



# On the Threshold of Understanding

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## Demand Down, Price Up

**T**HIS is the title of an article in *Time*, October 22, 1965.

Impossible, isn't it? If demand is going down (without an even greater decrease in supply), prices are bound to go down, too. This is a basic tenet of economics.

Now listen to *Time*: "Anyone who sets out to buy a house this fall will run into a bothersome paradox: while the demand for houses is declining, the asking prices are rising. The number of housing starts in 1965 will dip four per cent to six per cent below the previous year's disappointing 1,591,000 . . . Yet the home buyer has to pay at least three per cent more than a year ago. Throughout the U.S. . . . the median price for new houses has jumped in the past year from just under \$19,000 to about \$20,000. The rise is even sharper in big cities: from \$24,000 to \$27,100 in the past year in the Chicago area."

What is the reason for the higher prices, in spite of the declining demand? "The continuing jump in the prices of land, the economy's most inflated commodity. The cost of land in and around cities has been rising ten per cent to fifteen per cent a year since 1960, and in some places, such as Los Angeles, has increased close to twenty per cent annually."

*Time* stands on the threshold of understanding. On the threshold, not further. People are beginning to grasp that there is no free interplay of supply and demand, no restitution of the equilibrium by the force of nature and economic laws where land is concerned. It is generally understood, too, that rises in land values are not due to the sinister machinations of some speculators, but to the increasing number of people living and working on a limited supply of land.

What a pity that *Time* does not take one more little step and take cognizance of the fact that this rise of land prices could be reversed, without much ado, by way of land-value taxation. Then the true balance of supply and demand for houses would be restored.

## Diminishing Returns

**A**NOTHER article published in *Time* (October 29, 1965), was headed "Less and Less for More and More." Describing the sad plight of Latin America's burgeoning population, *Time* says: "Largely because so much of Latin America is mountainous, arid or tropical, less than five per cent (against sixteen per cent in the U.S.) of its more than 7,700,000 square miles of land is under cultiv-

ation. Experts also cite antiquated farming methods. In Venezuela, primitive farms produce an average of two bushels of corn per acre, compared with 67 bushels on modern U.S. farms. Traditionally, holders of large estates do not cultivate more than necessary to earn an income suitable for their social status. But, as Bolivia and Mexico have discovered, land-reform programs that carve up productive estates into family-sized plots for often unskilled peasants, generally lead to sharp drops in food output."

Here, too, *Time* stands on the threshold of understanding. You cannot leave things as they are because there is no incentive to produce on large estates more than a minimum (and because the income from land rents is high and secure enough); on the other hand, the customary land reforms are worse than useless because they lead to a drop in production.

So what is needed? *Time* says: ". . . cheap, long-term credits for the purchase of seed, fertilisers and equipment; and heavy investment in agricultural schools and roads, plus storage, market and irrigation facilities."

Well — what will happen if all these remedies are applied? There will be a rising demand for land, with a consequent rise of land prices; this rise will cause a shrinking of the means at the disposal of the peasant, and only the owner of the land will reap the benefit from all this benevolent help.

One further step and *Time* would discover that the true remedy for this dilemma is: *No taxes on production, but a heavy tax on land values.* Then owners of land would produce as much as they could to cover the tax and produce a net income over and above that; or if they were not producers themselves they would be obliged to sell the land cheaply to cultivators, and these cultivators would then be able to retain the full value of all their improvements both old and new.

## When the Water Comes

**A** FINE ARTICLE on water problems, by Wolfgang Langewiesche, has been printed in *The Reader's Digest*, January 1966, under the title "What Water Shortage?"

The author writes: "So there is no water shortage. But there is enormous water waste . . . Reason: water is being sold too cheaply. . . . In New York City, for example, water is free to most people, because there is no residential metering. The landlord is assessed a charge, but the tenant doesn't care. If you want to keep the milk

cool, just put it under the faucet and run the water all day. Why not?"

The solution to the problem is quite simple, on the face of it. Put in some good and precise water meters, let consumers pay an economic price per gallon, and nobody will waste water. You will be compelled to introduce this system — even if you will lose a good many votes. If you should refuse to carry out these measures, your big city will die, like so many cities of yore died, left by their thirsty inhabitants.

But to curb waste is one thing; to kill agriculture and industry is another. Langewiesche himself speaks of "that shining piece of civilisation, California." It is built and maintained on the use of cheap and plentiful water. Curb the industrial and agricultural use of water, and civilisation will collapse.

Our author understands the problem well enough. He writes: "When the landlord's charge is a fixed one (based on the building frontage, number of bathrooms, etc.) he does not care either. 'They make us pay for it; let's use all we can'."

But there is more to it. Langewiesche writes: "Three big bureaucracies . . . are in the dam-building business, and they will build dams, and when the water comes, land values soar. By building those giant works, money is made . . ."

Here again: the threshold of understanding! If you want to curb waste of water, let the consumers pay in accordance with the amount of water consumed. But if you want to recoup your huge investment in dams, water-works and water-pipes from those who earn the benefit, you have to impose a tax on land values.

Now whose land rises in value "when the water comes?" The landlord whose tenants consume the water? His land rises in value, to be sure — but so does the land of his neighbour whose land is not improved at all! It is enough that his future and prospective tenants can have water at their disposal. Therefore his land increases in value, as a consequence. But why impose the tax just upon the man who ventured to erect a building, and not



upon all those whose lands go up in value by the very fact that such a water-system has been built?

Not only in the United States, but in the whole world, a good many more dams will have to be built if the ever increasing number of people are to survive. These dams will cost millions upon millions and this enormous investment will directly enhance the value of the land it serves.

It takes only a little step in thinking to bring us to the right remedy for this misappropriation of public funds.

APRIL, 1966

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### Nothing more Reasonable

Ground rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign, which, by protecting the industry either of the whole people or of the inhabitants of some particular place, enables them to pay so much more than its real value for the ground which they build their houses upon; or to make its owner so much more than compensation for the loss that he might sustain by its use of it. Nothing can be more reasonable than that a fund that owes its existence to the good government of the state should be taxed peculiarly or should contribute something more than the greater part of other funds towards the support of that government. — Adam Smith, "Wealth of Nations."