

water, power, and so on. These "lumpy" capital investments have been undertaken by the public sector, because they often prove to be unattractive to private investors; returns tend to be low and spread over a very long period. Rent is an attractive source of revenue for such investments. The land tax is suitable for financing such developments, for, unlike taxes on wages and interest, it complements – rather than deters – capital formation in the private sector.

- (iv) Social justice is an integral part of a cohesive socio-political system. Without it, the economic side of life suffers. Land value taxation is an instrument for justice as well as economic progress. It shares out, through the exchequer, the value created not by individual effort but by the presence and activities of the whole community. The highest values are concentrated in the urban centres: through land value taxation, these can be enjoyed by farmhands on the poorest of soil on the margins of the economy. The mineral wealth in far-flung places can be shared by the small entrepreneurs and workers in the conurbations. As economic growth accelerates, so land values rise: everyone shares in the spoils. As children are born, so they stake their rights to the resources of nature irrespective of whether their parents work as office clerks or possess 10,000 acres.

GENERALLY, the choice as to the content of a land reform programme is narrowed down dangerously to the two extremes: absolute ownership or collectivisation. Strategists who refuse to open up this third option are inviting political violence.

The political preference for the western model of proprietorial rights is encouraged by the declarations of "human rights" promoted by international agencies like the UN and the European Convention. These are either ambiguous – asserting the right to private property, without confronting the related issue of how property can be enjoyed by everyone – or they explicitly promote the notion of outright ownership. Since land is a factor in fixed supply, this effectively means arrogating monopoly power to a minority. This

prescription offends social justice, but is defended on the basis of the mistaken belief that absolute ownership is a necessary condition of economic growth. In fact, the necessary prerequisite to economic growth based on individual enterprise is *secure possession* of land, which can be met within the framework of land value taxation.

Allocating land with the right of absolute ownership may succeed in enlarging the class which fortuitously benefits, but it does not deal with the out-group – those who have no stake (directly or indirectly) in the natural resources of their community. Social friction might be deferred for a time, but not eliminated altogether.

A crude programme based on land re-allocation can seriously hinder subsequent attempts to introduce a land tax. In Bolivia, for example, immediately after the revolution in 1952, over 324,000 peasants received nearly 1m hectares of land which they had formerly worked in exchange for unpaid labour. In 1968 the Government decided that a land tax would be a good idea: the peasants, however, thought otherwise. They succeeded in thwarting the plan.³ As new landowners with a vested interest, they rejected the idea of sharing with others the surplus production (rent) over and above the returns to their labour and capital. They joined the privileged class and insisted on exercising monopoly power without recognition of any social obligations arising from their control over land.

The dogmatic insistence on absolute rights of ownership necessarily creates a reaction among members of society who do not share in the fruits of nature. This reaction may be mute at first, but – depending on local conditions – eventually explodes in violence. The communist ideology, in such conditions, is bound to gain recruits. Academics, politicians and bureaucrats from the international aid and development agencies who encourage absolute ownership rights are actually turning developing countries into hostages of fortune. For by focussing sharply on the free market model with built-in defect – land monopoly – they invite false comparisons which appear as revealing evidence in favour of the communist alternative.

1. Roger Riddell, *The Land Question*, London: CIIR, n.d., p.13.
2. A growing proportion, at least 20% in some areas of Rhodesia's Tribal Trust Lands, have no rights at all. *Ibid.*, p.10.
3. Gerrit Huizer, *Peasant Rebellion in Latin America*, Harmondsworth: Pelican, 1973, pp. 59-60.



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ANALYSIS BY
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HONG KONG illustrates the slogan "Free Trade Free Land Free Men." It has fallen short partly from lack of understanding but mainly from pressure of events. It may be useful to identify points of failure.

The Crown Colony of Hong Kong is a mere speck on the south-east coast of China — an area of 1,000 square kilometres or 400 square miles of difficult terrain of hills and islands. Uninhabited when the first island was ceded in 1841, it now has a population of over 4½ million people whose activities are such as to necessitate representatives in various parts of the "free world" to protect its trade from constant restraint.

