'Numerous merits'–but too sensible for the real world?

FINANCIAL TIMES columnist Anthony Harris declared (March 22, 1979) that "A land tax has always seemed to me an appealing idea in principle."

But despite its long tradition —extending back to Ricardo, a Royal Commission (1895) and the clash between Lloyd George and the House of Lords—only the Danish farmers succeeded in securing a land tax, "and they have farmed happily ever after."

Harris continued, in the Lombard column:

'The theory is wonderfully simple: in a truly competitive world, which in most parts of the world is still a reasonable description of farming, it is a tax which cannot be passed on. Land rents, taking one decade with another, are what the market will bear. The tax simply attacks the rent itself, which Ricardo identified as the purest form of surplus; in more modern terms one might see it through the eyes of the late Fred Hirsch, and describe it as a tax on positional goods. What it does mainly is to reduce the capital value of land —which is why the Danish small farmers actually had the insight to demand such a tax.

In the mad non-Danish world, one of the main effects of the EEC and its farm policy has been on the price of land. It has been seen at its most dramatic in Ireland, which has been transformed in a few years from a land of poor peasants getting a subsistence out of their damp, green land into a country of immensely rich peasants.

Now what the EEC has created, the EEC surely has some poetic right to take away; and I can imagine no more appropriate way of tapping the ridiculous values created by ridiculous policies than by taxing them. The beauty of it is that wherever the policies are most ridiculous, the values will be greatest, so that the main cost of the farm policy would be borne by those getting the biggest unconvenanted benefit.

In a European context there would, it is true, be difficulties. Since a range of farm prices is administered, there could be a feedback through the farm lobby to ensure that the cost of such a tax was passed on in consumer prices, so the decision would have to be taken with a clear theoretical eye. There would be large initial problems of valuation, because current land prices do not simply represent fertility and prospective farming revenue, but the tax-exempt status of farmland in many countries.

So much for a tax on farmland; but why stop there? The arguments for taxing land values in general are just as strong, as is well understood in such far from progressive countries as Australia and South Africa. It is a tax which falls on those best able to pay —indeed, they declare their own taxable capacity in every land deal; it is the perfect tax to balance regional problems. As a British Chancellor might well add, quietly, it has another great merit as a tax base: you can't take it with you. A land tax produces no tax exiles.

Indeed, the merits of land taxation—or site value taxation, as one variant is known —are so numerous and large that I would write about it at far greater length were I not haunted by one obstinate fact. The general principle has long been supported by our own Liberal Party. It is obviously far too sensible to stand a chance in the real world.'

Another *Financial Times* report (August 11, 1978) points out some of the problems. Over 11,000 tractors were imported in the past year—"But tractors have tended to go to the big landlords, who have evicted tenant farmers in order to amalgamate small plots. The new larger units of land can be more easily ploughed by tractor. This has inevitably increased the numbers of landless labourers in the countryside and created considerable hardship.

"Land reforms would do a lot to alleviate Pakistan's agricultural problems. Indeed both Ayub Khan in the early 1960s and Mr. Bhutto up to 1977 aimed to reduce the gap between the rural rich and poor by limiting landholdings. Officially, no farmer is allowed to own more than 100 acres, but enough loopholes have been left in the law to allow most big landlords to slip through. Many argue that Mr. Bhutto fell from power because the landlords who made up his powerbase in the populous Punjab feared he planned to introduce more rigorous land reforms."

If both these countries would introduce the right reforms they would see crops being produced in abundance, and only at the expense of a few land speculators who might be left wailing on the street corners.

IN BRITAIN, LVT would stimulate better use of land, since land which was badly cultivated would pay at the same rate as a neighbouring farm that was fully productive. This would encourage the farmer to invest more in his land, and his bank manager to provide it, since no extra LVT is incurred by increasing profits and output. Farmers would find that the reduction of their other taxes by consequence of the introduction of LVT would, in most cases, be more than their new tax. This would be because farmland would bear a lower tax per acre compared with industrial and commercial sites.

