

ABOUT 82m acres of US farmland will be left idle because of President Reagan's payment-in-kind (PIK) programme, under which farmers will sit back and yet receive 80-90 per cent of the previous year's production.

A leading British real estate agency, Savill's, has now published a report by Dr. Richard Douglas - No. 3 in the US Department of Agriculture hierarchy - which predicts rising values which make US farmland a good buy for foreign investors.

An unprecedented \$40/50bn in subsidies and other benefits will be provided to the US farm sector this year to reduce surplus supplies and raise farm income, according to a report by the economic research department of Chemical Bank.

MAFIA LAND

MAFIA "families" in Sicily are speculating on a failure of the top level bid for a deal on nuclear arms between the USA and the USSR.

They have bought up land around a NATO cruise missile base in the belief that values will rise as up to 4,000 American servicemen and their dependents move in over the next four years.

Land in Comiso will be needed as the base expands, and the Mafia expect to make a cash "killing".

The Italian authorities are investigating the land purchases, which they believe have been financed from the profits of heroin deals.

About 30 per cent of the land around the base is involved.

HIGH land values, artificially inflated by the massive injection of public funds, not only raises the cost of land purchase by public or charitable bodies - they also encourage farmers "to become obsessed by land values, and motivate them to manage their land with an eye to capital appreciation. The implications for conservation are very serious indeed."

So says the London-based Council for National Parks in its report *New Life for the hills*.

The authors believe that policies designed to sustain the farming population are unlikely to succeed if ownership and tenancies are concentrated in to fewer hands.

THE KEY ISSUE

THE GENEVA-based World Council of Churches has decided to shift its policy away from giving financial backing to Third World liberation movements. In future, greater emphasis will be placed on helping native peoples in their struggle for land rights, which the council believes will be one of the key issues of the 1980s.

JAPAN'S RICH

SIXTY EIGHT of the top 100 income earners in Japan last year were landlords. "Owning large chunks of land, Japan's most precious commodity, has long been a sure way to make the Who's Who of the Japanese rich," reported Roger Bolton in *The Sunday Times* (London) on May 8.

not a new one. It has been discussed in Ireland in recent years by trade unions, some of the small left-wing groups, and nationalist organisations such as the Irish Sovereignty Movement.

But it has not reached the realms of serious politics because the vested interests are powerful.

Ireland, however, has now reached a political crossroad. It is no longer a question of borrowing more in order to finance the national debt. Public discontent is a direct challenge to the fabric of the State itself.

The government of Dr Garret FitzGerald now has to undertake a radical reappraisal of the medium term political prospects for the country, which must lead to a thorough overhaul of the way in which revenue is raised.

For if Ireland continues to favour rental income against wages and profits, it will jeopardise the stability of the State itself. And that way lies anarchy.

REFERENCES

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2. Michael Horsman, 'Labour Taxation', Sept. 1981, unpublished.

Taxes:

RONALD REAGAN's 25 per cent tax cuts will delay economic recovery for another year.

The President is duplicating two events from US fiscal history which terminated in recessions. So economies which are expected to emerge from the slump on the coat-tails of the giant American economy will be disappointed.

Britain, for example, relies on world trade for 30 per cent of her national income. A further contraction in activity by the end of this year will disappoint the 3m-plus people who are seeking jobs.

This conclusion is reached on the basis of an examination of trends in the real estate market which are not weighed in the balance by the forecasting institutions.

Growth rates will be insufficient to reduce unemployment. Thus, the underlying trend in long-term unemployment will continue upwards.

This tragic outcome is due entirely to a failure to take into account the impact of land speculation on the economy.

TWO ATTEMPTS have been made in the past to engineer a substantial reduction in income taxes and force up the rate of growth of the US economy.

Case One: In 1924, Secretary to the Treasury Andrew Mellon gave taxpayers a 25 per cent reduction retroactive to 1923 income. He brought the top tax rate (71 per cent in 1921) down to 46 per cent.

Case Two: The Kennedy round of tax cuts were made between 1964-66. The maximum tax rate in 1963 was 91 per cent. It ended up at 70 per cent in 1965.

Both experiments ended up in disaster.

For a large slice of the tax savings, instead of going into job-creating capital investment, were pumped in to land deals.

The 1925 Florida boom - in which people were even duped in to buying worthless swampland - led the way to the frenetic speculation that resulted in a downturn in housing construction in 1925, and by example on to the stock exchange dementia of 1929.

