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THE GURU & RECESSIONS

122 Predictions about economic recovery, by monetarist guru Milton Friedman among others, have been proved groundless. FRED HARRISON explains why land is the key to a lasting solution.

RAISING THE ROOF!

124 BERT BROOKES reports on a disturbing wave of destruction as industrialists demolish factories to avoid paying property taxes. An MP demands government action.

'STOP THE CHEATING'

126 IAN BARRON explains why Gerry Milroy charges the U.S. government with cheating the American public out of billions of dollars. And *Land & Liberty* focuses on the problems facing Denmark's Justice Party.

HENRY & THE SPECULATORS

127 Henry Ferry is a taxman who's keeping a sharp eye on land speculators. JOHN GREEN reports on Vermont's Land Gains Tax – and Henry Ferry's success story.

THE MISSOURI CAMPAIGNERS

128 Walter Mueller and Tom Villa are in the forefront of a campaign for land tax reform. *Land & Liberty* discovers they have the will and they're searching for a way. For the Mueller-Villa duo, it could be third time lucky.

REAGAN'S ADVISER & LAND TAX

129 PAULA JAMES analyses what Prof. Martin Feldstein, chief economic adviser to the White House, thinks about the land tax.

SETBACK FOR MARXISM

138 PETER POOLE reviews a collection of papers which build on the work of Henry George and, together, present land value taxation as the only alternative to Marxism.

A REFLECTION ON SPACE

139 In an article he filed to *Land & Liberty* shortly before he died, PHILIP FINKELSTEIN reflects on his last tour of Europe... and the importance of open spaces in urban development.

WHO OWNS THE LAND?

140 RICHARD NORTON-TAYLOR uncovers information which land-owners would prefer to keep secret. He shows how farmland is in the hands of a closed shop.

TRADE or WAR?

● THE RECESSION has provoked an outcry for trade protection policies. The result – highlighted in a special *Land & Liberty* report – is added strains not only in East-West relations but within the Western alliance itself.

JAPAN – A GRIM WARNING

130 INSITE asks: Would Japan ever turn on the West? The answer reveals disturbing trends as Japanese politics shifts to the right and demands for increased military spending coincide with economic pressures.

THE GENESIS OF WAR

134 ROY DOUGLAS studies the origins of war and warns that pressure for trade restrictions can be powerful – to the point of overwhelming the decision-makers.

PROTECTIONISM – A DANGER

132 As President Reagan warns that peace is threatened by trade conflict, PAUL KNIGHT takes a wide-ranging look at the way protectionism could lead to economic collapse.

THE KEY TO PEACE

136 DAVID REDFEARN reviews Henry George's theory of war and concludes that only when land is given back to the community at large can peace be assured.

A STARK CHOICE

LAST SEPTEMBER, Milton Friedman, the monetarist's guru, predicted that the U.S. economy would probably recover in the final quarter of 1982.

He added: "On the whole I think we're poised right now for a recovery that will start in the next few months, and I am rather optimistic about the prospects for the next several years."

As he spoke, unemployment leapt to 11.3m (another 1.5m had given up looking for work, bringing the jobless rate to over 14 per cent). The total kept on climbing right through to the New Year.

Washington, in common with all the other capitals of the OECD countries, did not know what to do next. Self-fulfilling predictions have failed to do the trick, and the only consensus now available is that the industrialised countries of the West are doomed to an extended period of severe unemployment.

Psychological depression suffuses even the most optimistic of superficial commentators who, in the past, have delivered pat solutions with the sleight-of-hand of the card sharp.

The mid-term election defeat for Republican candidates did not persuade President Reagan to abandon his economic strategy. This is not surprising, because he cannot be expected to have confidence in any of the vague alternatives (if that they be) that are presented to him.

So the president comforted himself with the smallest straws in the wind. The White House declared: "The momentum for recovery is building, even if it is building slowly."

Building – though this is not what the White House meant – is at the source of the current recession. Until this is recognised, it will be impossible to construct a coherent set of policies to generate renewed economic activity.

TRENDS in the construction industry are crucial to any analysis of the business cycle.