LVT would be re-assessed annually, and as the Whitstable Report of 1963 and the follow-up Research Report of the 1973 revaluation by the Land Institute[4] shows, the exercise is relatively simple. The Report claims that an area the size of East Kent, containing 500,000 people, could be dealt with annually by a team of eleven. Confirmation that this is not an unreasonable estimate can be found when we examine an actual case where LVT is used. According to

Ted Gwartney, in Southfields, Michigan, the annual reappraisal is done in three hours, once a year, on a computer, from data collected during the year. The computer not only re-values and prints the assessment roll, but prints letters informing each person in the city (pop: 65,000) of their new valuations.[5]

As the Valuation Office of the UK's Inland Revenue was set up in 1910 by the Liberal Party specifically to deal with land value taxation, it should be no hardship for it to revert to its original role.

One of the objections against LVT is that it would push up the price of food. The answer is "No!" LVT would come out of the rent which is already paid by the tenant farmer to the landowner (or allowed for in existing prices by the owner-occupier). LVT would push down the price of land, but would not affect the price of food. When agricultural land was de-rated in 1929 it was land values that went up rather than food prices that came down!

Another question concerns the great country houses and their estates. Would they not be bankrupted? No. Parkland open to the public would have a nil value assessment if the example set by the Liberal Party's 1909 budget was followed. The assessment on a site containing a large, historic house with a preservation order on it, and no possibility of any money-making development taking place, would probably be less than under the existing system.

The land question has always been an emotive issue, but the advocates of LVT are not seeking to change anything in the basic structure of our present system. Those who work on the land should reap the full rewards of their efforts. The community that provides the services and a market for the results of those efforts, and in so doing creates a measurable annual rental value for the sites on which they come to fruition, should in all natural justice receive its reward—and that is what we call land-value taxation.

References:

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3. *Farm Size, Tenure and Efficiency*, by D. K. Britton and Berkeley Hill (Agricultural Economic Unit, Wye College).
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RICHARD CROTTY, ex-Irish farmer now at Sussex University, was asked to write a brief on land value taxation for the Transport & General Workers' Union: the biggest in Ireland. In this extract he elaborates on the process of periferalisation, & explains what he calls The Paradox of Property

THE PARADOX of property is that the more valuable it becomes, the less efficient it is operated.

Land values that are low relative to wages and other incomes afford land-possessors little protection against competitive forces; and because of the availability of alternative opportunities, they have little incentive to retain land they cannot work efficiently. Efficient landless persons, on the other hand, with relatively high incomes can afford to acquire land at its relatively low price. Land values in less developed countries, or LDCs, that are high relative to low average incomes, protect and insulate owners against competitive forces. The landed also have a strong incentive to retain land because of the desolateness that normally characterises the condition of the landless. The low-income landless, however efficient, cannot buy high-priced land; any of it coming on the market is bought by wealthy, creditworthy persons, who are therefore probably old landowners, and incapable of using additional land efficiently.

