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THE COMING SLUMP

THE RAPID decline in the market price of stocks and shares during the past month, most severe on the New York Stock Exchange but considerable also in London, has aroused anxious enquiry as to whether this marks the beginning of another period of industrial depression. One school of thought regards this movement as the result of wicked speculation by operators on the stock exchanges. If it were merely that, there need be no great anxiety for the future of industry and of employment, except in so far as the fall in share prices might tend to discourage the investment of capital in new industries, and cause a slackening of trade expansion. Apart from this the effects would mainly be felt by speculators themselves, but the structure of industry would be unimpaired.

This view may have an element of truth in it, but there is reason to think that it is very far from being the whole story. Any rise in prices, whether of shares or of commodities, is readily blamed upon speculators, and in like manner a decline of prices is ascribed to prior speculation. But speculators are usually only the instrument which makes apparent the play of deeper forces.

The price of the shares of industrial companies is ultimately determined by the revenues, or rather the anticipated revenues, of those companies. A sudden and considerable decline in the price of such shares is therefore mainly due to a revision of opinion as to what the revenues of industry are likely to be. If that change of opinion is based upon mere guess-work, then the movement is purely a speculative one. If it is based upon information as to the actual condition of industry, then its character is entirely different.

The statistical data available are hardly sufficient to enable a conclusive judgment to be made, but there are indications for the United States that production is slackening if not actually receding. For this country the statistical information is still more inadequate, and it would be rash to hazard an opinion. The trade of the world is, however, so interwoven that a serious decline in the United States would have repercussions upon trade here.

Classical economic theory had no means of explaining industrial crises, because it proceeded upon the assumption that the primary means of production were always fully employed. The explanations which have been grafted on to the classical theory have endeavoured to explain the disemployment of labour and land by means of defects in the monetary system. It may well

be that in the post-War world, violent fluctuations in the quantity of currency have played some part in aggravating the trouble, but these certainly played no great part in most pre-War depressions. The explanation must be sought elsewhere.

It is commonly said that productive resources become disemployed, because the returns of industry become insufficient to remunerate them. Or in other words, industry comes to a halt because profits sink to zero or less. It is seldom suggested that industry may also be brought to a halt because one of the factors of production demands too much remuneration. This is where the analysis of Henry George throws so much light upon the problem. He not only shows that this is sufficient to cause an industrial crisis; he also shows that under the existing organisation of society this must be a recurring cause.

The explanation is simple. The original means of production, to use a happy phrase of Professor Hayeck, are land and labour. Improvements in the arts of production mean that labour can be more usefully employed. In order that this labour shall be employed it is necessary that more use be made of land, for without land there can be no production. The owner of land is therefore able to demand a higher price for allowing labour to use land. As production continues to expand the owner of land sees before him the prospect of higher and higher rents. The price or rent which he charges tends to be based not upon the immediate abilities of industry, but upon its expected future product. The price demanded thus becomes too high, and because of the inability of labour to pay it, or because labour is unwilling to suffer a reduction of wages in order to pay what is demanded for it, land is withheld from use and both land and labour are disemployed. They continue to be disemployed until either the price of land sinks to a level which enables labour to take up what land it requires, or until improvements in technical efficiency enable labour to pay the rent demanded.

(Here incidentally is made evident the reason why existing statistical information is insufficient to enable a proper appraisal to be made of the economic situation. No comprehensive and adequate data are available regarding the movement of rents and land prices.)

Here also is made apparent the reason why currency manipulation cannot cure a depression and may rather aggravate it. The injection of more currency into circulation has the immediate effect of raising commodity prices. To that extent it may be thought that it affords the means for producers to pay the price demanded for land with more money but with less real wealth. But the injection of any large amount of new money into circulation produces an automatic distrust of the stability of commodity prices, and an immediate tendency upon the part of those who have money to invest to employ it in purchasing land and the price of this also rises.

Much the same result follows from the other commonly advocated remedy for industrial depression—a programme of public works. The result indeed is exactly the same if the public works are financed by some inflationary process, because the effects of currency inflation cannot be kept to one channel. If they are

financed by diverting the resources which would ordinarily be used for industrial purposes, then they add nothing to the total of employment, and they weaken the structure of industry and delay the epoch of recovery.

The fundamental remedy therefore is to prevent the holding of land out of use, and the simple and effective means of so doing is to impose a sufficient degree of land value taxation to make the holding of land out of use unprofitable and impossible.