Neither Britain nor China were pleased by the agreement of their representatives, Captain Elliot and Commissioner Keshen, which resulted in China ceding "the barren island" of Hong Kong. Elliot was sacked and Keshen ordered to Peking in chains. But apart from the advantage of its location and superb natural harbour two factors were to have a significant effect on its development. These were:

- (1) the philosophy of free trade, free enterprise and private profit which was the basis on which the English traders and later the Chinese merchants set up shop in Hong Kong — a philosophy which survives 130 years later;
- (2) the decision of the British Government to declare all land Crown land and to lay down that disposals should be on a lease not exceeding 75 years and of such extent as to meet immediate needs only. For commercial development, leases had to be sold by public auction. These principles have remained largely intact to the present day.

THE RAISON D'ETRE for Hong Kong was trade with China: it provided a shelter for vessels which had made the long sea voyage from England and a land access to China. Subsequently it formed the base for workhouses, shipyards, living quarters, and shops and industries necessary to support a growing trading economy. Despite the Japanese occupation of 1941-45, the inflow of new residents from China in 1949/50 and the U.N. trade embargo following the Korean War this philosophy remains the basis of Hong Kong life.

Nevertheless these factors changed the emphasis from an *entrepot* economy to that of a manufacturing

centre such that today Hong Kong rates as the 16th largest exporter by value, a noteworthy achievement by a 'country' of 4½ million people. This success is of course due very largely to the hard and skilled work of all sections of the community, but the framework of free enterprise, free trade and availability of land no doubt played a significant role.

Financial policy has supported trade policy. There are no restrictions on movement of currency; transactions between Hong Kong and overseas countries are free of all exchange restrictions. In 1972 when sterling started to slide the Hong Kong dollar which had been tied to sterling was floated (apart from a short period during which it was tied to the US dollar) and is now one of the world's stronger currencies being backed by solid resources.

In recent years Hong Kong has been obliged to divert much effort to protecting its established market against constraints and restrictions set up by its trading partners. Its only restrictions are those forced on it by international obligations under the terms of the General Agreement on Tariffs and Trade (GATT) and the Multi-Fibre Arrangement which limit its exports of many products, particularly textiles.

Political changes in China have major significance for Hong Kong and have and will again change the functions it is able to perform. Its policies of free trade and free enterprise enable such necessary changes to be made rapidly and with the minimum of loss.

The Financial Secretary said in the Hong Kong Legislative Council in May 1972:

Anything concerning land concerns us all. Land is the basis upon which all activity in the Colony takes place. It is our one natural resource. We have very little of it. The terms on which it is transferred to, and retained in, private hands must be carefully protected. This has been recognized by the Government and, I believe, by the people of Hong Kong for many years.

JUST 131 years earlier, in May 1841, Captain Elliot set out the principles upon which land allotments would be made pending Her Majesty's pleasure. These provided that the number of lots was to be limited to "the actual public wants" and each lot put up to auction "at a certain upset rate of quit rent and

to be disposed of to the highest bidder," with a condition requiring a "building of a certain value."

At the first such sale 33 marine lots totalling 9 acres were offered at an upset price of £10 per annum and sold at an average of £350 per acre per annum. It was argued that this was an unreasonably high price and Elliot was persuaded to grant further lots by private treaty but at the same rate of annual rent as the lots previously sold at auction.

Subsequently the Secretary of State refused to sanction these allotments and instructed the Governor to abstain from alienating any land for a time greater than "that necessary to induce and enable the tenants to erect substantial buildings," and providing that "all lands are to be disposed of in the first instance by auction not in perpetuity, nor for a sum paid down, but for an amount of annual rent, on leases for such terms as may be fixed by the Governor for the time being, not exceeding 75 years in the case of lands sold for building purposes."

Further instructions from the Home Government provided that land required or reserved for public purposes should not be sold and that all land reclaimed seaward of marine lots belonged to the Crown. The latter provision has been of great importance since numerous waves of reclamation have taken place around the coast over the last 130 years extending to several square miles in area.

Subsequently authority was granted to allow short term use of land on leases up to 5 years where permanent development was not probable for some time. This practice, which has been continued to the present day, enables land to be brought into use for such purposes as open storage, car repairs or parking etc and small temporary factories, whilst retaining the eventual development value and future use in the Government's hands.