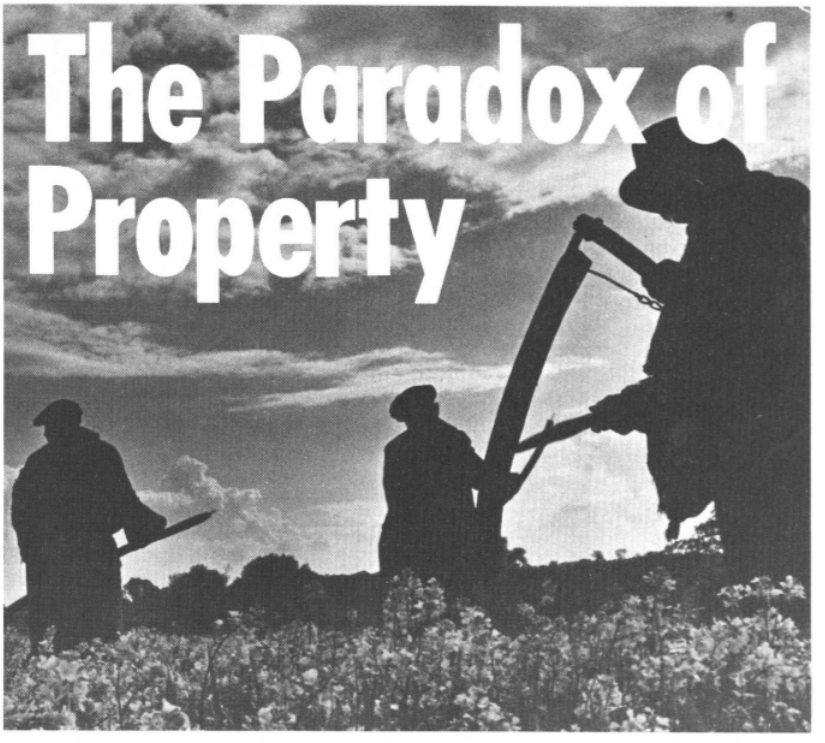
The pattern of land allocation benefits the periphery's powerful landowners. The power of this class is frequently consolidated by "land-reform" that extends the ownership of land, while leaving most of it still in the possession of a small proportion of the population. The periphery's landless, jobless, resourceless, powerless masses, who are the principal casualties, cannot influence matters. Other centres of power either share the spoils of land-ownership – as do some, though not all, of the urban bourgeoisie – and others, including trade unionists, are out of touch with the situation and accept it.

The intellectual dominance of the centre is also conducive to the inefficient allocation and use of land in the periphery. Social scientists are overwhelmingly urban born, based and biased; they hail, and derive their ideas, from developed central societies where efficient land-use is not an issue. Their concern, when they intervene, is with the equitable rather than efficient use of land, a priority that is appropriate to DCs but not to LDCs.

THE PROCESS of peripheralisation that causes development to concentrate in major centres, while depleting outlying and less developed regions, also, by the paradox of property, creates conditions at the periphery in which land is inefficiently used, so cancelling any chance the periphery, though well endowed with land, might have of offsetting the centre's advantages of scale and capital accumulation. Continuous retrogression of the undeveloped periphery in relation to, and its increasing dependence on, the developed centre are the result. Peripheral retrogression and dependence are characterised by a chronic lack of job opportunities, the growth of armies of landless, jobless persons, political extremism of the left or right, and widespread intervention by the centre in the form of gifts, loans and ultimately military force.

The Irish case. Ireland is the classic case of a peripheral, dependant economy. It was completely colonised in the sixteenth century in the first wave of capitalist colonial expansion. Retaining a residue of its indigenous culture, it has, over a longer period, been more closely integrated politically, economically and culturally than any other country, into the dominant capitalist system. Its dependent peripheral role has been clearly established over the past 150 years of factory capitalism during which its workforce, that was once three millions and half of England's, has declined to one million and one-twentieth of England's.

Irish peripheral dependence on the centre is manifested by the increasing, critical importance of exports of dairy produce of little or no commercial value, but the high value of which stems solely from a political decision of the



THE Country Landowners' Association pitched into Britain's general election with an astonishing claim.

Arguing against the Labour Party's threat to introduce a wealth tax, the association claimed that farmers would suffer: " . . . it is inconceivable they could find cash to pay wealth tax on non-income yielding chattels, houses, and land."

The claim that land does not yield income came as a surprise to socialist economists advising the Labour Government.

But Labour's Chancellor of the Exchequer, Denis Healey, was already on record as stating that farmers, because land as a capital asset made them vulnerable to a wealth tax, would benefit from special relief. Despite this assurance, however, the landowners were even *more* relieved when the Tories won with a landslide on May 3!

centre that is liable to alteration without notice or redress. Dependence is also manifested by Irish borrowing from the centre that, relative to GNP, is higher than the foreign borrowing of any other country.

