

# Land & Liberty

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## THE POWER IN THE LAND

42

FRED HARRISON argues that the power in the land is the root cause of the present global recession – and previous upheavals which have afflicted industrial economies – the thesis of his newly published book.

## REAGAN'S FARMS CRISIS

45

As the loss of agricultural land in the U.S. reaches crisis proportions, Pres. Reagan must confront the land speculators, warns a Special Correspondent from Washington.

## IT'S JUST A GIMMICK!

46

BERT BROOKES spotlights mounting opposition in Maryland to the use of Transfer Development Rights – the property developer's 'gimmick' which can only please the landowners.

## FORMULA FOR RECOVERY

47

IAN BARRON presents a study of the Milwaukee property tax as evidence that land value tax could provide striking benefits for recession-hit economies.

## SIX STEPS TO L.V.T.

48

PROF. STEVEN CORD outlines clear advantages of the land value tax and strengthens his case by offering answers to arguments critics might raise against L.V.T.

## TRIUMPH AND THE SHAME

50

RICHARD BODY, (right) who has made an in-depth study of agriculture, throws down a challenge that would transform farming – and ease the burden on taxpayers.



## BELIZE – TWIN ENEMIES

52

An INSITE investigation finds this tiny South American nation threatened not only by Guatemala but, within its frontiers, the crippling effects of a land tenure system.

## COURT IN A MINEFIELD!

55

PAULA JAMES studies the implications of New Jersey's Supreme Court ruling on land use and concludes this now gives politicians a lead in the campaign for reform.

## PIED PIPER'S PROMISE LAND

56

FRED FOLDVARY cuts through the myths surrounding the tale of the Pied Piper of Hamelin and reveals that it was not rats but the greed of landowners from which youngsters fled on June 26, 1284.

## UNEMPLOYMENT WARNING

58

In his conclusion of a two-part analysis, GODFREY DUNKLEY warns that failure to reform the tax system will result in an increasing number of people being unemployed.

## (NOT SO) GREEN!

60

Friends of the Earth, the conservation movement, has broadened its campaign – having been introduced to Henry George's analysis of land tax and the environment. DAVID RICHARDS (right) reports.



● Fred Harrison

**T**HE WORLD economy was crushed by exploitation in the land market.

Today's recession is nothing more than a continuation of the slump of 1974 which was caused by the global speculation in land during the previous three to five years.

That speculative boom occurred in every corner of the world. No country was immune – not even Japan, the "miracle" economy whose growth was also cut back when the supply of land was curtailed and its price pushed up to the point where the superstructure began to crumble.

Until the foundations are reformed, cyclical upheavals will continue to afflict the industrial economy.

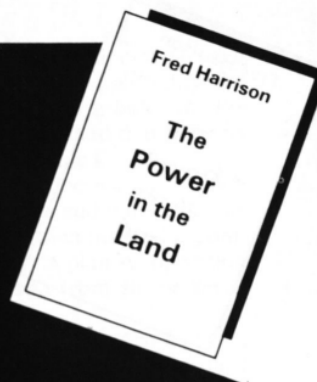
The full evidence for this theory appears in my book, *The Power in the Land*.<sup>1</sup> This documents how the world economy was dislocated by a rise in rents and land values to unrealistic proportions; and by a shift in the share of national income to the landowning class, to the detriment of both labour and capital.

But if the land market could be used for the anti-social benefit of a relatively few monopolists, it is my contention that the power in the land also offers a unique prospect for salvaging the economy in a strategy that is free of economic risks.

I stress *economically* risk-free, because I am proposing a radical transformation of property rights that would entail political risks; but then, the present levels of unemployment (32m in OECD countries alone) and the cut-backs in welfare services, jeopardise the stability of the democratic world.

I do not believe that my proposals heighten the risks that are already latent: indeed, they would reduce the psychological tensions and social frictions that are bubbling away in the inner cores of all the major cities of the western world.

# Land monopoly



‘Without tackling the speculators, upheaval will continue to afflict industrial economies’

**I**NCOME redistribution is at the heart of all plans to solve the economic crisis.

The favourite target for surgical action is the worker's wage packet. Full employment and prosperity is predicated on a cut in the living standards of wealth creators.