Downturns in building activity precede general recessions by 12 to 24 months. And it can be shown that the supply and price of land is the major influence on trends in construction.

This has been the case in Britain during the past 15 years (see table).

● The leap in land prices in 1972 – the greatest speculative boom in the post-war years – was followed by a downturn in house building in 1973. This was a brake on general economic prosperity, and contributed significantly to the slump in 1974.



GURU: YOU'VE GOT IT WRONG

● Milton Friedman argues the monetarist case

- Then, when the rise in the price of land faltered in 1975/6, house building revived: and so did the economy.
- But land prices made a remarkable recovery in 1978. This restricted the supply of realistically priced land to builders, and the industry crashed in 1980, a year before the collapse of the rest of the economy.

In the past decade, while a great deal of time has been spent on promoting spurious explanations for house building trends (such as movements in interest rates), not a single analytical word has been spilt by government ministers or their economists on the land question.

Until there is a profound change in the official perception of what causes recessions, there is no prospect of a rational plan for controlling our economic destiny.

Analysis by

FRED HARRISON

But what of the U.S. evidence? Does this sustain the thesis that the land market is the causal source of the current problems?

TODAY, with factories working at 69 per cent of capacity, the rate of unemployment in the U.S. building industry (13 per cent when President Reagan took office) has climbed to over 22 per cent.

The recession officially started in July 1981. We have to show, therefore, that there was a boom in land values in 1979, which had a direct impact on the activity of the building

industry.

The 1925 land boom started in Florida. The latest boom originated in California, induced by the euphoria created by Proposition 13.

In 1978, the Jarvis-Gann initiative slashed local property taxes in half. The result of this was not to lower rents, but to raise them; not to lower the selling prices of homes but to raise them.

James Gipson observed of home prices: "They rose briskly until Proposition 13 cut property taxes in 1978, and then they took off into the stratosphere. The price of an average home rose above \$100,000 as a speculative boom transformed homes from living quarters into speculative assets."²

The savings and loan associations poured money into the housing market (it was the land component of housing that was actually soaring in price).

Mortgage payments rose from 20 per cent to 40 per cent of family incomes (thus cutting purchases of consumer goods).

By the end of 1979, the supply and price of finance began to hit the house speculators. This did not deter the families and dealers, however: they began to lend money themselves (known as "creative financing").

House sales began to slow up. Prices ought to have weakened; they didn't. Fever-struck speculators have a special psychology that resists coming to terms with the fact that a bubble has burst. Christian Hill explained:

"These homeowners and builders

● Turn to P.137

HOUSE BUILDING CYCLES (private sector)

Great Britain, 1969-1982

	Land: Price per plot (1975 = 100)	Increase over previous year: %	Dwellings completed (000s)
1969	45	25	181.7
1970	49	10	170.3
1971	56	13	191.6
1972	94	68	196.5
1973	146	55	186.6
1974	145	nil	140.9
1975	100	-31	150.8
1976	100	nil	152.2
1977	106	5	140.8
1978	129	22	149.0
1979 1st half	168	18	140.4
1979 2nd half	202	20	
1980 1st half	243	20	126.6
1980 2nd half	238	-2	
1981 1st half	241	2	113.0
1981 2nd half	257	7	
1982 1st half	268	4	55.3

SOURCE: Department of the Environment

people's will to resist its own ruling class was somewhat optimistic.

All this he embodied in a book *Land or revolution*, published by the *Daily Herald*. Chapter 17 is entitled 'The origins of war'.

OUTHWAITE has nothing whatever to do with George's early undeveloped view that war began with cultural differences, but postulates fighting for the best pastures, and raids by nomads on the settled husbandmen – fighting, that is, over land.

George, while discussing contemporary war, though not while expounding his general thesis, had considered land monopoly and protectionism separately. Outhwaite unites them. "The land and capital monopolists," he says, "have raised tariff barriers to section off Europe into preserves of spoliation for their benefit."