Land values accurately chart the evolution of Ireland's peripheral, dependent role. The Cromwellian conquest of Ireland in the 1650s was financed by land bonds sold in the London money market at a price equivalent to one-old-penny an acre of Irish land. The value of that land has since increased a millionfold, to £4,000 an acre. Land values have appreciated with hardly a set-back for over three centuries. They doubled in the quarter-century preceding the Great Famine, they have increased several hundredfold since the State's foundation, far outpacing the growth of other incomes, and quadrupling relative to current GNP.

Ireland departs from the general pattern of peripheral dependency in having, so far, a relatively small landless-jobless class. This has been due to the starvation or emigration throughout the past 150 years of that half of the population for which the economy failed to provide a livelihood. Loss of labour through emigration has revolutionised the relative factor endowment. Ireland, relative to its labour, has twelve times the agricultural land of continental Europe. Emigration has also relieved the tensions that, in other peripheral—dependant countries, result in political polarisation. It has not, however, precluded sectarian strife, resulting from competition between catholics and protestants in an island where, for 150 years, protestants have secured an increasing proportion of a declining total of jobs.

I argued the case for taxing land in Irish Agricultural Production (Cork University Press, 1966). There has been adequate opportunity since to appreciate the entrenched position of the 20,000 people who own half the country's land. There has also been opportunity to become aware of the urban origin, base and bias of most Irish social scientists and their lack of understanding of agricultural matters. The career prospects of those few Irish social scientists with a rural background are heavily dependent on the goodwill of the landed interest and they are understandably reticent on the issue of farmer taxation.

Income-tax applies to monetary, but not to other, forms of income. An income tax will therefore reinforce existing inducements to landowners to take their income in alternative, non-monetary forms. It will make it attractive to slow or reverse the trend to the specialisation and efficiency of a market economy, and to revert towards a subsistence economy, with farmers producing a wider range of products but a smaller total amount, of which they and their families would consume a larger proportion. Irish farmers until quite recently consumed one-third of their total output. A reversal to that position would depress output and reduce the marketed surplus that feeds the urban population, is the raw material for industry, and is the principal earner of foreign exchange. A return to self-sufficiency would also reduce the revenue from a tax on farmers' incomes.

Irish farmers, through selection by inheritance and the market, are, as a whole, probably the least competent group in the country to operate its land. They have a high preference for leisure, security and stability. They are unable or unwilling to exercise the industry, skill and innovation required to generate the very large money incomes now possible from Irish land. A tax on farmers' money incomes would increase the relative attractiveness of leisure, security and stability and reduce that of industry, innovation and risk-taking to earn money. A tax on farmers' money incomes would widen further the wide gap that exists between what could be profitably produced and what is produced from Irish farms.

A tax on farmers' incomes would penalise those who are using the nation's land in the socially most beneficial way of maximising net output valued at market prices. It would leave untouched that major share of landowners' income accounted for by the appreciation of land values, amounting now to at least £100 per acre annually.

Finally, and most important, an income-tax on farmers would not affect the allocation of land. Irish land, for reasons dealt with above and in my *Irish Agricultural*

Production, is now in the hands of that section of the population probably least competent to use it. An income-tax will have little effect on inefficient farmers with small monetary incomes, and will not put pressure on them to release land. It will, on the contrary, by having a generally adverse effect on the economy, exacerbate the maldistribution of land.

An income tax on farmers would be counter-productive. Evasion, avoidance and its inability to improve the present misallocation of land are defects of an income tax on farmers that are likely to cause its imposition to have detrimental equity and economic effects. The poor results that would accrue from a tax on farmers' incomes, by refuting the proponents and corroborating the opponents, of farmer taxation, will make difficult further efforts to tax farmers. It would be tragic if a tax on income, that is entirely inappropriate to the circumstances of Irish farmers, were accepted as a substitute for a land tax that is equitable, efficient and appropriate to the circumstances of Irish farmers.

