Hey big spender

Living with Leviathan
by David B. Smith
IEA, 2007. 190pp
ISBN: 0255365799, £12.50

It is a great pity that David Smith did not read an earlier IEA publication, *Wheels of Fortune*, by Fred Harrison before he sat down to write this book. He states the problems and Harrison gives the answers.

Smith's theme is public spending, taxes and the size of the state and its economic performance. In 1913 UK public expenditure as a percentage of GDP was 12.7 per cent, in 1937 it was 30 per cent, and now it is around 45 per cent. Sweden with its high spending experience peaked at 72.4 per cent in 1993 but this is projected to fall to 55.5 per cent in 2007. The author is unclear what effect such figures have on economic performance. He quotes studies that indicate that 30 - 35 per cent will achieve most of the social and political objectives that justify government intervention. In attempting to do too much, modern Western states may well neglect their core functions such as law and order, and military preparedness.

What is important in the equation is how the tax is raised. Harrison very clearly indicates the negative impact of bad taxes and suggests better ways of raising money. Public spending on infrastructure benefits the private sector. The London Underground Jubilee Line extension increased adjoining land values by close on £3 billion. A land tax on this increase would have recouped this public expenditure. Smith sees that high government spending does not lead to the eradication of poverty and that the cost in terms of economic growth forgone has been considerable. He says "it is highly likely that societies are poorer than they would have been if low spending ratios had been maintained."

He briefly examines different forms of taxation and notes that Britain in the eighteenth and nineteenth centuries saw rapid economic growth when most taxes were levied on fixed assets, such as houses. He doesn't differentiate between property and land in the way that Harrison does but concludes that a mature debate about, among other things, the forms of taxation, should be a priority within parties and between parties. "Sadly," he ends, "there is little sign of this debate beginning."

Geoffrey Lee


Australia's housing bubble may be about to burst

My world!

Who owns the World
by Kevin Cahill
Mainstream, 2006. 640pp
ISBN: 9781845961589, £25

Kevin Cahill is a cataloguer of wealth and an inquisitor of privilege. He first nailed his colours to the mast with his early work on *The Sunday Times* Rich List. His latest book sits at the present end of a line of investigation starting with McEwen's *Who Owns Scotland* (1977), Wightman's subsequent *Who Owns Scotland* (1996) and then Cahill's own *Who Owns Britain* (2001).

For Cahill and for his predecessors it is the 'who' that is key. The major part of *Who Owns the World* is a country by country catalogue of the major landowners of the world. This may indeed be a necessary and – as the author claims – long overdue piece of work. Many argue that publicly available and complete registers of natural and common resources, including the facts and nature of all titles to land and burdens upon them, is an institution necessary for modern democracy and efficient governance [*see* Counting the land, *p.4. Ed*]. The result of Cahill's work is to reveal that concentrated patterns of land ownership are prevalent all over the world. He resents the situation. Cahill's concern is that these patterns be "dissolved".

Cahill's historical analysis describes the increasing spreading of 'ownership' of landed resources over the past century: his political perspective applauds "land redistribution". He commends the vision of Hernando de Soto; but he does not share that economist's enthusiasm for Western "private-property laws and recording systems". Cahill argues that "property law in the developed world is at best internally and institutionally corrupt, having been created by thieves trying to legitimise theft and maintained by the descendants of the original thieves, for their private benefit and no-one else's". Cahill holds that around the world present-day property systems are for the most part "destructive to both democratic and political progress". He believes "economic progress in the West has been in spite of, and not because of, the structure of property law in most Western states".

In this book however, in a way more than in all the earlier '*Who Owns*' work, Cahill is also interested in the 'how' of ownership. The other major part of *Who Owns the World*, over twelve chapters, is a historical overview and analysis of world landownership. Some readers may sometimes find the author's analytical predisposition prejudicial. Certainly unrequited monarchists will find no succour here. Nevertheless the texts are fascinating. Disappointingly, his efforts regarding the 'hows' remain more in the nature of surveys than proposals.

In the end, for Cahill, it is information – land registration – which is "the key requirement" for reform. The reform itself he advances is the dissolution of "the monolithic legal forms of ownership" which his book discloses, and the establishment of "a proper free market in land…in every country in the world". The author does not much go into what he means by 'proper': the reciprocal obligations to the community which the owners of land may be due are not discussed. The author's demotion of the great reformer Henry George (who so clearly laid bare humanity's responsibilities in this regard) to no more than a common witness of the Irish Famine of 1845-9 is disappointing from a writer who would seek to banish unjust privilege from the world and who claims to know the land.

Isabel de Menenez

Bubbly

Unlocking the Riches of Oz
by Bryan Kavanagh
Earthsharing Australia, 2007. 28pp
AUS$10

This short book is subtitled 'A case study of the social and economic costs of real estate bubbles (1972-2006)'. In it, Bryan Kavanagh provides a concise exposition of how property bubbles – which can easily arise in the current Australian system – cause economic recession. He also suggests what otherwise might have been, if the fiscal regime had not been, as he characterises it, 'the Mad Hatter's Tea Party of taxes'.

