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*Planning
To Fail*

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THE AMOUNT OF WEALTH
PRODUCED IS NOWHERE
COMMENSURATE WITH
THE DESIRE FOR WEALTH...



LAND&LIBERTY

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letter from the publisher

In his book *The Science of Political Economy* Henry George shows how the cause of everything that an individual person consciously makes or does in the physical world may be traced to activity in the subtle or causal world of 'spirit'. He shows how this is where we first desire and will something before we do or make it.

The socioeconomic relevance of this is that if wealth is not distributed in harmony with the will of producers their willingness to produce is reduced. The distribution of wealth is therefore an intimate aspect of production itself and is not, as it is commonly treated by most economists, a separate subject. Thus anything that distorts the natural distribution of wealth such as theft in its various guises, or taxation, matters to the production of wealth.

George marked however a wider philosophical relevance of this aspect of natural law. He noted that our ability to know, think, feel, or do anything, depends upon this subtle or causal world of spirit and is first experienced as an awareness of our own existence.

Direct observation and analysis together with studies of the writings of some of the master teachers of mankind persuaded George that the basis of this consciousness of one's own existence, i.e. the certainty of 'Self' that 'I am', must be the same for everyone. He then reasoned that for Man this basis must be ever present and that Man's understanding of the creation, of which he and society are a part, must be based on this. His studies revealed how this basis or Self is known by many different names according to different cultures, traditions and languages and that in the Christian tradition, in which he was raised, it was often referred to by the word God.

Linking then Man's experience of producing wealth, i.e. making things, he reasoned how the ultimate cause-effect relationships that are evident in the natural world may be seen to express the will of an 'All Maker' or 'God' and that this explains how a truly scientific approach to economic phenomena, i.e. one that takes all aspects of human nature into account, may be reconciled with the fundamental tenet of the world's major religions.

He concludes his section on natural law with these words:

To such recognition of will or spirit, reason as it searches from effect to cause, must come before it can rest content. Beyond this reason cannot go. Why is it that some things always coexist with other things? and that some things will always follow other things? The Mohammedan will answer "it is the will of God". The man of our Western civilisation will answer: "It is a law of Nature." The phrase is different but the answer one.

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letter from the editor

Why is it that the proposals of Henry George have not been universally adopted? Is it because the fundamentals of economics are inherently hard to understand? In the article on the Physiocrats in this issue we see the struggles of the early economists in grasping the law of rent. It is very curious that, in the age in which reason was held in the highest esteem, and when scientific and technological advances were being made, that it soon lost its way with the study of economics, despite the promising beginnings with the Physiocrats. It is often overlooked that the Romantic movement challenged the claims of the scientific rationalism that swept through civilisation at that time. Long before George was born the poets, such as Coleridge and Blake, protested against the brutalisation of nature carried out in the name of reason, and at the reduction of human nature to a mere 'thing' or machine, and the turning of the world into an inert 'resource' to be plundered at will.

What happened at that time was that 'reason' became associated with nature conceived as a great machine, as we see with Newton, Bacon and Hobbes. The economists and social reformers attempted to understand society in the same mechanistic way, and so a divorce occurred between 'reason' and 'ethics', and this divorce is still with us today. What they now called 'natural law' was not the law of nature as traditionally understood, as the intelligent ordering of nature towards harmony and flourishing, but rather a reduction of law to blind forces, devoid of intelligence or purpose. Even divine providence was now conceived in this mechanistic way. Romanticism arose in opposition to this mechanical view of nature, and aspired to social reform on the basis of the goodness and dignity of human nature, directly opposing the conception of man as driven by fear and greed.

This divorce between reason and ethics is precisely what Henry George could see and which he sought to remedy. In the Conclusion of *Social Problems* he writes:

"Here, it seems to me, is the gist and meaning of the great social problems of our time: More is given to us than to any people at any time before; and, *therefore*, more is required of us. We have made, and still are making, enormous advances on material lines. It is necessary that we commensurately advance on moral lines. Civilization, as it progresses, *requires* a higher conscience, a keener sense of justice, a warmer brotherhood, a wider, loftier, truer public spirit. Failing these, civilization must pass into destruction. It cannot be maintained on the ethics of savagery. For civilization knits men more and more closely together, and constantly tends to subordinate the individual to the whole, and to make more and more important social conditions".

