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CORRUPTION OF FREE TRADE

On September 28, Mr. Wilson, President of the Board of Trade, opened the world conference on tariffs at Torquay. Delegates from 39 countries were present. The purpose of the conference is to extend the list of tariff reductions agreed to at the two previous conferences (Annecy, 1949, and Geneva, 1947). The decisions arrived at will remain in force until 1954.

In his opening speech, Mr. Wilson dispelled once and for all any illusion that this country was turning, however slightly, towards free trade. Indeed, he unequivocally announced to a press conference that Britain would "sell very dearly" any reductions in Imperial Preference tariffs. The price for lowering or removing a tariff would be changes in other countries' tariffs of "at least equal value."

Protection has now reached the stage where its absurdity is inescapable. The fantastic picture of representatives from all parts of the world meeting for six months to bargain one with another over thousands of tariff items is presented in all its crudeness. The false language used by the participants in what has been aptly referred to as "horse-trading" is in itself an indictment of the governments of the world. Such language as "concessions," "compensation," "barter," "preference," etc., are words that conceal the true nature of what is going on. Thus protection is more deeply entrenched now than it has even been before.

Let us examine the ethics of the question. Under free trade consumers will seek through their agents, the importers, goods which they can obtain cheaper from abroad than from at home. Free trade, therefore, means cheaper goods which is to the advantage of the whole community. But under protection, people are prevented from buying in the cheapest market by tariffs designed to protect the home producer from competition. Protection is in the interests of the few who gain at the expense of the many. These are the simple facts. It is not surprising that those who stand to benefit from protection should conceal their motives behind a mask of words, the meaning of which they distort to suit their own purposes. They preach false economics in order that protection shall appear as a benefit to the community and free trade an undesirable thing.

Chief of the false economic notions of the protectionists is that free trade would cause unemployment. Let us see. Trade being simply an exchange of goods for goods, nothing can come into a country without something going out—be it goods or services. What a country imports is, of course, produced outside that country, but the more

it imports the more employment is called for to produce the goods that must go out in exchange. Free trade neither creates nor reduces employment; it simply changes its direction and increases the general stock of wealth by the division of labour. While vested interests can gain through the imposition of tariffs there will always be a cry from them for protection, their case being made more plausible and more virtuous-sounding by their hypocritical concern for the unemployment they allege free trade will cause. The fallacies of protection fortified by the increase in number of private interests spread their way into textbooks on political economy, there to give rise to even further fallacies regarding the cause and cure of unemployment. Thus there has been built up a network of economic fallacies, founded not so much upon ignorance of fundamental economic laws as upon the special pleading of private groups.

Occasionally the ideas of protection appear to be giving way to those of free trade and it is here that the free trader should be on his guard. Schemes dressed up in free trade clothing will often deceive the unwary so that a shifting of ground is mistaken for a giving of ground. Mr. Hoffman, the retiring Marshall Aid Administrator, speaking to a correspondent of the *Daily Telegraph* while in Paris on October 8, expressed the view that only the removal of tariffs and exchange controls between the countries of Europe could solve the problem of Britain's recovery. He went on to describe how costs have been reduced in the United States by large scale production and distribution, made possible because of the conditions of free trading which exist within that country. The establishment of a United States of Europe, he said, was the way to free trade in Europe. This statement, while putting the cart before the horse, *does* admit the cardinal point of free trade, namely, that it results in a greater production of wealth. Yet if as a result of establishing a free trade area within Europe a still higher barrier of tariffs is erected between it and the outside world, it cannot be said that an increase of wealth will necessarily follow. This, unfortunately, is what appears to have been overlooked. Only pseudo free traders will welcome the proposal to establish a free trade area within Europe, based on the demolition of tariff barriers on the one hand and the erection of them on the other.

When a country is preparing to put its tariffs to auction one can well imagine the wires being pulled behind the scenes by protected industries in order that *they* shall not be sacrificed on the altar of "free trade." The bargaining between countries under these circumstances will be a very mild affair compared with the wire pulling and log-rolling on the domestic scene when protective tariffs are being framed.

Trade is essentially an exchange of goods between individuals; it is the corollary of the division of labour. Whether the trading area is very small or incorporates the whole world, its basic nature is the same. A man is able to smoke tobacco or drink coffee which has been produced thousands of miles away because he has indirectly exchanged the product of his labour with other producers. Likewise he is able to eat potatoes produced in a field only a few miles away from his home by the same process of exchange, and if anything stands in the way of two men who wish to exchange the fruits of their labour then there is not free trade.

He who pleads for free international trade while ignoring the restrictions on trade within his own country is guilty of inconsistency, for the principles are the same.

He must urge not only the abolition of the customs houses at our ports but also the abolition of the invisible customs houses within the country where, with less ceremony but with equal disregard for the rights of individuals, the Inland Revenue authorities frustrate and discourage exchange by unjust and wasteful systems of taxation. Such taxation, together with the quotas, licences, and other restrictive regulations must be swept away and replaced by a system of taxation, the effects of which will be to encourage production and exchange instead of discouraging it. Many of the schemes which involve restrictive legislation and bad taxation are intended to redistribute

wealth so as to relieve want. But such schemes are arbitrary in their application and unjust in their effect and go nowhere towards removing the cause.

