

DEALING with the aftermath of the Falklands dispute will be a more delicate task than the capture of Port Stanley. The future of the islands in the South Atlantic is now a focal point of global concern.

Latin American countries have used the military response to the Argentinian invasion to impugn Britain's motives as "colonial".

Third World countries have presented the conflict in terms of the North-South dichotomy, and have largely sided with the fascist junta.

And Moscow made mischief in an attempt to split the Western alliance and restore her own credibility following the Afghanistan invasion.

Enormous pressures will now descend on Prime Minister Margaret Thatcher, who has been weakened by the loss of one of her most experienced Cabinet advisors, Lord Carrington, who resigned as Foreign Minister because of the failure to anticipate the outbreak of hostilities.

THERE IS one solution to this complex geo-political issue which would meet all the criticisms.

Britain should create a Heritage Fund, into which would be poured the value of all natural resources in and around the Falklands.

Anyone who wishes to use the soil, harvest the sea, pump the oil from beneath the ocean floor, should pay the economic rent into the Heritage Fund.

Lord Shackleton, the chairman of the survey team that reported on the resources and development potential of the islands, has reconvened his team at Mrs. Thatcher's request.

Britain will spend millions in official aid to revive the economy. A new airport with a longer runway will be built, to remove the dependence on air communications via Buenos Aires.

Even more money – again, running into millions – has been donated to the islanders from sympathisers from as far afield as the Cayman Islands (£500,000) to Jersey in the Channel Islands (£5m).

As this money flows into the Falklands, so land values will rise: why should the existing monopolists reap the benefits? The blood of British soldiers opens up the whole question of who has the legitimate title to the land – or more specifically, the economic value of the land, which is socially created.

LAND ownership is at the heart of the dispute.

Britain's historical title was acquired by force rather than the set of principles invoked by Mrs. Thatcher to regain lost territory.

Argentina, while offering to withdraw her troops during the search for



● Headlines for yet another tragedy in the South Atlantic, as the stricken destroyer HMS Sheffield struggles, smoke pouring from her after she had been hit by an Exocet missile. She sank, with the loss of 20 lives.

The Case For A Heritage Fund

a peaceful solution, nonetheless insisted that her citizens should retain the right to live and own land on the islands.

During the years of diplomatic wrangling, Argentina monitored data on land distribution. Foreign Minister Dr. Nicanor Costa Mendez recently pointed out that 46 per cent of the land is owned by the Falkland Islands Co. The rest of the land was owned by only 20 resident families, and 23 absentee owners.

The sparsely-populated islands have enormous demographic significance for the Argentinians. The maldistribution of land on the mainland has resulted in a concentration of 27m people in and around Buenos Aires province.

The Falkland crisis

Reports have tended to play down the value of land on the Falklands, portraying it as little better than of marginal use for sheep. Ten years ago, the 1.3m acres owned by the Falkland Islands Co. were in its books as worth 18p per acre.

In fact, this grossly misrepresents the potential economic rent to be earned from the islands.

First, Argentina's territorial claims have created political uncertainties that have had a blighting effect on the economy: profits have been withdrawn instead of reinvested, and people have migrated.

Secondly, the declared values have

been beneath the level that would have been realised in a free market. There has been no competition for land for a long time. Indeed, in 1896 *The Daily Telegraph* described the Falklands as "a strangled colony, fast in the grip of the land monopolist."

Thirdly, the more intensive use of resources was deliberately blocked by the island government's ban on the sale of land to Argentinian migrants.

LORD Shackleton has confirmed that the economy could be transformed into a viable one, initially based on the export of wool and mutton.

A new garrison, a long runway, the prospects for oil, all guarantee that land will rise in value.

This is the money that should be taxed into the Heritage Fund, and spent on improving the infrastructure of the islands, the roads on which are non-existent.

Private capital needs to be attracted, to minimise the burden on the British taxpayer. The incentive would be a zero rate of tax on investment returns. Labour needs to be attracted back: the incentive would be a zero rate of income tax.

All the administrative costs could be met out of the Heritage Fund.

The political benefits stemming from the creation of the Heritage Fund would be considerable.

Britain – and British landowners – would not be seen to be the exclusive beneficiaries from the long-term stability arising from a final agreement; so Third World critics would be silenced.

Unemployed Argentinians would

be welcomed to what would be a growing labour-short economy (the population is below 2,000 in a country the size of Wales).

Argentine citizens would be free to obtain secure possession of land, provided they paid the economic rent into the Heritage Fund. The wider distribution of land was recommended by Shackleton, and this would certainly be achieved by the tax on economic rent (payable whether existing owners put their land to use or not).