According to George, material advance demands a corresponding ethical advance at the same time, a greater sense of responsibility towards nature and society. This ethical advance is the natural response to the abundance of nature. George calls it 'a higher conscience', which raises the human relationship with nature to a higher level, while this in turn raises society itself to a new level – to a primary concern for justice and a new spirit of social unity in common service. The truly 'socialised' individual has the moral capacity to act for the sake of the whole of society. The 'ethics of savagery', of 'every man for himself', is really a product of a degenerate or failing society.

There comes a point where the innate laws of socialisation are invisible without looking towards the common good, and where seeing the common good opens up a deeper understanding of society and its potential. But the common good can be seen only through the sense of justice. The laws of inert matter cannot be applied to the social sphere. The social sphere comes into being and develops through thought and reflection, manifest in a 'higher conscience'. And so George writes:

"Social reform is not to be secured by noise and shouting; by complaints and denunciation; by the formation of parties, or the making of revolutions; but by the awakening of thought and the progress of ideas. Until there be correct thought, there cannot be right action; and when there is correct thought, right action will follow".

Reason and justice must inform one another. What is clearer now than it was in George's times, is that there is a direct correlation between the ills and injustices of society and the unlawful or abusive use of the earth. The exploitation of humanity and of the environment have a common root. These ills and abuses show a failure of intelligence as well as a moral failure. "What oppresses the masses is their own ignorance, their short-sighted selfishness", says George, refusing to lay the blame on government or industrialists. This 'short-sighted selfishness', which sadly seems to guide many voters, brings about an intellectual blindness. A society without insight into justice will necessarily be a crippled and limited society, open to exploitation and encouraging criminality. A few may gain enormous material riches, but in a general moral and intellectual poverty.

Poverty and environmental destruction are two sides of one thing: the effect of the divorce of reason and ethics. As George often observes, poverty is always explained away through bad reasoning. We are only now beginning to see how the abuse of reason and disregard of justice have inevitable social and environmental consequences. The laws of nature operate negatively for a society that cannot see that the creation of wealth must serve the common good, rather than private gain, and be in harmony with the biology of the earth. Modern ecology has shown us that nothing in nature exists in isolation or just for itself, and that the ethic of 'enlightened self-interest' is a wholly false ethic, harmful to society.

This is why the proposals of George should be presented as at once rational and just. If reduced to mere fiscal proposals, they fail to persuade. And if reduced to a moral crusade, they are dismissed as utopian. It is only through seeing they are at once rational and just that their full social and economic implications may be grasped. George implores us to understand that economic and social justice are the natural condition of society:

"There are deep wrongs in the present constitution of society, but they are not wrongs inherent in the constitution of man nor in those social laws which are as truly the laws of the Creator as are the laws of the physical universe. They are wrongs resulting from bad adjustments which it is within our power to amend".



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THE PHYSIOCRATS
AND
THE MEANING OF
THEIR SINGLE TAX



THE PHYSIOCRACY OF HENRY GEORGE

In chapter 4 of book VIII of *Progress and Poverty* (1879), Henry George singled out the school of Physiocracy for particular praise. In their doctrine of the single tax (*l'impôt unique*) he saw nothing less than an anticipation of his own idea. He wrote:

"There has been a school of economists who plainly perceived (...) that the revenues of land, ought to be appropriated to the common service. The French economists of the last century, headed by Quesnay and Turgot, proposed just what I have proposed, that all taxation should be abolished save a tax upon the value of land" (George 1879 p. 423).¹

Years later, in *The Science of Political Economy* (1898), George told the story of how his own ideas had suddenly come to him in a flash of clear vision, and how these ideas were almost immediately shown to him to have a prominent French pedigree.

"I well recall the day when, checking my horse on a rise that overlooks the San Francisco Bay, the commonplace reply of a passing teamster to a commonplace question, crystallised, as by lightning-flash, my brooding thoughts into coherency, and I there and then recognised the natural order (...) Afterwards, with the idea of the natural order in my head, I printed a little book "Our Land and Land Policy", in which I urged that all taxes should be laid on the land, irrespective of improvements. Casually meeting on a San Francisco street a scholarly lawyer, A.B. Douthitt, we stopped to chat, and he told me that what I had in my little book proposed was what the French "Economists" a hundred years before had proposed" (George 1898 p. 163).²

As is abundantly clear from these paragraphs, George viewed the Physiocrats as co-campaigners of his own single tax idea and as fellow believers in a natural economic order; an order of which he was careful to claim his own independent discovery. In other words, he read the Physiocrats as anticipators of his own work, and he therefore never really appreciated this intellectual precursor on its own terms and in its appropriate historical context. In this article, then, I will try in some small way to compensate for this incuriosity on the part of Henry George and attempt to lay out the fundamentals of Physiocracy and the specific meaning of the single tax proposed by the Physiocrats.

