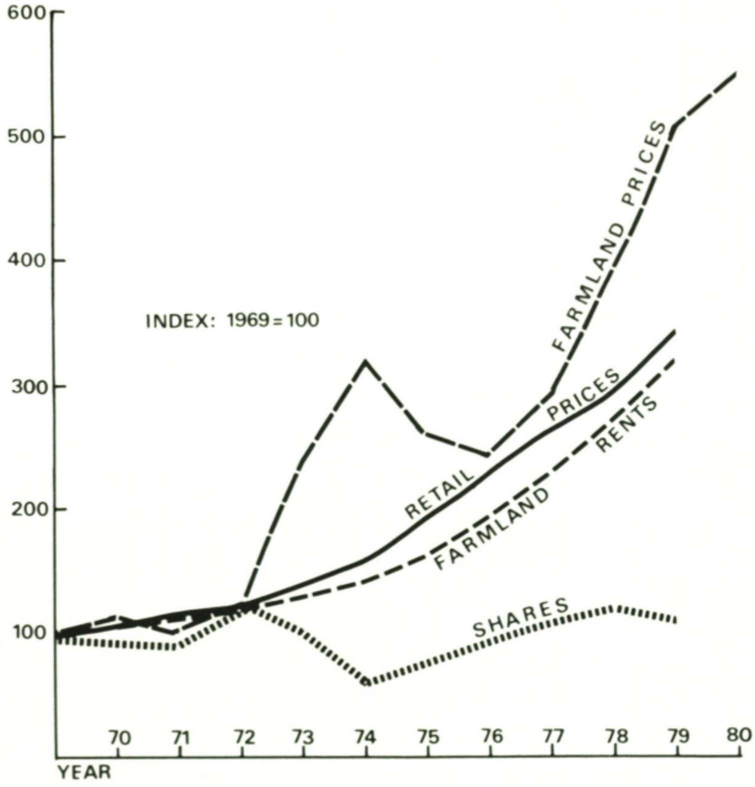
Land reform as counter-revolution : P32

LAND & LIBERTY

How subsidies harm the farmer



BRITISH agriculture is in a mess. Not because farmers and their employees are incompetent. Last year their contribution to the net national product increased by 11%. The problem is a financial one, the source of which afflicts farming throughout the Western world.

Difficulties do not arise because insufficient money is diverted into agriculture, which happens to be the most heavily subsidised – and protected – of all in the private sector. Indeed, because of the failure to confront elementary economic theory, the underlying problem would not be solved by simply paying more money to farmers.

IT IS TRUE that farmers receive a very low return on their investment: 3% p.a. This, despite the artificially inflated price of food ordained by the Common Agricultural Policy and the 15% tax on food imported into the UK. So the latest demand from the National Farmers' Union President, Richard Butler, for a price increase "as a matter of urgency" would not have the desired effect.

Why?

IT IS TRUE that farm workers are among the worst paid in Britain. A large proportion of them suffer the indignity of having to rely on state welfare handouts, without which they could not afford to buy the food that they grow to feed their families. The Ministry of Agriculture is now to enquire into the reasons for this apparent paradox. Whatever action may ultimately be taken through the statutory Wages Board (which meets annually to fix agricultural wage rates), the relative condition of farm workers will not be improved.

Why?

The central question, of course, is this: where is all the money going? The answer is to be found in David Ricardo's theory of economic rent. Money that is pumped into farming is converted into higher rents and land values. Thus it is that land – and above all, farmland – has produced the highest yields for investors in the past decade. *Out-performing* investment in other assets, and *increasing* faster than inflation and the rise in wages.

But this is cold comfort for the working farmer. For while average farmland rents have been increasing, the net income received by farmers has been declining. Farmers in Northern Ireland, where land prices are the highest in the UK, recorded the lowest incomes.

George Inge of Savills, a British real estate agency, calculates that farm rents took 36% of net farm income between 1965 and 1975, rising to 40% until last year, when the share going to landlords rose to 61%.