THE EQUITY case for taxing land has been eloquently stated by James Finten Lalor: "The principle I state and mean to stand upon is that the land of Ireland, up to the sky and down to the centre, belongs of right to the entire people of Ireland." The principle reflects the view of land as a social asset freely available for use by all members of a society—a view that was an integral part of pre-Elizabethan Ireland, as of most societies and ages other than capitalist colonialist societies. The right of free and equal access to land, as to water and air, ought to be self-evident and need not be laboured in an age of universal adult suffrage. This right, like other fundamental rights, cannot be abrogated or alienated.

It is clearly impractical, especially in an age of extreme specialisation, for every member of society to possess an equal share of the nation's land. Conceivably the State, on behalf of its citizens, might operate the land and share the surplus with its citizens. Though State operation may be feasible for great enterprises that realise important economies of scale, it would have little prospect of success in farming, especially in Ireland's predominantly livestock farming, where economies of scale are unimportant but where flexibility and attention to detail by livestock-tenders are paramount. It is, instead, expedient for the State to allocate the land within its domain to those competent to use it, recovering on behalf of all its citizens the land's surplus or rental value. Maximising that surplus is the necessary and sufficient condition for efficient land use. Appropriating the surplus for social use through a land-tax accords with the equity consideration that land, as a social asset, should be used to benefit equally all the members of society.

But a land-tax directly assaults the landed interest, the most powerful in the country. Its appropriateness is neither immediately nor clearly evident in a predominantly urbanised society, where taxes on income and expenditure are the principal source of public revenue on current account. The opposition of the landed interest to, and the indifferent support of urban interests for, a land-tax make other methods of taxing the farmer custodians of the nation's land appear expedient. Specifically, the case for taxing the incomes rather than the land of farmers merits consideration.

Farmers can easily evade or avoid an income-tax. Farmers can evade income tax by selling produce through informal channels, especially through small farmers and others not liable to tax. Costs can be inflated by buying inputs like fertilizers and feed in excess of own-farm needs and selling the surplus through tax-exempt producers.

The pre-condition for more jobs and wage restraint

TRADE-UNION members can expect to share with other citizens the common benefits of a land-tax: a greater domestic demand for the products of the non-agricultural sectors; stimulation of the building industry as under-utilised and hoarded land is forced onto the market; lower taxes on incomes and expenditure simultaneous with no deterioration, or an improvement in public services; and more rapid, secure and sustained growth, *writes Richard Crotty.*

A land tax is almost certainly a necessary condition for increasing employment in Ireland. A land tax that reduced the selling price of land to zero is probably almost a sufficient condition for full employment in Ireland. Ireland's declining employment opportunities and the resulting chronic surplus of labour have bedevilled the trade union movement since its foundation. The presence of a large army of unemployed and underemployed rural workers and the danger of forcing their own members into the ranks of the unemployed have weakened the bargaining power of trade unions and compelled them to modify their demands on their members' behalf. A land tax that ended rural-urban migration and that gave rise to full employment would remove the overhang of surplus labour that has weakened the Irish trade union movement for 150 years.

A land tax should rationally be a prior condition for a policy of wage constraint by the trade union movement. Wage restraint cannot offset the structural weaknesses of the Irish economy, especially the small scale of the local market. The Irish workforce, and especially that part of it engaged in manufacturing industry, declined most rapidly during the decade of the Great Famine when wages were restrained to the point of starvation. Any short-run increase in competitiveness from wage restraint is offset by the further contraction of demand and further decline in the size of the local market that results from lower income and that has been the bane of the Irish economy. But wage restraint, though unable to save jobs, reduces some prices, especially of services, and, to that extent, increases farming profits and the price of land; which in turn depresses agricultural output.

A land tax would prevent any rise in the price of land and decline in agricultural output as a result of wage restraint. It would also claw back for society as a whole, through higher tax revenues, the benefits of any restraint on wages. A land tax would seem, for these reasons, to be a reasonable pre-condition for consideration of wage restraint by the trade union movement.