede a question: "The problem of the end of history can be put in the following way: Are there any 'contradictions' in our contemporary liberal democratic social order that would lead us to expect that the historical process will continue, and produce a new, higher order?"

Thus it can be said Fukuyama stands ready to be a Georgist, or at least to see the continuing need for an historical synthesis. "We could recognise a 'contradiction'", he concedes, "if we saw a source of social discontent sufficiently radical to eventually cause the downfall of liberal democratic societies."

RICHARD NOYES

The reviewer is editor of *Now the Synthesis: Capitalism, Communism and the New Social Contract*, London: Shephard-Walwyn/New York: Holmes & Meier, 1991.

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