● Cont. on P.22

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FEATURES

REPORTS

REVIEWS

AGRICULTURE & THE LAND TAX

IMPORTANT articles on Western agriculture and the fiscal system that have appeared in past issues of *Land & Liberty* include –

FARMERS, AVARICE & THE £500m. HANDOUT: Vic Blundell, Nov.-Dec. 1980;
WHY FARMERS SHOULD BACK THE LAND TAX: Geoffrey Lee, July-Aug. 1979;
THE PARADOX OF PROPERTY: Richard Crotty, July-Aug. 1979;
THIS INFLATED ISLE, Alisdair MacGregor, Jan.-Feb. 1974;
WHY OUR FOOD IS DEAR AND WILL GET DEARER, Christopher Frere-Smith, Sept.-Oct. 1973;
FARMING MORASS IN THE E.E.C., J. R. Pickering, May-June 1973;
LAND AND CAPITAL IN AGRICULTURE, Paul Knight, Nov.-Dec. 1970;
PROTECTING THE FARMER, John L. Marshall, May-June 1970.

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● **Cont. from P.21**

The distribution of income in agriculture is clearly unsatisfactory. Tenants are the worst hit: but farmers who own the land that they occupy do not enjoy immediate benefits from high land values, which will in the main accrue to their heirs. ***Land & Liberty*** **has in the past demonstrated that a reform of the fiscal system, incorporating land value taxation, is in the wisest interests of agriculture. Farm leaders perform a disservice when they restrict their proposals to demands for ever-more subsidies from the taxpaying consumers, subsidies that positively harm the people who devote their lives to producing food for the rest of us.**

ONE HUNDRED years ago, Henry George published the most thorough elaboration of the moral philosophy in support of the claim that the rental value of natural resources belonged to society.

He believed that this revenue would be sufficient to meet the legitimate needs of public expenditure; therefore, it was possible to eliminate altogether the tax burden on wages and capital, which were an infringement of the individual's property rights and a restraint on the growth of wealth.[1]

Thus was developed the Single Tax, an idea originally formulated by the French physiocrats.

In the past 75 years, most people who have promoted the virtues of an annual tax on economic rent have not emphasised the Single Tax notion.

But during the past two years there has been an exciting revival of fundamentalist thinking in Australia, where discussions among leading supporters of Henry George are likely to produce some valuable insights into the original theories.

By a stroke of good fortune, it is to Australia that we must look for the best empirical data with which to test the hypotheses. This article can do no more than open up the debate among a wider audience, and pose some key questions.

HOW MUCH revenue would be raised under a Single Tax regime?

National income statistics are seriously defective; they fail to record the total annual rental income of a modern industrial economy.

This has suited the purposes of those who wish to preserve the present distribution of property rights. They have attempted to discredit the Single Tax by arguing that it would *not* meet all the spending needs of modern societies.[2] This argument is defective for a number of reasons.

● The constructive influences of land value taxation on the industrial economy are sufficient in themselves to commend the fiscal policy. No matter how much (or little) the tax would raise for the exchequer, the dynamic impact—through, for example, neutralising the destructive power of speculation—would justify a 100% *ad valorem* tax on the value of land.

● Critics conveniently ignore the question of the justifiable limits of public expenditure. Henry George did not advocate land value taxation for the benefit of profligate rulers. The case for tapping the value of nature's resources for the benefit of the com-

So how much *would* the Single Tax raise ?

ALLAN R. HUTCHINSON: Born 1907, Auckland, New Zealand. Education: B.Sc., Melbourne University. Occupation: engineer with the Postmaster General's Department, from which he is now retired. Publishes (and co-edits) *Progress*, a journal devoted to promoting land value taxation in Australia.

Hutchinson became politically active during the recession of the '30s. He developed a close association with the Henry George League in Melbourne, Victoria. During the '40s, he was one of the founders of the Land Values Research Group, which committed itself to undertaking empirical studies of the economic effects of land taxation.

During the past 30 years, Hutchinson helped to form the Justice Party, and in 1970 he successfully sought election to Camberwell Council, to further promote the ratepayers' general wish to shift taxes off improvements and onto the socially-created value of the land on which their homes stood.

munity would not fall just because the revenues could not finance the multi-billion-pound budgets that are required for the weapons of death that distort the consumption of the wealth of nations.

