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IS ANOTHER ECONOMIC CRISIS INEVITABLE?

A recent report of the International Labour Office asserts that the last depression cost the world £20,000,000,000. The author well describes this as "a fateful figure equal to the total cost of the Great War."

Mr J. M. Keynes in his recent articles in *The Times* has said that it is high time to consider how to avoid another slump, and added that hitherto no real effort had been made to solve the problem. It cannot be solved, however, unless we can diagnose correctly the causes which turn periods of good trade into periods of depression.

The explanation given by Mr Keynes is that the cause lies in a lack of balance between the effort devoted to the production of goods for consumption and the production of goods for capital purposes. There is nothing new in this type of explanation. Various writers have attributed economic depression to over-production of capital goods, and under-production of consumers' goods. This diagnosis suggested that the remedy was to be found in increasing the wages of the poorer sections of the community and diminishing the incomes of the rich, with the result that the rich would be unable to devote so much of their incomes to capital purposes and the poor would be able to spend more. This proposal, from its nature, was calculated to be popular with the majority, and it is still frequently heard.

The emphasis in Mr Keynes' explanation is in the opposite direction. His view seems to be that too many consumers' goods and few too capital goods are being produced. In other words, the community as consumers (or receivers of income) decide to allocate a certain portion of their incomes for consumption and the remainder for investment, but that the same community by some curious chance goes on producing more consumers' goods than the income set aside for purchasing them can buy. (This makes it appear that Mr Keynes and Major Douglas will soon be in the same boat.)

Such an explanation may satisfy some minds. Others may very well think that further explanation is required, and indeed demanded, unless we are to blame the matter on some aberration of human nature which impels men to do irrational things. Observation teaches us that goods are made in response to demand. It is true that manufacturers have to make in advance the best estimate that they can of what the demand is likely to be, but such estimates are not wild speculations—they are based upon careful enquiry and upon experience. With the improved organization of industry and the collection of trade information and statistics, production and demand should tend to be more closely related. If industrial depressions were mainly due to lack of

correlation between supply and demand, they should tend to become less and less acute.

The demand for goods consists in the income allocated to purchase them, and if men allocate less for the purchase of consumption goods the demand falls off and so does production. Mr Keynes assumes (without demonstration) that production continues although the demand has ceased.

It is remarkable in this and most other discussions of the problem that one important and essential factor in economic life is completely ignored. It seems to be assumed that wealth is produced by labour and capital alone without the intervention of land. Do our farmers produce their crops without land? Do miners produce coal without coal seams? Do builders produce houses without sites and without bricks and mortar? Do our factories float in the thin air, and produce goods without iron and steel, without coal, and without raw materials?

During recent weeks the annual reports of the leading firms of estate agents have been published. They are significant reading. Here are a few extracts: "A hardening of prices is noted, particularly in Northern districts." "The trade revival is definitely reflected in the demand for office space in the West End." "Sites in 'key' positions are most difficult to obtain at what are considered reasonable prices." "The demand for building land is as great as ever, but in this direction there is also a shortage of sites suitably zoned for development." "The value of good agricultural land has advanced."

What do these statements mean? Is it not that the price of the opportunity of getting a living, of the opportunity of producing wealth is increasing? Let it be observed particularly that these prices for land are being based, not upon the condition of trade and industry to-day, but upon the expectation of a continuance of trade improval. The prices which are asked discount future and anticipated industrial activity, with the result that it becomes more and more difficult to obtain land at "reasonable prices." Here is a positive reason for the causation of slumps, and one of which there is abundant evidence in the past.

The history of the United States during the time of the last boom and depression shows an orgy of land speculation, not confined as some think to glaring cases such as Florida, but widespread all over the country. Where speculation had over-run all bounds, there followed a general collapse with thousands of bank failures and a dislocation of credit.

These facts are ignored, partly because people mistake the concomitants of an industrial crisis for its causes, and partly because of the lack of adequate statistical material to demonstrate it.

If the diagnosis of the fundamental part played by land speculation in the causation of industrial depression is correct, it follows that remedies directed towards suppressing the symptoms without touching the cause must inevitably fail. This applies to the measures advocated by Mr Keynes.

When signs of the slump begin, he wishes public and semi-public authorities to embark upon large schemes of capital construction. The effect of that will be to stimulate the demand for land and drive it to still higher points.

He desires to keep the rate of interest low. The inevitable result will be to make the rate of capitalization of land high and to increase the selling value of land. One of the firms quoted above says: "Since the Government's conversion schemes, in 1932, and the advent of low rates of interest on gilt-edged securities, investors have turned to real property for a more satisfactory yield." "The past year has probably witnessed

a larger flow of capital into the land than in any year since the boom years which immediately followed the war." These are ominous remarks.