FRANCOIS QUESNAY AND THE RISE AND FALL OF PHYSIOCRACY

The republic of letters was first introduced to the ideas of Physiocracy by two long articles entitled *Fermiers* (1756) and *Grains* (1757), published in Diderot's and d'Alembert's *Encyclopédie*, but written by the royal physician Francois Quesnay (1694-1774), who gradually rose to prominence in Paris as the charismatic leader of a group of reform-minded *économistes*, as they called themselves. This group of dedicated followers of Quesnay, of which the first and foremost was the Marquis de Mirabeau (1715-1789), laboured vigorously to proselytise and disseminate their message, laid out in these initial articles and later, in 1758, formalised in the *Tableau Œconomique*, a somewhat puzzling piece of economic modelling whose complicated zig-zag pattern purported to visualise Quesnay's insights into the annual production, distribution and consumption of wealth under a system of unrestricted trade. The central claim of Quesnay and the Physiocrats was that the only way in which the French monarchy could escape its dire financial situation would be to abolish its mercantilist policies and properly respect the natural economic order. According to Pierre Samuel Du Pont de Nemours (1739-1817), a young acolyte of the cause, Quesnay had been the first to penetrate the deep mysteries of the natural economic order, enabling him to establish scientifically the fact that agriculture was exclusively productive and that strong property rights and free

trade were necessary preconditions for its development. In 1768, he published a brief history of the movement entitled *De l'origin et des progress d'une science nouvelle* in which he wrote:

"About thirteen years ago, an ingenious and vigorous man, immersed in deep meditation (...), divined that nature does not limit herself to the law of physics of the kind that has been studied in our schools and academies until the present. (...) Animated by the importance of this vision, and by the great lessons that could be drawn from it, he applied all the force of his mind in the search of the natural laws relating to society, and in the end he came to understand the unshakable foundation of these laws, their relation to each other, their development from each other, and their implications and results. It all formed a completely new doctrine, far removed from the prejudices adopted by general ignorance, and high above the comprehension of vulgar men in whom habitual thinking suppresses their ability to reason properly" (Nemours 1768 p. 9-10, my translation).⁵

Du Pont de Nemours's history is an invaluable guide to the orthodoxies of Physiocracy (a term that he coined) and it brilliantly conveys the optimism and the confidence with which the movement propounded its ideas - especially in the period after the attempted liberalisation of the French grain trade in 1766. These were the years in which Physiocracy thrived. In 1763, Mirabeau and Quesnay had published their massive, collaborative work *La Philosophie Rural* that attracted much attention in the wake of the disastrous Seven Years War, during which France practically lost its colonial empire and - in the process - bankrupted itself. In 1768, Du Pont de Nemours published his *Physiocracie, ou constitution naturelle du gouvernement le plus avantageux au genre humain*; a work that schematically (and laboriously) reiterated the central ideas of Quesnay. After 1770, though, when the old policing of the grain trade was reintroduced, the movement lost a lot of its impetus. A second attempt to liberalise the grain trade in 1774, this time by the philosopher-minister Jacques Turgot (to whom Du Pont de Nemours served as a secretary), briefly brought Physiocracy back on the scene, but the death of Quesnay that same year, and the subsequent "fall of Turgot" in 1776, meant that Physiocracy quickly lost its standing in the public sphere. The year 1776 also saw the publication of Adam Smith's *Wealth of Nations* and the almost complete dominance that Smith's great book henceforth exerted as *the* foundational text in political economy naturally stole a lot of attention away from the Physiocrats. To Smith, however, Quesnay's ideas played a crucial role as both a source of inspiration and an object of criticism. He fully adopted Quesnay's idea of measuring a nation's wealth in terms of the annual produce - the idea with which he opened the *Wealth of Nations* - and he no doubt felt a great deal of sympathy for the only other comprehensive system of natural liberty to his own. Their "*agricultural system*" was, according to Smith, the "*nearest approximation of the truth*" that had "*yet been published upon the subject of political œconomy*" (Smith p. 199).⁶

MERCANTILISM AND LEGAL DESPOTISM

What Smith and the Physiocrats had in common was the strong conviction that society ought to be organised according to a natural order, and they equally shared the realisation that the present organisation of society deviated considerably from such an order. As Quesnay wrote in 1765:

"The host of contradictory and absurd laws which nations have successively adopted proves clearly that positive laws are often apt to deviate from the immutable rules of justice and the natural order which is most advantageous to society" (Meek p. 45).⁴