The book is based on a careful analysis of data and builds up a picture of the economy in classical terms, of earned (labour and capital) and unearned (land) incomes. At this point I would have liked more information on how this had been done: it is interesting to note the increase in privatised rent (from 8% of resources in 1911 to 27% by 2005). However, the detailed analysis of the real estate market helps to fill in the picture. So whilst I would have liked to explore further the methods used in determining classical components of Gross Domestic Product, the omission does not detract from the overall message.

In a counterfactual, Kavanagh estimates what income might have been, in terms of GDP, had the tax regime been organised in such a way that it prevented these real estate bubbles; that is to say, if a proportion of the rental value of land were captured for public revenue.

I'm not a great fan of counterfactuals. They tend to have so many unknowns. Nevertheless even the conservative estimates the author presents are staggering. If the property bubbles that occurred between 1972 and 2006 were to have been eliminated, it is estimated that Australian GDP would have been AUS$700 billion greater than currently it is (ie 75% higher). This amounts to AUS$35,000 per year per person.

All in all this short book sets out an interesting analysis. It demonstrates why we should be concerned that sufficient attention is paid to the issue of land values. In conclusion I should like to note that such analyses as this could be much more readily facilitated if there existed clear and detailed information on land values.

www.earthsharing.org.au/unlock

Duncan Elliott

Charging for landing

(continued from the back cover)

However, crudely, the charging formula is actually based on passenger numbers. Long established major airlines with grandfather rights – if you had them last year, you get them this year – are able to monopolise valuable runway space with small aircraft, and pay only low charges for doing so.

The system causes unnecessary inefficiency and congestion. It also fails to collect the fullest revenue for the use of a scarce resource. However an examination of the present system also reveals a more fundamental question which goes to the bottom of our public finances.

BAA is a child of the Thatcher privatisation years. In 1986 the original British Airports Authority, a public body, was dissolved and all its property, rights and liabilities were passed to the new company, which was floated on the Stock Market the following year. The company has since been delisted and is owned by a consortium led by Grupo Ferrovial, the Spanish construction giant.

Perhaps the terms of the 1986 privatisation should be revisited: perhaps certain assets held by the British Airports Authority properly should have been retained in public possession. Because that underlying question is – why is BAA, a private company, permitted to charge and collect landing fees in the first place? Charges for runway slots are charges for the use of a resource whose scarcity and value is created by the democratic will of society when it limits the development and use of airports. Air traffic landing slots are a public resource. On point of principle, as well as for the sake of industry competitiveness, their value should be collected and returned to the public purse. In taking on the case of BAA the Competition Commission will have to move into a new area of thinking. **L&L**

lars rindsig: the view from the right

I routinely stand out as the most rabid, market worshipping right-winger in any crowd – except when I'm around my rabid, market worshipping right-wing friends who think I'd be alright if it wasn't for my leftie views on land.

I expect Fred Foldvary maybe shares that feeling from time to time. Foldvary teaches Austrian economics (that is, in the tradition of Friedrich von Hayek and Ludwig von Mises) at Santa Clara University in California – as does, incidentally, David D Friedman who is the son of Nobel Prize winner Milton Friedman. Son David has taken his father's libertarian economics to their logical apex and proclaims himself an anarcho-capitalist. Foldvary, too, is a no-holds barred libertarian. He is a fan of privately owned local communities and a regular speaker at conferences of groups like the International Society for Individual Liberty and the UK based Libertarian Alliance. He is also a former Congressional candidate of the California branch of the Libertarian Party and a contributor to online journals with names like *Anti-State.com* if the above wasn't enough to rattle you.

Of course Foldvary is not just your average libertarian academic boffin. His particular brand is the fusion of Austrian economics with a fundamental tax reform based on resource rents – taxes on land, natural resources and pollution (rather than legislation) – which he calls geo-anarchism or geo-libertarianism. Foldvary's latest publication, a small pamphlet called *The Depression of 2008*, was published this summer. In it he examines the business cycle of the property market. Foldvary's conclusion is the same as the cover story in this issue of **L&L**: it's all going down in a cloud of dust. So, the conclusion of Foldvary's analysis does not differ fundamentally from that of other economic researchers like Fred Harrison. His route, however, does.

The concept of money is central to Austrian economists – and not just because they all want more. 'Austrians' ardently favour a totally privatised and non-regulated monetary system issuing gold-backed, non-inflatory money. Consequently, Austrians do not treat all capital goods as one variable – like most economic analysts – but treat money and financial capital separately from other capital items like cars, houses and typewriters. This is all very theoretical stuff but important because under a free banking regime, changes in the interest rate would not cause problems since it would move naturally. Whereas with a government central bank, adjustments to the interest rate are artificial and distort the economy.

So a key aspect, in Foldvary's view, of countering the harmful boom/bust effects of the property business cycle is the introduction of a free banking policy. Since the market would prevent inflation this move would, by itself, dampen (though not prevent) the real estate cycle. Equally important, says Foldvary, is the introduction of a radical tax reform that replaces taxes on income, goods and sales and profits, with a levy on the value of land. The real killer, though, is the two initiatives working in tandem. One without the other won't make the cut; even with an artificially lowered interest rate, government controlled money will continue to work against the true free market.

And this is where Foldvary's take on economics truly shines. Focussing too narrowly on one aspect of the solution – whether it is a tax shift or free banking – only gets us half the way. We'd be better off, sure, but not nearly there.