So much for the initial policy instructions, which whilst lacking in many aspects – for example *there was no provision for revision of the annual rent during the period of the lease* – did exhibit considerable understanding of the importance of land ownership in the future development of the Colony and went some way to protect the public interest.

SOON, however, private interests brought pressure to bear for changes in favour of existing owners. It was argued that the prices bid at auction were too high to maintain

during periods of depression and reduction was sought. Rather than accept this with loss of public revenue (land rent was a significant part of the Colony's revenue at that time) the decision was taken in 1849 to extend the length of lease from 75 years to 999 – it being argued that such a length was necessary to justify permanent building.

So during the following half-century, 999 years became the standard period of lease for city lots, though 75 years remained the standard for rural lots. In 1898 instructions were given that no more 999 leases be issued and the standard lease became 75 years with the option to renew for a further 75 years at a reassessed Crown rent. In the New Territories – leased to Great Britain for 99 years from 1898 – the period of lease was 75 years renewable for 24 years less 3 days. In 1959 this latter group was changed to 99 years from 1st July, 1898 less 3 days, thus giving at that time 33 years without revision of Crown rent.

Despite this short lease period – now down to less than 20 years – development has been in no way affected. Indeed the extent and rate of development in Hong Kong at this time, largely on land in the New Territories, has never been greater. It would thus appear that the decision to extend the original 75-year leases to 999 years on the argument that such length of lease was necessary to ensure development with permanent buildings was not well founded!

At the same time as a decision was taken to extend the period of lease of town lots from 75 years to 999 years as an alternative to reducing the Crown rent, consideration was also given to an alternative method of bidding. As a result the Secretary of State, in 1851, following a Parliamentary Commission, stated that "as regards the system of selling Crown lands to the highest bidder of an annual rent he was decidedly of the opinion that, in future, biddings for Crown lands should not be in the form of an advance of rent but that any such property should be offered for lease at a moderate rent to be determined by the Crown Surveyor and that competition should be in the amount to be paid down as a premium for the leases at the rent so reserved."

This practice has been followed

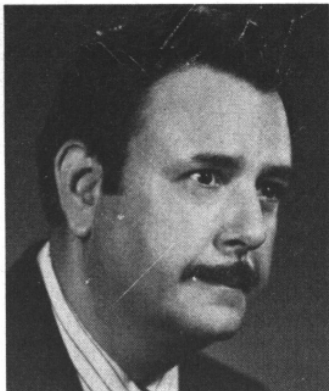
ever since, leading to a series of arbitrary 'zone rents' unrelated to the true annual value of the land. This practice has undoubtedly been to the disadvantage of the public purse both in relation to the assessment of rent on renewal of lease and by the inclusion of capital payments in current revenue.

ONE INTERESTING aspect of this procedure in recent years has been the problem of handling the very high prices realised at auction. Initially payments had to be made 10% down at the auction, the balance within 3 days. When auction prices reached \$100M the practice developed of allowing payment by instalments over a period of years up to a maximum of 20 years. This in time led to higher prices being bid and the revenue benefited as a result.

In the early days about 50% of local revenue was derived from Crown rent. By 1887 the percentage had fallen to 11% and by 1933 to 2%. Today Crown rent forms an insignificant percentage of total revenue but sales of new land, variations of lease conditions of old lots and revenue from the temporary use of land brings in a considerable sum – 20% of revenue in 1962/3 and roughly the same percentage today: some \$2000 million if revenue from rates is included.

This of course is much lower than would have been the case had the early policy been fully enforced in subsequent years. To understand why this was not done we have to consider the question of the 75 year and 75 + 75 year leases.

The 75 year leases granted in "rural areas" from 1865 to 1898 onwards expired in 1940 and following years up to 1973. These leases related mainly to residential lots on the Peak on Hong Kong Island and to commercial lots in Kowloon on the mainland. During the 1940s Hong Kong was either occupied by the Japanese (1941-45) or recovering from such occupation and subject to the disturbances in China and the UN embargo on trade. As a result the lots on Hong Kong Island (the buildings on which had been completely destroyed) were renewed for a further 75 years at a nominal charge. The problem at that time was to persuade owners to redevelop. In Kowloon it was a different story and considerable revenue was obtained from regrant of a further 75 years. But this group of leases was relatively small in number and of proportionately lower value at the date of



FOUR YEARS of work come to fruition this year

with the publication of *Critics of Henry George*. The project was conceived by Prof. Bob Andelson (left), of Auburn University, Alabama, the editor of the book, who marshalled a team of 15 authors behind him – 13 from the US, two from the UK.