Commerce and manufacture had become subject to reason of state because the interests of merchants and colonialists had been allowed too much influence on public policy. The principal culprit in this calamitous development was Jean Baptiste Colbert (1619-1683), the comptroller-general under Louis XIV and the grand architect of the “unnatural” system known to posterity as mercantilism; a term which Smith happily borrowed from the Physiocrats. In his effort to finance Louis’ growing military expenses, Colbert not only encouraged the expansion of France’s overseas empire, he reorganised the domestic economy for the purpose of making France commercially competitive. To Colbert, the balance of trade was a zero-sum game and his efforts were therefore directed towards gaining a trade surplus. On one hand he liberalised the manufacturing parts of the economy, incentivising and protecting their exports, and on the other hand he prohibited the exportation of agricultural goods. This latter thing was done in order to keep the prices on subsistence goods down because low living costs - it was understood - kept wages low as well. In this way, and at the expense of the agricultural sector, Colbert attempted to make domestic manufacture competitive in the international environment dominated by England - the new commercial giant in Europe (Hont p. 367-8).³ In his article *Grains*, Quesnay gave his undiluted view on this Colbertian system:

“A nation with a large territory which causes the price of its raw produce to fall in order to favour the making of manufactured goods completely destroys itself. For if the cultivator is not compensated for the heavy cost entailed in cultivation, and if he makes no gain, agriculture is ruined; the nation loses the revenue of its landed property; manufacturing work diminishes, because this work can no longer be paid for by the proprietors of landed property; and the country is depopulated through poverty and through the desertion of manufactures, artisans, labourers, and peasants, who can subsist only in proportion to gains which are produced for them by the nation’s revenue. Then the kingdom’s strength is destroyed, its wealth is wiped out, the people are overburdened with taxes, and the sovereign’s revenue diminishes. Thus a policy based on such grave misconceptions would alone suffice to ruin a state” (Meek p. 76-77).⁴

Aside from his lamentation of these mercantilist policies, Quesnay identified two further problems which hampered agricultural development. Firstly, agricultural land was extremely unequally held in France and the largely absentee landlords didn’t see it as their duty to develop the productivity of the soil. The majority of the farmland was instead cultivated by sharecroppers (*métayers*), who had little or no incentive to increase its yield. The lion-share of any improvement would go to the landlord anyway. Secondly, the burden of taxation fell disproportionately and often arbitrarily on the cultivators since the privileged classes were largely tax-exempt and land-taxes fell heavily on the farmer’s share of the produce. Moreover, due to the ever-increasing public debt ensuing from Louis’ wars and his extravagant court-life, the tax burden on agriculture kept rising to ever unprecedented levels. This was highly inappropriate since taxing the productive element in the economy at some point would run into diminishing returns and, ultimately, kill the proverbial goose that laid the golden egg.

Something clearly had to be done to reverse this unnatural and unproductive order. Therefore, the Physiocrats put their faith in the unlikely emergence of a philosopher king (i.e. a Physiocratic king). Somehow, by some revolutionary act or decision, royal absolutism had to be rendered complete. *“When the torch of reason illuminates the government, all positive laws harmful to society and the sovereign will disappear”* (Meek p. 55).⁴ Intermediary institutions such as the regional parliaments, which everywhere were dominated by landlords, had to be abolished since they formed an arbitrary and biased constraint on the monarch. All privileges had to be abolished and all power had to be centralised in a monarchical system which they called *legal despotism*. In short, they wanted something like Hobbes’ *Leviathan* to enforce the laws of nature. There was no need

for a constraining class of nobles since the laws which the monarch was supposed to enforce were *natural* laws, the constraining of which would only be unjust and disadvantageous - and besides, this had been the common practice for far too long.

THE NATURAL ORDER AND THE NET PRODUCT

The content of these natural laws did not spring into existence along with Physiocracy. Like Adam Smith, the Physiocrats were heavily indebted to the principals and reasoning of natural jurisprudence as it had developed since the time of Hugo Grotius (1583-1645). Their preference for agriculture and free trade was rooted in the so-called stage-theory of history according to which the development of society from barbarism to civilisation was structured along changes in the predominant method of satisfying basic human needs. Actually, this materialist theory of society’s development was primarily an attempt by natural lawyers to explain the origin and necessity (and thus legitimacy) of the modern regime of private property rights. Private property, they argued, ensured - by way of increased productivity - that even the propertyless were better provided for than if land was held in common.