Here, of course, George had prepared the way by showing that the landlord was the ultimate beneficiary of protection. Outhwaite

continues beyond George, however, in claiming that the land and capital monopolists, using tribute exacted at home for the purpose of exacting more tribute abroad, clash there with their like from other countries, and thus embark on wars, persuading their victims that national interests are involved.

Quoting Cecil Rhodes as having said "We shall not make war in the future for dynastic reasons, but because it is good business", Outhwaite produces instances from the Boer War, the Russo-Japanese War and the First World War to show that Rhodes was stating but the simple truth.

Outhwaite died in 1930, at the comparatively early age of sixty-two, and must have been a great loss.

Now, of course, the old problems are complicated by the development of the Russian revolution, of which Outhwaite saw only in the early stages, the beginning of the Chinese revolution, and the counter-revolutionary movement backed by Britain and the United States. We need

THE GURU'S WRONG – from P.123

could just slash their prices rather than take the hidden losses on concessionary financing. But real estate agents and builders say that price cutting doesn't attract buyers, while mortgage-rate cuts do.

"The homeowners' ego is also an important factor. Many would much rather sell their homes for a higher price with costly subsidised financing than sell below what neighbours obtained the year before."³

During the second half of 1981, lenders repossessed 7,163 homes, more than triple the rate for the same period in 1980. And in the first eight months of 1982, Californians were delinquent on mortgages worth \$1.7 bn, more than double the 1981 figure.

THE CALIFORNIA boom was quickly emulated throughout the United States.

California accounts for almost 21 per cent of all mortgage loans, so their impact on the market was bound to be significant.

Some home occupants now have as many as three or four mortgages around their necks.

The economic prospects are appalling: "Creative financing is a razor at our throat," says William Heath, a mortgage banker.

"California today is at the same point Wall Street was in 1929 when

the big crash came. Homes have been purchased on margin, as stocks were 53 years ago.

"Eventually, the whole thing has to come tumbling down around our ears. And when that happens, it will be like the 1930s again – only this time it will be the Californians heading for Oklahoma."⁴

So the traditional pattern repeats itself: significant speculation in 1979, a downturn in construction in 1980, a slump in 1981.

President Reagan cannot be held responsible for causing the current phase of the protracted recession that began in 1974, but he could transform the fiscal policies that still continue to encourage investment in land rather than in machines.

He is not likely to do so, however, because of the deep-seated ideological commitment to preserve existing income distribution and property relations. Thus, there can be no critical review of the cause-effect chain that might generate reforms, even if these did favour a constructive strategy for economic recovery.

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new material to demonstrate the golden mean between communism on the one hand and the old system of land monopoly and protection on the other, before a Third World War puts everything into the melting pot.

It must be both comprehensive in its scope, and within the reach of the ordinary public.

But whatever we say, or whatever we write on the matter of war and economics, there is one burning sentence by Outhwaite that should be constantly before our eyes and ringing in our ears. It shows him as a true inheritor of Henry George, and a summariser of his thought on war.

"When the earth is held in common by the children of men to whom it was given, and its fruits are free to pass between them, then, and not till then, will peace be assured".

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KICKBACKS!

THE FAILURE to advance the campaign for a higher tax on land is explained by the historical grip that American real estate interests have over U.S. political processes.

They contributed more than any other trade association to Republican coffers, to help finance the November congressional elections... and ensure favourable treatment in Washington.

Republican candidates in marginal seats were heavily subsidised by the Realtors Political Action Committee (PAC), which includes Richard Thaxton of the National Association of Realtors who was once an employee of the Republican National Committee.

The bank-rolling of candidates is crucial in the early stages of a campaign.

In April, the Realtors PAC reported giving over \$221,000 to Republicans and \$112,750 to conservative Democrats. This strategy was aimed at preserving the right-wing coalition that gave President Reagan many of his successes during the 97th Congress.

In June, the Realtors PAC raised \$2.2m. Again, the distribution favoured Republican candidates, each of whom received donations of \$2,000 or more – compared with \$200 to \$500 for Democrats.¹

The money is not given without expectation of political kick-backs.

For example, Federal regulators once considered including real estate agents in the Truth-in-Lending Act, but they later dropped the proposal.²

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