● Critics have based their verdict on a conclusion reached by the route taken by many a crooked businessman: they have "cooked the books." They have refused to do their arithmetic before levelling the charge that land values would produce paltry revenues. Allan Hutchinson's new study[3] begins the systematic attempt at straightening out the books.

HUTCHINSON, the Director of the Land Values Research Group, has made a life-long study of rental income in Australia. He has just completed an analysis of the accounts of the continental economy for the fiscal year 1976/77.

Revenue from Federal, State and local government taxes was A$24.8bn.

The revenue from land value taxes, local authority rates on land, and lease rents, totalled just over $1.6bn. This sum, although it does not include the $206.2m. royalties from publicly-owned mines and forests, is a fraction of public revenue.

However, if the full assessed value of all sites were taxed for the community's benefit, the sum raised would be $4.5bn. This figure is arrived at by calculating the portion of site values left in private hands under the existing fiscal system, which Hutchinson estimates at $2.9bn.

It would be premature of critics of Henry George's philosophy to regard these statistical magnitudes as a vindication of their opposition. For the figure of $4.5bn. seriously understates the potential annual income to be derived from the soil fertility, minerals and locational attributes of Australia. To reach an accurate figure, a variety of adjustments have to be made.

Even if we froze the Australian economy into its present form, we would find that rental income is much higher than at first sight seems to be the case. For example, official valuations understate the value of land. Revaluations are not on an annual basis, but vary from periods between two and ten years. Thus, when land values are rising rapidly, as in the 1970s, this leads to serious distortions in the statistics.

Hutchinson has calculated that the under-estimates can vary from 59% (Queensland) to 108% (Tasmania). By recomputing the data in accordance with the growth trends found with the most recently revalued property, Hutchinson discovered that the true figure of rental income remaining in private hands leapt from $2.9bn. to at least $4.2bn. So it appears that the true taxable capacity of landowners is well concealed from the public!

The values given for rateable land do not include the value of mines, for which rights to royalties are usually reserved to State governments. They also exclude a substantial proportion of holdings that are exempt from municipal rates and land taxes. These comprise properties held by the Commonwealth and State governments, religious bodies, hospitals and charities.

The total value involved for all States is unknown. But the figure for Queensland is published; in 1976/77, rates foregone on exempt properties equalled 12.9% of the total general rate revenue collected. The proportion exempt would be greater in New South Wales and Victoria, which have a larger concentration of government organisations. This, and other valuation shortcomings, would increase the real site rent of Australian land, in Hutchinson's view, to over $5.2bn., excluding mineral and forestry royalties received as public revenue from publicly-owned lands.

WE NOW come to an important point which is the one least capable of quantification.

What would happen to land values under a reformed tax regime? There are sound theoretical and empirical reasons for believing that if we imposed a 100% *ad valorem* tax on land values, rental values would *increase* enormously. This point

Fred Harrison spotlights an Australian controversy

warrants exhausting study elsewhere: here, I can only make a few points.

If taxes on wages and capital were reduced in line with increases in land value taxes, part of the privately-retained income would be spent in such ways as to increase the demand for land. With a higher level of income, people's tastes change. They would want more spacious houses, access to better recreational facilities, and so on. As the demand for land rose, so would values.

Higher incomes mean greater consumption. The whole level of economic activity would rise to a new plane, to accommodate the increased personal prosperity. This would lead to increased demand from the commercial and industrial sectors for land which they would need to expand their productive capacities. The increased competition would drive up land values (this pressure would be modified, initially, by a flow onto the market of land hitherto held idle for speculative purposes).

Under these collective influences, land values would rise and so benefit the community through the increased revenue received by the exchequer. Given the present state of knowledge, it is not possible to calculate the ultimate statistical magnitudes that would be determined by these dynamic forces.

AUSTRALIAN land taxers, however, firmly believe that the budgetary requirements of the modern state *could* be met out of land values, and could be met without having to worry about the dynamic impact of this fiscal weapon on the economy in the future.