In amplification of this argument it is interesting to recall what the great Swedish economist, Kurt Wicksell, says in reply to those who expect an increase in general welfare from a progressive reduction in the rate of interest: "Such a state, however, would be far from desirable in an individualist society based on private property. So far from disappearing, the gulf between the propertied and the propertyless classes would be

well nigh impassable, if land, capitalized at an extremely low rate of interest, possessed almost infinite exchange value. Even now a very large part of what is called capital and interest is, in reality, land and rent."

It is not necessary, as might be inferred from Wicksell's statement to abolish all property in order to avoid these evils. But if we are to avoid another depression with all its loss and suffering it is at the least imperatively necessary that we should abolish land speculation by taking the value of land for public revenue.

F. C. R. D.

WORTHING MAKES PROTEST

At its meeting on 7th January (*Worthing Herald* report), the Worthing Town Council had before it a recommendation of the Education Committee to purchase for £5,400 a site of three acres for the new infants school in Dominion Road.

After animated debate the Council resolved by 27 votes to 10 rejecting the recommendation and declaring: "That this Council expresses in no uncertain terms its disapproval of paying unduly inflated values for land which is absolutely necessary for the extension of the primary services of the borough, and that in this instance the vendor be approached for an amendment of the terms of purchase, and if no satisfaction is obtained then he be informed that the necessary steps will be taken for compulsory purchase."

Councillor Major Acraman described the figure as excessive and exorbitant. They had had to pay too much for these little bits of land all over the place, and the reaction was being felt all over. People who built houses in Worthing to-day and let them out to tenants were expecting a large percentage on their outlay. What did that mean? It meant that every poor working man who went into a house would be paying £12 a year or 5s. a week in consequence. The sum of £1,800 an acre was a high price for agricultural land. It was simply a "try-on" and if they paid without fighting it, they would deserve the condemnation of every ratepayer in Worthing.

Councillor Douglas Jones stated that when the Corporation had to obtain land the knowledge leaked out and the price soared to an exorbitant figure at once. In the interests of those who had to pay rates some effort should be made to get the land at a far less price.

Councillor Luxton pointed out that a new school had to be built and there was no other suitable site available. It was high time that land owners realized they were not going to pay fancy prices for land.

Alderman Jackson said the ratepayers must realize that the price was too much and they must fight to the last ditch. The only thing they could do was to find out really what was the real value. "We are not going to pay these fancy prices over all the town for every little improvement we want. I hope the Council will support the amendment and show we are not going to be led up a street."

Councillor F. G. Stevens said the real test was what was the land worth in the open market as a building estate? He did not think that any builder, no matter how reckless he was, would pay £5,400 for it. The fact that the Corporation had wanted the land had had the effect of throwing up the price.

Councillor Miss Walter supported the report on the grounds that the price obtained was the best that could be secured. The price originally was £6,000. The committee, however, got the district valuer to see the owner with the result that the price was reduced to its present figure. It was a most reluctant acceptance on

the part of the committee. Going to arbitration would be expensive, and the Town would lose in actual money; the work would be delayed possibly for nine months.

Councillor J. A. Mason said that it was time a stand was taken against the excessive land prices operating all over the country. It was a big scandal. Some stand would have to be made by someone even if Worthing had got to make it.

Alderman Duffield, replying, said all of them shared the sentiments expressed by Major Acraman, but what was the remedy? The owner said it was worth £6,000 and could prove his case. The district valuer said £5,000, and they eventually reached an agreement at £5,400. What good on earth would arbitration be? Arbitrations were expensive things. If they did get anything off the £5,400, the costs would offset that. If he could see a practical way out of it he would at once support it, but was it not a waste of time to send this back for arbitration and waste months when they had a hundred more children on the books at the school than they had accommodation for?

After other members, including Alderman T. E. Hawkins and Councillor W. C. Birkett had spoken, Alderman Duffield said the Town Clerk could advise as to what arbitration would cost.

Councillor Major Acraman: The principle is worth the cost, sir.

The *Worthing Herald*, 9th January, commenting on the matter said: "Fortunes have been made out of the sale, for building purposes, of land originally bought cheaply for agricultural purposes. The fact that big trading firms and speculating builders have considered it worth while to pay fantastic prices for sites in the town has undoubtedly been a prime cause of the present distorted conception of land values. The fact remains that this position has hit the ordinary townspeople most seriously, not only by restricting the extension of their amenities, but by forcing them to pay far more dearly than they can afford for the houses they have to buy to live in. It has caused incalculable distress in this borough in the past few years."

This discussion throws a searchlight on the inequity and harmful results of the present rating system: how it bolsters up and actually endows the land monopoly. The site, which even the district valuer says is worth £5,000, is exempt from local taxation. Owners are encouraged especially in a growing town like Worthing to withhold land for higher prices still, and the price and rent of all other land is fictitiously increased. Arbitration cannot remedy that. It but condones the wrong by which the publicly created value of land is appropriated by private individuals. If Worthing Town Councillors now really have made up their minds, they should drive hard and fast, carrying the demand for the taxation and rating of land values, and carrying their ratepayers with them.