A drop in wages is supposed to enhance profits. Nowhere in the national and international councils do we hear any talk of reducing the income of rent-receivers.

The orthodox plan would certainly cut back on private consumption, which in turn would curtail output and investment: hardly a prescription for regenerating the industrial economy when entrepreneurs badly need a larger market of consumers.

In *The Power in the Land* I argue that the correct solution is to redistribute income away from the owners of land. This would be achieved by taxing the annual rental income of land, in its unimproved state (i.e., exempting the value of capital investments upon land) while reducing the tax burden on labour and its products.

This fiscal reform would:

- Stimulate both consumption and investment: lower taxes mean lower prices, higher profits and fresh capital formation.
- Manufacturers and retailers would build up their stocks. The capital goods sector and the heavy steel industries would lead the economy out of the trough.
- At the same time, speculatively-high rents would adjust downwards to levels that would become attractive to businessmen who want to expand existing operations or start new enterprises.

**B**UT THE WORLD cannot wait while preparations are made to implement a master plan.

## Analysis by FRED HARRISON

Enabling laws have to be passed, land has to be valued separately from capital investment upon it, provision has to be made for selectively reducing existing taxes.

This does not mean that we are prevented from using the principles that underpin land value taxation in a rescue operation that would have an immediate impact.

We can advocate a fiscal-based plan that would *not* work by substituting additional problems – for example, generating inflation through

the Keynesian reflationary policies of the opposition parties of Europe and North America.

The overall problem that has to be solved was recently spotlighted by the Organisation for Economic Co-operation and Development, which gave as a major reason for the recession “the emergence of major imbalances in the share of aggregate income, and a shift in the tax burden to employment and investment.”<sup>2</sup>

The new strategy should devise a transitional programme to lift the tax burden off labour and its wages, and off capital and its interest, by switching it on to the rental income of land.

There are some obvious cases where this can be done in a direct way.

- Britain exempts agricultural land from rates, the local property tax. A modest 2 per cent tax on the capital value of farmland would raise £800m, the sum needed by the government to abolish the one per cent National Insurance surcharge – the “tax on jobs” which deters an expansion of employment.

- Mrs. Thatcher's government has articulated the general dissatisfaction with the property tax. Measures could be instituted immediately to grade the rates burden along the lines of the Pittsburgh model (see p. 48).

This would stimulate the building industry, which is crucial to economic recovery. At the same time, the 250,000-plus acres of valuable vacant urban land could be brought within the tax net. Owners could be required to pay taxes on a self-assessment basis, with appropriate adjustments at a later date when the published role of agreed valuations had been established.

This additional revenue would be offset by reductions in income taxes, thereby expanding the domestic market for manufacturers.

- Taxes can be raised markedly on the products of firms or industries

### ‘Radical tax’

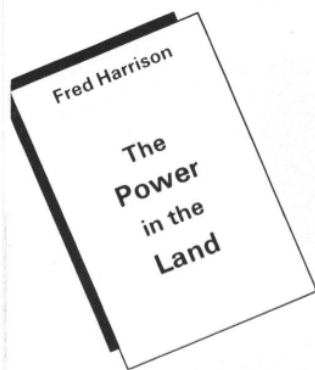
**T**HE LONDON *Financial Times*, in an editorial that discussed the need for fiscal reform in the 1980s, reviewed the ideas emerging from the United States.

Commenting on the contribution by Dr. Martin Feldstein, Chairman of President Reagan's Council of Economic Advisors, the FT stated (24.1.83):

“Dr. Feldstein is also an expert on other radical new taxes so far as British and American taxes are concerned – such as a land tax, which is actually in use in countries as varied as Denmark and South Africa and in some U.S. states, and is still thought of as an untried novelty.”



● Dr. Martin Feldstein



‘By not implementing these proposals we would leave a legacy for which our children would not thank us’

whose product prices are high in relation to production costs – i.e., where the rental returns are significant. Petroleum is a good example, but this

attempt at capturing rental income is not a satisfactory one. It is very much a second-best solution, no more than a crude and indirect attempt to capture rental revenue.