Noel Wigmore, in Melbourne, Victoria, and Graham Hart, in Wembley, Western Australia, take the view that all *current taxation* is at the expense of site rents.

This is a reasonable conclusion to be drawn from Book VI, Ch. 1, of *Progress & Poverty*. In essence, then, it is being argued that under a Single Tax regime, public revenue would comprise both *current* tax revenue from all existing sources, *plus* the outstanding economic rent still retained in private hands.

This is a controversial hypothesis.

Most councils tax unimproved site values

OVER 93% of the Australian land that was subject to rates (the property tax) was taxed on the unimproved capital value of the site in 1976. The rates on the net annual value (land plus buildings) fell on only 6.61% of the land.

	Councils rating on		Area, sq. km	
	UCV[1]	NAV[2]	UCV	NAV
New South Wales	214	—	705,651	—
Victoria	62	149	28,069	199,031
Queensland	131	—	1,726,700	—
South Australia	38	98	61,058	89,498
West Australia	126	12	2,525,306	194
Tasmania	—	49	—	68,330
Aust. Capital Territory	1	—	2,433	—
Northern Territory	2	—	—	—
	574	308	5,049,438	357,053

1. Unimproved capital value of land.
2. Annual value of land plus buildings.

SOURCES:
Local Government Authorities Australia Yearbook 1977-78, Australian Bureau of Statistics Census Returns, 30 June, 1976.

If income taxes were drastically reduced, wage earners would expect to retain some of the benefits. Henry George, indeed, along with other economists of his time, recognised that minimum wage levels acceptable to workers were in part determined by what was called "habit,"[4] which is determined by a variety of socio-psychological as well as economic factors.

So, it would not be unfair to predict that people would resist pressures to transform into land taxes the whole of the present tax revenue derived from income and consumption.

But no attempt can be made here to resolve this controversial aspect of Henry George's thesis. If we assume that the argument is correct, however, there would still be further problems to confront.

The size of the exchequer revenue would eliminate the need for deficit financing (and so remove the problem of inflation); but it would also produce an income to support a public sector far larger than that which George deemed appropriate for a liberal economy based on free enterprise, the private ownership of capital and the self-sufficiency and individual decision-making of a libertarian society.

The dilemma could not be resolved by reducing the level of the Single Tax, for this would contradict the moral philosophy on which the system was built.

One solution would be to divide up—equally among all citizens—the money left after legitimate public expenses had been met; this is the social dividend, or social credit, that found strong favour in North America.

But while this may please the present generation, it is part of George's case that future generations have an equal claim to nature. Where the value is derived from renewable characteristics (location, in the main), this is no problem. But where the value is exhaustible, as with finite energy resources, a purist would argue that surplus public revenue ought to be invested to produce an income stream that could be enjoyed by future generations. (This might be the argument over Britain's North Sea oil, for example.)

This, however, challenges the desire to reduce the size of the public sector!

These considerations of what a reformed society would look like await detailed investigation. Such an examination is certainly long overdue, and is vital if people are to appreciate that socialism is not the only alternative model to the present unstable western capitalist system.

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2. One of the earliest and most influential of these critics was William Hurrell Mallock. For a critique of his statistical computations and arguments, see R. V. Andelson, editor, *Critics of Henry George*, Rutherford: Fairleigh Dickinson UP, 1979.
3. A. R. Hutchinson, *Land Rent as Public Revenue in Australia*, London: ESSRA, forthcoming.
4. *Op. cit.*, pp. 304-305.

G. G. AYLWARD

WE REGRET to report the death on 24 January 1981 of Graham Aylward. He was 90. Mr. Aylward was a life-time supporter of the Henry George movement and was a regular and generous financial contributor. To his family we offer our sincere condolences.

FORTHCOMING

A COMPARATIVE study of the property tax as it is administered in Melbourne, Victoria, and Sydney, New South Wales, will appear in the May-June issue of *Land & Liberty*. This will be followed in the July-August issue with an historical analysis of the influence of Henry George on the Australian fiscal system.