No attempt to follow such a policy is made either here

or in the United States. Apprehension for the immediate future is heightened by the fact that in both countries the declared objective of the Governments is to raise commodity prices, and so far as that has been achieved it has probably been reflected in a rise in land prices. In any case the recovery of industry from its lowest point is already sufficient to have stimulated land speculation. In this then we can look for the primary cause of the trouble of which the stock market collapse is the symptom.

F. C. R. D.

WOMEN LIBERALS

AT THE Annual Meeting in Margate on 13th October, the Women's National Liberal Federation unanimously adopted a resolution declaring :—

"This Council of the Women's Liberal Federation re-affirms the Party's declaration that legislation should be introduced to secure that the benefit of *publicly created land values should not accrue to private interests which have nothing to do with their creation* but should be applied for the benefit of the community as a whole ; and urges that, as the building of houses and their improvement give useful employment and increase the national wealth, the present short-sighted system of *penalizing such work by an increase in rates should be abandoned and the resulting loss to revenue be recouped by the taxation of land values.*"

The resolution, submitted by the Cardiff and District W.L.A., was moved by Miss Alison Garland, seconded by Lady Horsley and supported by Miss M. E. Marshall, Cardiff W.L.F., and by Mr Atholl Robertson, ex-M.P. for Finchley.

SCOTTISH LIBERALS

RESOLUTIONS to be forwarded for the Liberal Party Conference at Dunoon were passed as follows at a meeting of the Haddington Liberal Association held in Edinburgh, 3rd October, Mr J. S. Peters presiding. The resolutions were moved by Capt A. R. McDougal of Blythe :—

"This conference deplores the Government's agricultural policy of subsidies, quotas, and restrictive scarcity-mongering, tyrannical marketing boards, which harass both producer and consumer, do not increase production, and which ultimately will merely result in higher rents and prices of land, and in grave injury and danger to tenant farmers, who will be compelled to rent or buy their farms at artificially inflated prices.

"It further declares that the proper method of meeting low prices is by reduced rents, land law reform, and by improving the purchasing power of the consumer. Instead of production being restricted to present rate of under-consumption, consumption should be increased to equal a still higher rate of production.

"That this conference urges that the derating of houses and improvements and the rating and taxing of land values in lieu, should be put in the forefront of the Liberal programme and made a vital issue now and at the next General Election."

The third of these resolutions was adopted by the Conference of the Liberal Federation at Dunoon, where it met on 15th and 16th October.

Resolution from the West Edinburgh Association was adopted approving of up-to-date statements of Liberal policy on agriculture, and smallholdings being prepared

giving practical effect to the declarations by the Federation and authorized the Committee appointed by the Executive in September, 1937, to frame such statements as soon as might be and present them to the Executive.

THE TAXING OF CROFTERS' HOUSES

The Secretary of State for Scotland was criticized by Mr James Scott, S.S.C., Edinburgh, when submitting a resolution from the West Edinburgh Association, which recorded sympathy with the smallholders' protest against their dwelling-houses being entered in the Valuation Rolls, and being separately rated upon, and which urged the Government to introduce or give time for legislation forthwith to nullify the effect of the Court of Session judgment which held that a dwelling-house on a holding was not an agricultural subject in terms of the Acts.

Addressing a Liberal week-end school at Colwyn Bay on 23rd October, Mr Milner Gray, chairman of the Liberal Party Organization, outlined six points of policy which a Liberal Government would undertake. These were (1) proportional representation ; (2) recovery of world trade ; (3) stabilization of exchanges ; (4) liberty of movement of capital ; (5) freedom of migration, and (6) at home we oppose class privilege and the exploitation of the mass of consumers for the benefit of special producers. We would deal with land monopoly to secure the rating and taxation of land values, the only thing this Government said must not be taxed.

* * *

MR MURDO MACDONALD, B.Sc., teacher at Evanton Public School, Ross-shire, has passed away at the early age of thirty-three years. He was a promising young man and only became a member of the Highland League for the Taxation of Land Values about two years ago. Mr MacDonald was a native of Stornoway, a fluent Gaelic speaker and, in his short life, a progressive Radical of the Scottish Liberal Federation.

THE THEORY OF THE LAND QUESTION

By Prof. George Raymond Geiger.

This work, which is one of the most important and valuable contributions to the literature on the land question, recently reviewed in *Land & Liberty*, and from which extracts have been printed, was published by the Macmillan Co. for \$2. By arrangement with the publishers, the Robert Schalkenbach Foundation has bought a supply on very special terms. We are happy to recommend the more readily this outstanding work, placing it in the hands of students at the privileged price of

Four Shillings Post Paid.

THE HENRY GEORGE FOUNDATION
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