Tariff Preferences, Empire Free Trade, European Free Trade and world-wide bargaining of tariffs are a refurbish of protectionism and should be repudiated by any one who speaks in the name of free trade. Only by recognition of the moral issues involved in the production, exchange and distribution of wealth can the fallacies that have so great a hold on the world to-day be unravelled and the way made clear for just action.

V. H. B.

DANISH LAND-VALUE LEGISLATION

The Parliamentary Commission which was appointed at the instance of the Justice Party immediately after the General Election in 1947 is still in session. It had the duty of examining the steps that would be necessary for effecting the outright adoption of land-value taxation to the fullest extent—that is to say the collection for the benefit of the community of the land rent which is not collected nor collectible by the present measures of land-value taxation. The scope of its enquiry was very wide because it included consideration of valuation methods, problems underlying the mortgaging system, how the distribution and use of land would be effected and the remission of taxes on industry. The duties of the Commission have devolved on several sub-committees, but when the report will be forthcoming is not yet known. The Justice Party, confirmed in doubled strength as the result of the General Election that has just been held, are pressing for the Commission to expedite and complete its work. In the meantime all that the Government has done is to pass an Act in June last amending the "increment" tax, viz., the special and extra tax which is levied on *increases* in land-value which was instituted by the Act of 1933. We recur to this in a later paragraph.

The Danish land-values legislation embodies a uniform national land-value tax levied annually on the value of all land throughout the country, and the local taxation of land-values, also based on the *whole* capital value of land apart from improvements, levied annually by the towns, counties and parishes for their local purposes. That legislation was enacted by the Act of 1922, for the national tax, and the Act of 1926, for the local rating. The land-value is ascertained and assessed at periodic valuations of the whole country, these having taken place in 1916, 1920, 1924, 1927, 1932, 1936 and 1945. The 1950 general valuation is now proceeding and thereafter periodic valuation will take place every fifth year.

The national land-value tax is at present at the rate of 6 crowns for every 1,000 crowns of the land-value of each property. The "poundage" of the local rates on land-values varies from place to place. In Frederiksberg it is 8.4 per 1,000; in Copenhagen it is 7.5 per 1,000; the average for all the towns is 6.6 per 1,000. In the towns the land-value rate provides only a small fraction of the municipal tax revenues, the rest coming mainly from local income tax. But in the counties and parishes, that is to say in the *rural* districts of the country, a much larger proportion of local revenues is derived from land-value rating. These rates also vary widely from district to district and the average over the whole country, taking parish and county rates together, is 38 crowns per 1,000 (3.8 per cent.) of the capital value of the land apart from

improvements. (The official statistics are most comprehensive as well as illuminating and are given in the annual publication of the Statistical Department, *Property and Personal Taxation*, of which the volume for 1949/50 is now available.)

INCREMENT TAXATION—ITS DRAWBACKS

For the levy of the separate *increment* tax, which is super-imposed on the foregoing taxation, a datum line is chosen and if the land is found to have increased in value at subsequent valuations, the amount of the increase—the difference between the capital value at the "datum line" valuation and the capital value at each subsequent valuation—is assessed to an annual tax which thereupon becomes a "rent charge" on the land.

The 1933 Act which instituted this tax established the 1932 valuation as the "datum line" for future increments and the rate of tax upon them was fixed at 2 per cent., but such subtractions from the actual increment are made that the tax finally affects only large increases in value.

The annual revenue from this specific increment tax in 1949/50 was not more than 8,000,000 crowns whereas the revenue from the straightforward national and local taxation on land values (as described in the first part of this article) was 205,000,000 crowns.

The amendment in the increment tax law, made by the Act of 1950, altered the rate of the tax from 2 to 3 per cent.; it made the 1950 valuation the "datum line" for all subsequent increases in value; and by various further allowances, before the actual *taxable* value is struck, it concentrated the incidence of the tax still more on the larger increases in land value.

This attempt to "capture increments," which is not at all the taxation of land values properly understood, is a most complicated structure full of concessions of all sorts which make more or less nonsense of the actual intention. There is no really defensible principle behind it—that special taxation should be levied on special lands just because the rent they now command (assessed at a selling price) is greater than the rent they commanded in some given previous year. To illustrate an apparent anomaly and injustice: There are two pieces of land, yours and mine. Yours in (say) 1932 could command an annual land-rent of £50 and would be assessed at a capital value of £1,000. My land in 1932 commanded a rent of £100 and its capital assessment was £2,000. In 1950 your land commands a rent of £100 and its capital assessment (always reckoning at a 5 per cent. rate of interest) is now £2,000. But my land in its different situation has not risen in value. In 1950, its rental value is still £100 and its capital value still £2,000. But what