A RATIONAL government should move swiftly to the direct taxation of land values.

This entails a planned reduction of existing taxes while carefully

monitoring the ensuing transformation in the structure of prices to capture that part of the national product that would otherwise be funnelled into the pockets of land owners through higher rental income.

*What are the consequences of not implementing this fiscal reform?*

● The industrial economy would not recover without suffering serious side-effects of an economic and, possibly, political nature.

● And long-term prospects would be bleak, for when the economy finally recovered, we would have left a legacy for our children for which they would not thank us: a depression at the turn of the century of the proportions of the 1930s and 1980s.

## POLAND

### *New private land law*

POLAND'S Parliament – the Sejm – has passed a law that hardens private property rights in land.

The Warsaw-published *Polish Economic News* reported on Jan. 30:

“In order to increase the interest of private farmers in rational use of their land, the durability of their land ownership has been confirmed by a Sejm law. The law

also covers inheritance rights of children.

“Also, proper conditions have been created for an easy trade in farmland. This is true of both the trade among private farmers and between them and the other sectors of agriculture.

“Much stress is being put on a better utilization of the 900,000 hectares of land now in possession of the State Land Fund. The fund is a transitional owner of plots bought from retiring farmers as well as the land not under cultivation. It is envisaged that conditions for sales of land from the fund will be relaxed further and that agricultural settlement will be encouraged.”

*Ian Barron writes:* Poland's communist authorities clearly imagine that they can emulate some of the West's food-producing successes by copying the land tenure system.

But the Western model of land tenure has had a disruptive effect on the agricultural sector, and this will now sharply materialise in Poland.

The new market-orientated strategy – price incentives, in particular, and the provision of more capital equipment and improved transportation systems – will help to ease the food crisis in Poland.

Eventually, however, the farmer will become increasingly preoccupied with speculating in the unearned increments in land values: and that is when the new economic strategy will fall into disrepute, provoking demands for a return to the centrally-planned command economy.

## RATES

RATES – Britain's local property tax – have risen significantly in the past three years.

Industrialists claim that these increases are an unsupportable burden on their profits, and are causing some firms to shed jobs.

But according to the Ricardian theory of rent, a tax on land ultimately falls on the landowner. Thus, we would expect part of the rates burden – which falls on both land and buildings – to be shifted by tenants on to their landlords.

Evidence is accumulating that this is now happening.

Judy Hillman, consultant to the London Docklands Development Corporation, reports that

● In Newham, a large freehold building was on the market for only £200,000 simply because the rates due last year were £40,000;

● On the border of the City and Islington similar properties used to have the same asking rents. This is no longer the case because higher rates in Islington have forced down rents to keep them competitive;

● Because the rates bill for International House in St. Katharine Docks had risen to £600,000, the lowest asking rent has been reduced from £16 to £11.

These results are reported in *Estates Gazette* (5.2.83) and show quite clearly that new tenants are discounting the increase in rates.

## REFERENCES

1. Fred Harrison, *The Power in the Land*, London: Shephard Walwyn, 1983.
2. *Economic Outlook*, Paris: OECD, July 1982, p.6.

## The Power in the Land

UNEMPLOYMENT, THE PROFITS CRISIS & LAND SPECULATION

By FRED HARRISON

The first book since *Progress & Poverty* to provide a comprehensive account of how monopoly in the land market causes industrial recessions.

It presents four case studies – the UK, USA, Japan and Australia – to show how the global recession is fundamentally due to land speculation in the late 1960s and early 1970s.

● The origins of the faults in the “free” market are analysed back to the philosophical compromise in Adam Smith's *The Wealth of Nations*.

● Cycles in land values are traced to explain 200 years of business booms and slumps.

● Marxist solutions are examined, but rejected in favour of a plan that combines free trade with land value taxation.

PRICE £8.95 from bookshops, but in case of difficulty contact the publishers, Shephard-Walwyn (Publishers) Ltd., Suite 34, 26 Charing Cross Road, London WC2H 0HY.

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