With a similar purpose in mind, Quesnay and Mirabeau stressed repeatedly in *Philosophie Rural* that the satisfaction of man’s basic material needs was the origin and *raison d’être* of society, and the political system ought therefore to be organised with the satisfaction of subsistence needs as its primary goal. They recognised three fundamental modes of subsistence. First, there was the hunter-fisher-gatherer way of life. Second, the shepherding or herding mode of subsistence, and third, the agricultural mode. Commerce, they thought, was not an independent mode of subsistence. Instead, it was a natural consequence of the establishment of property rights in agricultural societies. Surpluses of agricultural products inevitably emerged when the cultivation of the earth was incentivised through property rights and the exchange of these surpluses became the activity and livelihood of the people who were deprived of access to land. An additional, fourth, pseudo-mode of subsistence thus inevitably coexisted with the other three, yet it was only secondary due to its dependency on the other three for basic subsistence goods.

This point about the epiphenomenal nature of commerce is actually what most clearly separates the Physiocrats from Adam Smith. Contrary to the Physiocrats, Smith believed that commerce represented an independent fourth stage of society in which everyone *“in some way becomes a merchant”* (Smith p. 198).⁶ Smith was thus more sociological and less materialist when he developed his own stage theory of history. Moreover, commerce also possessed for Smith an amazing transformative power as an agent of civilisation. Ultimately, to bring about the transformation from a mercantilist system to a system of natural liberty, a transformation for which the Physiocrats needed a philosopher king, Smith relied largely (and perhaps naïvely) on the positive, yet unintended, consequences of commerce. He therefore considered the radical solution of the Physiocrats to be highly illiberal and itself subject to unintended consequences. Furthermore, the fact that commerce did not represent an independent mode of subsistence for Quesnay and Mirabeau is also reflected in their idea that only agriculture is truly productive. Commerce is by definition an exchange of a surplus. Yet commerce and manufacturing are not capable of creating such a surplus themselves, since everyone except the farmer *“destroys in the form of subsistence as much as he produces by his labour”* (Meek p. 73).⁴ Artisans and merchants are thus *“sterile”* in the sense that they do not produce a net product (*produit net*). This net product only comes into existence when cultivation is applied to the land, and as such the net product is really to be understood as a species of rent - a gift of nature - given to the diligent cultivator. The entire population of a country is thus, according to the Physiocrats, maintained by the wealth that originates as a rent in agriculture, that accrues to the landlords as an unearned revenue, from whom it flows via consumption to the rest of society where it is *transformed* - not increased - by artisans, manufacturers and merchants.

As Quesnay wrote in *Grains*:

"All the kingdom's inhabitants should profit from the advantages afforded by proper cultivation, if the latter is to be maintained and made capable of producing a large revenue for the sovereign. It is by increasing the profit of the farmers that it procures gains for all the other classes..." (ibid. p. 82).⁴

This identification of all wealth with the net product of agriculture is crucial because it lies behind the Physiocrats' idea that the king should focus exclusively on the aggrandisement of this single factor. For this purpose, two things were essential. Firstly, trade in grain needed to be absolutely unrestricted. Colbert's policy of artificially keeping the price of subsistence goods low had only "ruin[ed] the countryside under the delusive pretext of assuring abundance for the towns" (ibid. p. 80).⁴ Only free trade could square the circle of creating both reasonably high and stable prices on grain - benefiting and incentivising the cultivator - as well as an abundance of grain:

"When trade is free, the dearness of produce has necessary limits which are determined by the prices of the produce of other nations which have extended their trade to all parts of the world. The same cannot be said of the valuelessness or dearness of produce caused by the absence of free trade. These follow one another in turn and irregularly. Both are extremely harmful, and are almost always due to unsound government policy" (ibid. p. 86).⁴

Secondly, it was of paramount importance that the cultivator was relieved of the burden of taxation. The wealth that was needed as investment in cultivation had to be set apart for the cultivators and exempted from all taxation. *"If the sovereign imposes taxes on the cultivator himself, if they swallow up his profit, there is a decline in cultivation and a diminution in the proprietors revenue, whence follows an inevitable retrenchment which affects hired people, merchants, workers, and servants"* (ibid. p. 82).⁴

THE SINGLE TAX AND THE CHANGED CONCEPTION OF RENT

It was as a solution to this problem that the Physiocrats proposed their single tax (*l'impôt unique*). It was to be levied on the net product when it accrued as revenue to the landlords. These landlords - or proprietors - were only useful to society because of their consumption which caused the net product to flow to the rest of society. If they hoarded their revenue, or spent it on imports, society would suffer. Their revenue, however, because it was unearned, could be taxed without discouraging agricultural production. In fact, by taxing their revenue, and untaxing their tenant farmers, the Physiocrats hoped to increase the net product even as it was taxed because the farmer would thus be incentivised by being tax-exempt:

"Taxes which are laid on the revenue, and which do not fall on cultivation, are not destructive at all, for cultivation will always amply compensate the proprietor; through the revenue it brings in for him, for the burden of the tax placed on this revenue itself" (ibid. p. 106).⁴

As a further reason for the single tax, the Physiocrats argued that a tax that varied with the size of the net product of agriculture would incline the monarch to encourage agricultural growth as much as possible. The single tax would thus create an advantageous alignment of interests which tied the revenue of the monarch with the rise or fall of the revenue of landlords. Agriculture would then surely receive the proper attention of which it had hitherto been deprived.

In *Wealth of Nations*, Smith devoted considerable attention to this scheme of taxation, and he attempted to improve on what he perceived to be its weakness. He clearly thought that this "variable land-tax proposed by the *économistes*" was superior to the English land-tax, which taxed landlords at an ancient, fixed rate even though the rent of land had been "continually rising" (Smith p. 354).⁶ However, he worried that the mere uncertainty of a variable tax

would cause some discouragement, and he predicted some serious problems with exempting the improvement of land from taxation. If the Physiocrats' land-tax was to work properly, it would be necessary to permit the landlord, before he began his improvement, to "ascertain, in conjunction with the officers of revenue, the actual value of his lands, according to the equitable arbitration of a certain number of landlords and farmers in the neighbourhood, equally chosen by both parties..." (ibid. p. 358).⁶ The improvements of land should then be tax-exempt for a fixed term, long enough to avoid their discouragement, but not so long as to discourage the sovereign from taking interest in the improvement of the land.

Precisely like the Physiocrats then, Smith maintained that the rent which went to the landlords ensured that their interest was completely aligned with that of society in general. When society prospered, they prospered as well. Smith, however, acknowledged that rent was a monopoly income. "Landlords, like all other men, like to reap where they have never sowed, and demand a rent even for its natural produce" (ibid. p. 56).⁶ Yet he did not think that this fact rendered it either harmful or unjust. The consumption of landlords kept the wheels of the economy going and thus made sure - by an invisible hand - that even the lowest and poorest workman, if he was "frugal and industrious", would enjoy "a greater share of the necessities and conveniences of life than it is possible for any savage to acquire" (ibid. p. 2).⁶

It was thus not until David Ricardo (1772-1823) that it was properly understood that rent was a *derivative* source of wealth and, therefore, *detrimental* to the development of society when appropriated by the landlords. With Ricardo it was also made clear that it was the inherent scarcity of land - both qualitatively and quantitatively - that gave rise to the phenomenon of rent. For this reason, Ricardo had a much more critical view of landlords (hence his campaign against their protectionist corn laws). Moreover, Ricardo believed - contrary to Smith - that the rent of land would rise, not only in absolute terms, but in relative terms as well. This was what lay behind his pessimistic prediction of a falling rate of profit in capitalist society and the inevitable regression to a steady state.

Half a decade later, Henry George was a true child of Ricardo when he proposed his single tax on the unimproved value of land, and this is the principal reason for the difference between his idea and that of the Physiocrats. According to the Physiocrats the rent of land should be taxed because it was the *original* source of wealth. As such the rent of land was purely beneficial to society - even if it went untaxed - and its taxation was supposed to align the interests of king and country and thus bring about a gradual return to a more natural economic order in which the incentives for cultivation weren't discouraged. According to Henry George, on the contrary, the rent of land should be taxed because it was a *derivative* source of wealth, highly detrimental to society when unjustly appropriated by the owners of land. Progress would forever be the cause of poverty unless the rent of land was taxed. In this view - and only in this view - does it become economically sensible to imagine the complete taxation of the rent of land. To a Physiocrat, that would mean the total nationalisation of wealth - the gift of nature - which presumably would destroy all incentives for cultivation. To George, however, it meant reclaiming for the benefit of society the unearned wealth that owners of land derived from the benefit of society. ■

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WHY PLANNING HAS NOT CREATED LIVABLE CITIES

In virtually every country in every part of the globe policymakers and planners work to redirect, stimulate, control or reduce the growth of urban areas. Few of the world's cities have, however, grown according to plan, which raises several rather intriguing questions for those of us concerned with the problems facing so many of the world's urban populations.

First, is why cities have developed as they have.