The economy would boom. This would silence Moscow, for prosperity would be seen to grow out of a free flow of labour and capital within the context of a capitalist economy, *to everyone's benefit*. There would be no comparable communist experiment to match the model of successful development in the South Atlantic.

Mrs. Thatcher, in one swift stroke, would be defending principles and silencing her ideological enemies.

THE RICHES beneath the seabed will not be fully tapped for between 15 and 50 years.

But as the petroleum and the minerals are exported, income flowing into the Heritage Fund would far exceed the infrastructural and administrative needs of the Falklands. The surplus funds could be used to finance the scientific exploration in the Antarctic.

The wealth beneath the ice flows is immeasurable, and should be dedicated to the spiritual and material wellbeing of future generations from all countries.

This vision is well within the realms of practical politics. After all, who would lose? Britain was on the verge of negotiating away sovereignty over the islands before the junta invaded. The Falkland Islands Co. and the other landowners have recovered their initial investments in land purchases (the FIC having obtained a large slice of its holdings for nothing in the first instance).

The Argentinians, humiliated in military defeat, would find solace in participating in a cause so obviously in the general (rather than British) interest.

And the rest of the world – through the United Nations, which would give its blessings to the venture – would glean satisfaction from a humanitarian solution.

The Falklands have given Mrs. Thatcher the opportunity to prove the Russians correct: militarily, she is an Iron Lady. Her political decisions now will determine whether she is also a statesman.

P. E. POOLE

Would a tax on derelict land hinder builders?

CHARLES Haughey's Fianna Fail Government in Dublin wants to curb land speculation.

The last budget contained measures which are supposedly designed to deter big profits from land dealings. These include:—

- A 50 per cent tax on gains on development land;
- An Office Development Levy, as yet unquantified; and
- A tax on derelict city sites.

These measures have come under heavy criticism from the Dublin office of the Royal Institution of Chartered Surveyors. According to Mr. Ian French, the new chairman of the Institution, the proposals have combined to create an adverse climate for property investment which will reduce development activity.



● **CHARLES HAUGHEY**

"At a time when Government is seeking to increase production in the building industry and improve employment, all these measures will have the reverse effect," he declared.

The Institution's criticisms, however, rely less on rational argument and more on scare tactics, such as this statement by Mr. French:

"If interpreted rigidly, the definition of 'development land' in the Capital Gains Tax Amendment Act 1974 could be made to apply to many private houses and business premises with potential for extension."

Take, for example, the proposal to impose a tax on land classified as "derelict." According to the

Institution, this "could well have the opposite effect to that intended, and slow down or even halt comprehensive redevelopment of inner city areas."

It is true that large-scale development can be preceded by assembly of sites over a long period (the ILAC Centre site in Dublin took 15 years to bring to development stage). And a tax on derelict land, says the Institution, "may force developers to develop smaller sites on a piecemeal basis or to move to out-of-town locations. Both results will be to the detriment of inner city renewal."

THERE ARE a number of assumptions and errors here. First, there is no special virtue in large-scale developments; indeed, small-scale developments may be preferable, in that they allow greater responsiveness to changing needs.

In countries where vacant sites are not taxed (for example, Britain), there is no evidence that this encourages a better use of capital resources – when measured against consumer preferences – than in countries where vacant sites (derelict or otherwise) are subject to an annual property tax (e.g., the USA).

Far from impeding development, in fact, a tax on the annual market value of derelict land would speed up the process. Owners would be deterred from clinging to their vacant sites, and would be induced to release their titles to developers.

Such a tax would bring down land prices, by eliminating speculative hope values, and so encourage development. But where a developer was obliged to buy and to wait before construction could begin, he would discount the tax payments before agreeing to the purchase price for the land. That is, the tax is passed to the present owner of the derelict site (whose earlier unwillingness to put the land to good use surely exempts him from special fiscal consideration?).

A tax on derelict land, then, need not deter site assembly – and it is a positive encouragement to development. It is difficult to know why the Institution representing chartered surveyors feels obliged to confuse this issue with spurious arguments that cannot lead to the formulation of a sound policy for land taxation.

● The proposal to tax derelict sites was dropped from the Finance Bill on June 3. Also abandoned: the 30 per cent "withholding tax" on development land, and the 2 per cent levy on office developments. The derelict site tax is now considered more suitable as a property tax administered by local government, and it will be re-examined by Dept. of Environment officials in Dublin.

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POLITICS & THE LAND TAX: IRELAND