

Sweeny Todd Strikes Again



ONE DOES not have to be a cynic to assert that the economic cuff round the ear given last month by Mr. Barber, Chancellor

of the Exchequer, to property developers in the form of increased taxation on development values, was anything more than a political gesture to appease those rightly, if confusedly, concerned with profits arising from development permissions which release bottled-up land values. It is of course precisely because land values are bottled up over the years and then suddenly released by planning consents that they are dramatized. Before planning consents for development became the law of the land, the process of steadily increasing land values was taking place all the time — and with them, increasing “profits” (an economic misnomer).

Land value, which, stripped of its speculative element is the capitalisation of the economic rent of land, is the premium that has to be paid by labour and capital before production and development in any form can take place. And this is economically true even where producer and landowner are the same person. Rent of land is, in short, a surplus or residue derived from production after the rewards to labour and capital investment have been met at the prevailing rates even though the income it represents be capitalised and the rent receiving rights sold for a lump sum.

From this it follows that huge “windfall” gains realised at the point of planning consent, although sensationalised, differ in no real way from already established land values.

Fortuitously, the development charges and betterment levies of 1947 and 1967 failed to achieve their very limited objectives — indeed they produced *more* economic ills rather than solved existing ones; fortuitously, because if this tip of the iceberg of privately appropriated land values *had* been removed, the real land problem might have been obscured.

The speculative land values of past decades are now the established values of today and the speculative and “windfall” land values of today will soon be lost in the established land values of tomorrow, to become an increasing drain upon the community who, by their combined activities as workers, capitalists, rate-payers and tax-payers constantly maintain them.

BARBER'S NEW TAX

UNTIL the details of the development gains tax are published in the Government Bill it is not possible to trace the precise effect it will have on various interests.

The proposed measures will be retrospective to December 17, 1973 and the basic idea behind them is a change in the basis on which tax is levied on “substantial capital gains” derived from the disposal of land with development value. Tax will also be charged when buildings (other than houses or flats) are first let following development.

Companies, where taxable under the new proposals, will be taxed at corporation tax rate per cent, but will not be allowed to set payments of advance corporation tax (tax deducted from dividends) against the corporation tax payable on these gains. For individuals, where it applies, income tax rates will supersede capital gains rate and be applied at up to 75 per cent.

Small land disposals will be exempt as will be owner-occupiers' sale of their homes. There are various other qualifications, many designed to avoid minor transactions clogging the Inland Revenue machine.

The new feature of this latest attempt to trim the profits of developers who benefit from planning consents is, the taxation of “unrealised” capital gains — that is gains not realised by sale or disposal but by rents from letting. But only properties where the rent is over £2,500 a year will be included. However, only first lettings appear to be affected.

We predict complications, dissatisfaction, anomalies, confusion, tax avoidance and evasion and a continuance of the land problem in all its obnoxious manifestations.

Irrespective of the obvious justice of the matter, the shifting of taxation from labour and capital to land values would produce a greater “economic miracle” than that achieved by West Germany after the last war with her free trade/free enterprise policy. The taxation of land values combined with a real free trade policy and secession from the EEC could produce for Britain conditions of natural full employment which would obviate the need for Keynesian solutions of currency debasement via the printing press, euphemistically described as deficit financing.

It is this planned monetary inflation instigated to produce artificial growth and artificial full employment that has led this country through an interrelated progression of devaluations, import controls,



credit squeezes, abnormally high prices and interest rates, wage and price controls etc., culminating in strikes, go-slows, working-to-rule and three-day working weeks — all without the slightest success.

Mr. Barber's new taxes on development gains will be a placebo to some and an irritant to others while his other emergency budget measures will do nothing except scratch the surface of Britain's economic problems.

Full employment, and growth without inflation and all that flows from it is realisable if a return is made to fundamental economic principles combined with the recognition that land values are the proper first source of public revenues.

A FLASHBACK

A CORRESPONDENT in *U.S. News and World Report*, December 24, describes the inflation he witnessed in Germany in 1923.

"Harsh laws were being applied to retail trade that prevented the marking up of goods beyond a certain percentage above cost. Under this system, only those merchants who broke the law could survive.

"Blue collar workers got raises. But these lagged behind the rise in prices. White collar employees civil servants and professional people dropped even further behind. It reached the point where the pay of a university professor was down to that of a doorman."

By 1923 the runaway was at full gallop. "Printing of federal money was being farmed out, because the state presses couldn't keep up with the job."

Paper currency grew more plentiful with each passing day — and more worthless. He describes a payday

in a newspaper office in 1923:

"Large laundry baskets filled with paper money had to be carried into the editorial conference room where the editors would sort it out count it, and distribute the pay.

"As soon as somebody got his bundle, he'd rush out to buy whatever he could. Anything was more valuable than money.

"More and more people turned to speculation and black-marketing in cloth, precious metals, foreign bills and so on. The result was that the output of industry sagged.

"Because of price controls and rationing, goods were scarce in the cities. Foraging in the countryside became commonplace. The railroad stations were jammed with people going out to the peasants to bargain for food.

"A feeling of frustration seized many people," he says. "To get out of the country — even out of life — became a widespread desire. Hopelessness is the word."

German currency reached 4.2 billion marks to the U.S. dollar. Finally, it was brought down to earth with a thud — by stripping off the ciphers and re-valuing the mark at 4.2 to the dollar. If you had 4 billion marks that morning, you only had 4 by sunset.

EVOLUTION OF IDEAS

OWING to circumstances still unknown there appear from time to time great thinkers, who, devoting their lives to a single purpose, are able to anticipate the progress of mankind and to produce a religion or a philosophy by which important effects are eventually brought about. But if we look into history we shall clearly see that, although the origin of the new opinion may be thus due to a single man, the result which the new opinion produces will depend on the condition of the people among whom it is propagated. If either a religion or a philosophy is too much in advance of a nation it can do no present service but must bide its time until the minds of men are ripe for its reception. . . . Every science, every creed has had its martyrs. According to the ordinary course of affairs, a few generations pass away, and then there comes a period when these very truths are looked upon as commonplace facts, and a little later there comes another period in which they are declared to be necessary, and even the dullest intellect wonders how they could ever have been denied.

—HENRY T. BUCKLE, *History of Civilization*.