The book examines all of Henry George's critics, and evaluates their arguments – and the original propositions contained in *Progress & Poverty*. It is being published by Fair-

leigh Dickinson University Press, and will be launched at the San Francisco conference which celebrates the centenary of George's book.

A copy of *Critics of Henry George* will be formally presented to the San Francisco Public Library, of which George was a founder and the first secretary of the board.

A copy of the 100th anniversary edition of *Progress & Poverty* will also be presented at the ceremony, in the main hall of the library.

SAN FRANCISCO CENTENARY: AUGUST 20-25

expiry. The more interesting group was and is the 75 year + 75 year lease.

These leases were the standard form from 1898 and expired from 1973 onwards. They included lots in all parts of the Colony other than the mainly old developed areas of Victoria on Hong Kong Island. The wording of the renewal clause in this group of leases was most carefully drafted and has been the subject of detailed interpretation in courts of Hong Kong and the Judicial Committee of the Privy Council in the U.K. The clause reads as follows:

".... from a term of 75 years renewable for a further 75 years at the option of the lessee on the same terms and conditions contained in the original lease subject to 'such rent as shall be fairly and impartially fixed by the Crown Surveyor as the fair and reasonable rental value of the ground at the date of such renewal'."

From 1935 the meaning of this clause was a source of argument between the Government and representatives of the leaseholders. The former maintained that it meant precisely what it said, that is the annual value of the land, no regard being paid to the level of development on the particular site. The leaseholders, whose main champion was the Hong Kong General Chamber of Commerce, argued that what was meant was the arbitrary nominal or "zone rent" used as the basis of sales of new land which of course as stipulated in 1851 represented only a very small part of the real annual rental value. The Chamber backed its argument with the claim that to re-

assess the rents on the basis proposed by the Government would be iniquitous, would amount to confiscation of the landlord interest, would lead to bankruptcies, destroy trade, etc.

The argument was interrupted by the 2nd World War and re-formed in the late 1940s and early 1950s during the reconstruction period. The same arguments were used and the Government was forced to grant various concessions whilst maintaining the principles of the valuation. They were able to demonstrate (to anyone with an open mind) that what they proposed would absorb only a part of the landlord's interest and was in fact a generous interpretation of the legal position. Nevertheless special pleading continued and one case was selected for action in the courts.

This case passed through the various Hong Kong courts and eventually ended up on appeal to the Privy Council in London. Here their Lordships had no difficulty in finding in favour of the Government position.

One might have thought that this would be the end of the matter and that leaseholders would then seek to renew on the legal basis as provided by their lease. No doubt this would have been so had the lessor been a private individual or an insurance company. But a Government is more vulnerable. It is open to political pressure and special pleading.

So whilst some lessees settled on the best terms they could obtain from the Government surveyors – and with the various concessions available the revised rent was considerably below what could legally have been assessed – the battle continued on the political plane. Many

new groups entered the fray, Chambers of Commerce, industrial associations, clansmen, trade unions and eventually representatives from mainland China. Finally a debate took place in the Legislative Council where the Financial Secretary was a lone voice in favour of enforcing the terms of the lease (as modified by concessions already granted). In the event Government yielded to the arguments of the objectors and adopted a method assessment of the annual rent based on the rateable values of the property.

Thus was lost a great opportunity to collect a very large part of the annual land value arising from the efforts of the community as a whole for use on behalf of the community as a whole. Instead the greater part of this value was left in private hands. It is sad to note that the Home Government which had been so assiduous 100 years earlier in maintaining the interest of the public purse, took no position whatever on the issue, leaving it entirely to local decision.

Conclusion

The conclusion must be that however farsighted a policy may be in concept it requires constant defence against the attacks of special interests. Maybe a more cynical (but possibly more realistic) view might be that only when the policy accords with the interests of the powerful in any society – as has been the case with free trade in Hong Kong – will it survive.