

LAND & LIBERTY

Editor V. H. BLUNDELL

SEPTEMBER & OCTOBER 1968 TWO SHILLINGS

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Invisible Principles

MANY textbooks and much literature on economics accept and describe the Ricardian theory of rent, but disregard its effect on the production and distribution of wealth. A recent publication, *The Invisible Hand**, a collection of essays on the economic philosophy of free enterprise, not only ignores it, but claims that "private property in the means of production, particularly in real estate for any kind of utilisation, promotes free enterprise as an essential element in the economy of a free society."

None of the authors of these essays makes any distinction between land and wealth as private property, and the variations in fertility and utility of land are ignored. No account is taken of a taxation system that penalises the production and distribution of wealth whilst leaving the owners of "real estate" to pocket a giant share of every advance in productive effort.

Karl Brandt, referring to the misuse of economic power by "owners of huge fortunes," maintains that "ways of keeping such exorbitant social inequities within bounds compatible with the requirements of maintaining a free enterprise economy must be sought within the government's fiscal policies." He advocates property taxes fitted into the market price structure provided that there are no class or caste privileges in assessment or collection, and he advises caution in their imposition to avoid weakening the incentive to production and investment.

Apparently Mr. Brandt is conscious of the evil of monopoly as a negation of free enterprise, but he cannot differentiate between the basic monopoly of real estate and legalised trade monopolies that have been fertilised by this original sin.

The need for a free market and an honest currency is indisputable, but this will never

**The Invisible Hand*. Essays in classical economics. Edited by Adrian Klaasen. Gateway Editions. Chicago: Henry Regnery Co. \$2.45.

and cannot ever be accomplished until the production and exchange of wealth (truly private property) is freed from fiscal levies.

Most of the authors support free trade, but Luther Hodges' "On the Danger of Economic Ignorance" seems to be sickening for protection. Concerned about the United States balance of trade deficit, Hodges states: "There are cases where American business is being hurt by imports and some sort of government assistance is clearly justified." This is the meat of the protectionist argument. Incidentally, the so-called balance of trade payments deficit seems to be a world-wide epidemic, all countries are in debt to each other. There are other examples where the writers of these essays fail to follow the logic of free enterprise and are driven into advocating state paternalism as the only solution to current problems, thereby negating their free enterprise thesis.

The case against existing economic measures such as price supports, restrictive quotas on production and marketing, manipulation of currencies (inflation), foreign exchange control and authoritarian economic planning is fully sustained, and it would be a step in the right direction if such measures were repealed. But, even in the early part of this century, when a relatively free market

economy existed, poverty and inequality of opportunity bedevilled society, as it does today.

Two of the authors, W. J. Baumol and L. V. Chandler, dealing with competition, say that "the competitive process determines the distribution of income among the owners of the various types of productive factors—it determines the wage or salary rates for the various types of labour, rental rates for the types of natural resources, interest on capital and profits of enterprise."

Competition is the life blood of human incentive and enterprise, but it must be equitable in operation. To mix the income from production and that obtained from the private ownership of the economic rent of natural resources shows a lack of objective reasoning. Competitors whose income is derived from the rent of land have an advantage over those whose income is determined solely by their productive ability. Not only can they withhold and control the use of natural resources, but in doing so they need not labour or invest capital.

Freedom of enterprise can only be realised when the community-created rent of natural resources is collected for community purposes and when labour and capital is relieved of taxation. S.M.

NEWS AND COMMENT



USSR

Socialism Works Badly—Free Enterprise, Too Well?

Raymond M. Anderson in *The New York Times*, June 25

STRICTER CONTROLS over the size of private garden plots of workers on Soviet collective and state farms were foreshadowed today with the approval by standing commissions of the Supreme Soviet of a comprehensive draft law on land use.

The new land law will also include a revival of land registries, abolished after the Bolshevik Revolution, as unnecessary in a planned socialist society. A key function of the registries will be to put a valuation on land to curb waste and abuse.

Two years ago, Leonid I. Brezhnev, the Communist party leader, complained that large areas of valuable farmland were being surrendered for housing and industrial sites or ruined by the bulldozers of crews laying pipelines or erecting power-line pylons.

All land in the Soviet Union is owned by the state. Plots for new factories or other purposes can be arbitrarily allocated by local authorities without consideration of long-range economic losses. Many complaints have been published in the last few years of the use of rich farmland for housing or industry while nearby uncultivated land was overlooked. *Izvestia*, the government newspaper, reported that the new land law would intro-

duce "strict order" in the allocation of land for private use by the workers of collective and state farms.

Reports have circulated in Moscow for several months that the Soviet leadership had become concerned by violations of limitations on the size of private plots, which are used by peasants for their household needs and for growing vegetables and fruits for sale in city markets. The most serious violations are reported to be in the Caucasus and Central Asia, where many peasant families make a thriving business of growing vegetables and fruits for sale in northern cities such as Moscow.

The existence of the private plots has always annoyed Soviet authorities because they distract the peasants from their less rewarding duties in the collective and state farms. The plots average half an acre to an acre in size, depending on the land's productivity. The peasant families also are permitted to own a cow, chickens and a few pigs and sheep. Although the private plots make up only three per cent of the country's total cultivated area, they contribute more than half the output of eggs and potatoes and nearly half the meat and vegetables.

When Nikita S. Khrushchev was premier, severe restrictions were imposed on private plots and livestock. The result was an alarming decline of food in the city markets. After the ousting of Mr. Khrushchev in 1964, one of the first acts of the new leadership was to relax the restrictions. The relaxation apparently has gone further than intended in some areas.