Something like an extra \$35bn went in to land during the mid-1960s, and the economy slumped in to a

Ireland's crisis

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This activity is not a productive one. Land speculators do not add one iota to the wealth of the nation. But the practice of hoarding valuable land in a vacant state, which people need for homes, shops and factories, does reduce the capacity to create new wealth.

Restrictions on the supply of land make it more difficult for firms to expand or come into existence in the first place. The high price of land is the principal reason for the marked downturn in construction, the industry which ought to be playing a leading role in pulling the Irish economy out of the slump.

Speculation, furthermore, creates urban sprawl, and increases the costs of transportation as people are forced to travel further to work. And it forces the government and councils to spend more on public projects (roads, schools and social amenities) - more than would be necessary if communities were more compact.

The idea of a tax on land values is

Reagan's blunder



FRED HARRISON (right) who argues that Pres. Reagan's tax cuts will undermine hopes for economic recovery, offers a lasting solution . . .



recession in the last quarter of 1966.

Yet these examples were used to justify President Reagan's Economic Recovery Tax Act (1981), which were supposed to lead America in to a 'supply-side' boom.

Federal government receipts were forecasted to decline by \$268.9bn by 1984, the major benefits going to people paying high marginal taxes.

Congressional threats against the last cut – 10 per cent in July – were greeted by warnings from the Treasury Secretary, Donald Regan. Deferral of the cut, in his view, would "abort the recovery."

The evidence suggests, however, that the recovery that began earlier this year was aborted before July.

LAND MONOPOLY is at the root of the problem. The housing sector illustrates the point.

In both the US and the UK, there was an upturn in house building starts in January and February – the major indicator of renewed growth.

It was this signal that raised the hopes of the statesmen who met at the Williamsburg conference on May 28.

But in the US, land values had begun to accelerate towards the end of 1982, appreciating in value at a rate faster than the growth of incomes. In March, housing starts fell back by 9.2 per cent and in April they fell by 8.4 per cent from the previous month's annual pace of 1.6 million units.

This increase in values was not due to growth and prosperity. Property owners were exercising their power to "mop up" some of the gains under the Reagan tax cuts.

It was the same story in the UK. The price of land accelerated sharply in the second half of 1982. Builders repeatedly warned that

- the supply of land was not sufficient to meet their needs; and
- in areas of high consumer demand, land costs in the past year had doubled.

In the January-February period, housing starts were 23 per cent higher than in the same period a year earlier. But the number of starts dropped from 15,900 (February) to 14,800 in March, only 12.5 per cent above the 1982 level. And the rate of increase slowed even further in April.

ALL THE major depressions of past 200 years have been primarily caused by land monopoly.

Recovery has been associated with a slump in the land market, which worked to the advantage of wages and profits. This enabled consumers to spend more, and entrepreneurs to invest more – a combination leading to full employment.

Such a slump did not occur in the property market in the 1970s, which is why land prices are the primary obstacle to renewed growth in the 1980s.¹

The solution is a heavy tax on the rental value of land, which would unlock idle land and reduce rents. Simultaneous cuts in taxes on wages and profits would push the economy back in to prosperity through an increase in both demand (for goods and services) and supply (of new capital investment).

The present property tax positively deters recovery because it penalizes people who invest resources in the construction sector. An interesting modification to this general rule is to be found in West Germany, where the provision of new housing is encouraged by the exemption of the

value of the structure from the property tax for the first 10 years. Only the land value is taxed.

WESTERN leaders have miscalculated trends in the economy because the tools used to make forecasts do not allow for the determinative influence of the land market.

Indeed, there is a dearth of information – on values, numbers of transactions, size of holdings, and so on – on which macro-economic predictions would rely.

One of the essential pieces of information that is required is a comprehensive index of land prices. As the authoritative members of Britain's Joint Land Requirements Committee were moved to observe:

"Planning committees should be more informed than they currently are about land prices in their areas and, more important still about changes in land prices. It can sometimes be a worthwhile exercise for a planning officer, who believes that there is plenty of housing land available in his area, to telephone round the local estate agents as though he were trying to buy some."²

If this information is so vital to the well-being of a leading sector, why should people be forced to turn into detectives to find out what is going on?

The information should be available from official sources.

Until the data is collected, and the tax system reformed, unemployment will continue to be generated by the vagaries of the land market – the San Andreas fault in the foundations of the industrial system.

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