Second, is whether principles of planning are capable of operating universally with only minor adjustments for societal differences in institutions and culture.

Is better planning the answer to many of our problems, or do a society's socio-political dynamics make implementation of even the best plans an impossibility? To some of us who have studied the issues closely, the answer we come to is that without changing the way government raises its revenue, all the planning in the world will not lead to cities that provide a high quality of life for all residents.

When comparing the development pattern of cities within the Old World against that of the United States and other more recently-settled parts of the planet, there are clear reasons why and how development occurred along distinctly different paths. One is that Old World cities grew into urban centers over very long periods of time, as people migrated from the rural surroundings. They have survived dramatic changes in socio-political arrangements, in the technological infrastructure of the urban environment, and in their very reasons for being.

Historians have categorized the period of English colonization of the North American continent as one of *salutary neglect*, when isolation from central government fostered the growth of self-governance. Britain's victories over France and Spain in the Old World secured for North Americans a framework of government that was strongly oriented to the protection of property in land but also permitted land ownership to rather quickly become concentrated in the hands of a *rentier* elite. As a result, newcomers kept moving westward into the interior, establishing villages that grew into towns and towns that eventually grew into metropolitan cities.

The arrival of millions of displaced persons from the Old World accelerated the growth of cities located on the Atlantic coast of North America and the founding of new cities all across the interior of the continent. Orderly development was overwhelmed by a chaotic energy fueled by land speculation, railroad expansion, booming agricultural production, mineral extraction, the timber industry, shipping and manufacturing. This is the dynamic activity investigated by Henry George in the 1870s and culminating in his life's work to bring about systemic reforms.

With armies constantly fighting their way back and forth across Europe - and with landed privilege as the basis of political power - the continent's large cities had to be planned in anticipation of the probability of conflict from within and without. What happened in England was rather different. The English managed a shaky unification with the Scots, after subduing the Welsh and Irish, thereby consolidating power in the British Isles under one central government. This occurred before industrialization added to the supply of surplus labor. First, the landless peasants and later the unemployed poor made their way to the far-flung regions of Britain's growing empire.

London was not only the seat of government but by the late nineteenth century was also the center of finance capitalism being fostered under the British experiment with free trade. Britain's port cities also grew in size as the shipping industry expanded. Commercial agriculture replaced tenant farming, leaving displaced farmers with no choice but migration into the cities or overseas.

Advocates of progressive change (influenced to a greater or lesser extent in each country by some variation of socialism), called for policies that would improve health and safety standards, provide public access to recreation and establish publicly-funded education. How these programs were implemented and administered was, however, both determined by and contributed to by the degree to which each society moved toward centralization or decentralization of public decision-making.

City officials naturally look to higher levels of government for needed revenue. There is a general understanding that heavy taxation will drive away business owners and residents. Beyond this, however, few city officials or their planning teams developed any real appreciation for the economic effects of specific means by which public revenue was raised. Ironically, the economics literature is filled with reasons for exempting all property improvements and fully capturing the potential annual rental value of every land parcel within the limits of a community. That these insights have been ignored for so long or dismissed as valid only where development is less advanced is a curious thing.

A low effective rate of taxation on land rents results in a very volatile land market, where the potential to profit from speculation in land is high, and the annual cost of holding land off the market is low. Thus, in many communities and almost every city a large portion of the land area remains vacant for years or decades. Land speculation and the hoarding of land are easily seen as major causes of urban decay.

Prices for goods are set by the wider market, but the cost of acquiring land is set by the local market. In the central business district of a city this means that developers must build up to cover the cost of land, when available at any price. In other parts of the city once dominated by manufacturing and worker housing, a long period of abandonment leaves only the very poor behind, people who have no other option but to stay, to live in poorly-maintained apartment buildings or decaying housing. Absentee property owners milk the properties for as much cash flow as possible, making as few repairs as possible. Land owners wait patiently for urban pioneers to arrive, acquiring and rehabilitating old buildings and eventually attracting higher income residents and new businesses. They wait for gentrification to repay their patience in the game of land speculation.

For city governments, the challenge when people who enjoy sufficient income leave is how to balance budgets without financially bankrupting those who remain. When the state, province, or national government balks at sharing revenue, the only option they see is to cut services and programs.

Cultural differences also played an important role but primarily with regard to the speed rather than in the direction of change. The greater the homogeneity within a population group (e.g., ethnicity, language, socio-economic class, religious beliefs) the higher the probability that the cultural value system resulted in consensus building around decisions of public policy.



