

LAND & LIBERTY

JULY & AUGUST, 1977



Supply and Demand in the Land Market

MODERN man's need of land is not so obvious as that of primitive man's—or even of the present-day peasants—but it is just as real.

In spite of the enormous advance in productive power or more accurately because of it, the ordinary man today has to work for about a year-and-a-half just to buy a plot of land on which he can

build a place to live and be within travelling distance of his employment.

At least this was the experience of an Essex man recently who had to queue day and night for the privilege of buying a plot for £6,750 which he described as like "gold dust". He was overjoyed and thankful for the opportunity given to him.

And the young man in Britain today who would like to be a farmer has about as much opportunity to acquire land as the landless peasant in a non-industrial society.

When land prices, urban and agricultural, collapsed after the land boom of 1972, they did not fall low enough for ordinary people to move in and buy. Indeed, though many speculators burnt

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their fingers and were obliged to put their land on to the market or surrender it to their mortgagees, many more who were not in need of money held on in the hope, or knowledge, that land prices would recover. They always do. Land prices, it is often argued, do not always go up so that unearned losses counter unearned gains. But the march of land prices, ignoring monetary inflation, takes two steps forward for every one step backward and in the long term, shows a relentless increase. This increase must always be at the expense of the earnings of labour and capital for land is passive and the rent or price of land is in essence permission to produce or to otherwise occupy.

★ ★ ★

All the signs now are that land prices are beginning to recover, not uniformly of course, but where they reflect the greatest present demand for land. House prices are rising by between two and 15 per cent a year according to a recent report by the Incorporated Society of Valuers and Auctioneers. This is not much when the depreciation of money is allowed for but it is only the beginning and although in the present state of the economy even this modest recovery could falter (who can safely predict anything in our twisted, tied-up and distorted economy), in the long run the upward trend is always preserved.

★ ★ ★

In a study by John Clayton and Allen Maunder, published by the *Estates Gazette*, June 4, the advance in agricultural land prices over the last twenty-five years is given. After allowing for the fall in the value of money, calculated by reference to the price index of consumer goods and services, the 1976 figure for vacant possession farmland is double that of 1950. The extent of monetary inflation during this period is indicated by the increase in land prices expressed in actual money terms. This showed that prices increased nine times.

Over the twenty-five years given, there were of course booms and slumps when land prices both fell back and rapidly advanced. Say the authors:

"In broad terms the market since 1950 can be separated into three

distinct phases. The decade 1950-59 saw prices advancing only slowly, with values varying between an average of £73 and £101 per acre: during this period movement above and below the trend line was relatively restricted. The second phase, 1960-69, was one of strongly increasing prices, which rose from £123 per acre to £299. Since then the third phase has seen the dramatic boom and slump of the early 1970s and the present strong recovery."

During 1971 and 1972, the period of intense land speculation, prices more than doubled for agricultural land (from £262 to £596). Farm incomes during this period increased by about 30 per cent, which indicates the speculative element in the land price. The 1976 price is £734 per acre.

The general pattern of increase over the last quarter century, say the authors, is due to the interaction of a number of factors, the most important of which are: 1. *Decreasing amount of available land.* 2. *The small size of the market* (between 1.5 and 2.0 per cent of the total acreage of England and Wales). 3. *Increase in net farm income.* 4. *Gearing effect.* (Increased competition for land when profits from the sale of some land is re-invested in other land; or when high-value land is used as security for loans to buy more land. 5. *Inflation* (still the best hedge). 6. *Intangible benefits* (the abstract social attractions of farm ownership). 7. *Speculation.*

The most fundamental of the above factors is increases in net farm income, for as Ricardo truly states, corn is not dear because land is dear, but land is dear because corn is dear.

Of increases in net farm income, the authors observe:

"Despite the pleas of poverty so earnestly advanced by the agricultural lobby, the evidence points to a steady increase in net farm income in both nominal and real terms. The years 1950-76 saw a sevenfold rise in income in actual prices and a doubling in constant prices which allow for inflation. The bulk of farmland is still bought by farmers, as it has been traditionally, and one of the factors allowing them to finance purchase has been better income."

And of the prospect for would-

be farmers they say:

"The fiscal and other legislative changes of the last few years appear to mean the end of the traditional private let estate. When a tenanted farm becomes available a landlord is now far more likely to sell it or take it in hand than he is to re-let. The consequent dearth of holdings in this sector means that the few available opportunities attract a thundering herd of would-be tenants and a level of tendered rents geared rather to desperation than to agricultural economics and immediate profitability."

And finally:

"To the domestic influence is now added that of the overseas purchasers—mainly Europeans—who are attracted by the considerable margin between British and Continental prices. The competition for available land is therefore far sharper and is certainly not confined to a comparatively local farming interest."

* * *

Mr. John Silkin, Minister of Agriculture, announced recently that he was "worried as hell" by the amount of land that is being bought for investment. He thought that "too much" was being bought as a hedge against inflation and that foreigners by competing for land, were preventing new entrants from getting a foot on the farming ladder.

But the Labour Party legislators have never understood the land problem and as a consequence have always dealt with symptoms never causes. John Silkin now wants to set up an enquiry into institutional and foreign buying.

And if this useless enquiry ever gives rise to legislation, it is certain to be as futile as all the other Labour "land reforms" of the last thirty years.

One measure and one measure only can secure agricultural and urban land availability together with low land price, and that is to tax away the selling value by an annual charge upon economic rent, at the same time untaxing labour and capital.

A 100 per cent tax would reduce the selling value to nil so that land would be available without payment of a premium. This would truly mean "land to the tiller" or to the user only, for

no one but the user could possibly have any interest in land.

LAND AND EMPLOYMENT

THE present unemployment no longer responds to Keynes' remedy of "a little inflation" or even a lot. The patient has developed a tolerance for the drug and now fails to respond after repeated and ever-increasing doses. This has stumped the experts. They have forgotten that unemployment came first and that inflation, notwithstanding the side effects, was introduced as the cure. Not only has unemployment not responded, it has grown worse. Now, the complaint and the cure seem to rank equally as complaints and instead of one, there are two!

From looking at the events historically, the correct action is apparent. Stop inflation, then tackle unemployment. This of course means retreat, which is seemingly impossible for politicians. So much emphasis has been placed on forward movement, that retreat is politically unacceptable. That is to say it is not likely to win votes.

Because we are stuck with the complaint and now the cure, we are in for continued deficit budgeting. The only group which can continually operate on deficits is that one controlling the issue of money. If any other person (or group) spends more than his income then he will very soon become bankrupt. He will no longer be creditworthy; he will be trusted only to the extent of his pocket on a cash basis.

More government spending is merely a prop for an ailing economy, and will only delay recovery. It is not the solution.

Land titles are traded like goods and it is the price of land titles which is the major barrier to employment. Government spending is not going to undo the harm caused by an unjust system of land tenure.

Cancel the privilege of land title holders by obliging them to pay the full annual ground rent into public revenue, and unemployment will disappear thus eradicating the need for its "remedy", the continued increase of government expenditure.

—From *Good Government*, Redfern, Australia.