Conversely, in a society such as the United States, pluralism and the existence of Old World subcultures present powerful obstacles to consensus building around a policy agenda to be pursued by the Federal, State and even municipal governments. In the pluralistic society, planning is most effective at the lowest levels of public intervention and decreases in effectiveness as the effort expands in scope. For example, despite notable exceptions, U.S. Federal spending has too often gone to pork barrel projects that are narrowly beneficial but are undertaken despite the recommendations of planning specialists, community leaders and residents. City planners in the U.S. must not only face 50 state governments but literally thousands of regional and municipal bodies that claim jurisdiction over resource allocation and land use.

While noting the obvious problems associated with the U.S. model, a return to market-oriented growth policies during the 1980s countered the drift toward highly interventionist central planning. Two reasons for this were a loss of public support for bailing out the cities and the decline in government revenues available for large-scale development/redevelopment projects.

During the early 1980s, the Reagan administration emphasized a return of program administration to the states and a scaling back of revenue sharing; regional and municipal governments then looked at a menu of ways to encourage private development that included below-market land sales and long-term tax abatements. So, what does this all mean and where are we headed? Absent the societal commitment to look to land rent as a primary source of public revenue, urban problems can only be mitigated, not solved. Despite rising crime, congestion and crowding, people continue to leave the countryside or their homelands for the world's major cities. Few cities have been prepared for this influx of people. Private sector resources have not been forthcoming for development in areas where household income does not support a high level of consumption. Our dysfunctional market system does not provide very satisfactory levels of housing, employment or support services for low income consumers. Programs such as rent and food subsidies, publicly-funded medical care and education, as well as other forms of transfer payments to the poor do mitigate the impact but cloud the situation for analysts.

In nearly every society we are now seeing a widening gap between those who are the haves and those who are have nots, with less and less opportunity for upward movement in socio-economic condition for the overwhelming majority of those already at or near the bottom. The idea that removal of the leveling aspects of welfare state programs would encourage individuals to change behaviors and become self-reliant has not reduced poverty. Privatization, deregulation and lowered marginal tax rates on incomes have not generated wealth-producing investment. On the contrary, increasing the disposable income of those already wealthy has poured fuel on the speculation-driven character of our economies.

The challenge for the planning community is to convince policymakers that decentralization must be accompanied by changes in public policy that discourage the allocation of investment reserves into wholly speculative opportunities, into projects that produce no new physical wealth or employment opportunities and only serve to redistribute existing wealth from its producers to non-producers. There is only one policy that will start the dominos falling in the right direction, and that is the public collection of the potential annual rental value of land. 📍

philosophy



LEO TOLSTOY & HENRY GEORGE

"Whatever lives is full of the Lord. Claim nothing; enjoy, do not covet His property."

- Eesha Upanishad.¹

This is an English translation of an ancient Sanskrit scripture preserved in India that would have been known to both Gandhi and J.C. Kapur. Tolstoy's book, *The Kingdom of God is within You*, which so influenced Gandhi, echoes this. The verse is also a reminder of our relationship to the universe in which we live. I have chosen it because I want to focus on a lesser known aspect of Tolstoy's work, that which deals with the right of property.

Tolstoy was born into an aristocratic family with large estates. As a man of conscience, he grew increasingly uneasy about the large income he enjoyed when he saw so much poverty around him. This disparity in wealth bothered him. Like many today, he did not at first appreciate the significant difference in the natures of the two sources of his income: the royalties he received from his writing were the fruit of his own labours; the rent he received as a landowner was the fruit of other men's labours.

Despite having long been accustomed to rural poverty, he was profoundly shocked by the beggars on the streets when he moved to Moscow in 1881. When he finally steeled himself to do something about it, his first reactions, he admitted, were self-centred and emotional. Guilt came first, then satisfaction, induced by his friends' praise, with his own goodness in feeling guilty, and then a feeling that this poverty was not the result of his own luxurious way of living, but an inevitable condition of life. For some time, he occupied himself with organising some measures of practical relief, but realising at last that his efforts were not going to change the *status quo*, he began to consider seriously why it was that such poverty existed. He realised that if the cause could be removed, the effect would disappear. The first question he asked himself was why peasants should leave the country for the town. The reason, he discovered, was that, after the abolition of serfdom in 1861, many peasants were worse off economically. Too much of the wealth they produced went in taxes to the State and in rent to the landowner. He described this process as "the passing of wealth from the producers into the hands of non-producers".²

In his next attempt to solve the problem of poverty, Tolstoy constructed a curiously elaborate economic model, marred by inconsistent analysis, but I won't go into that.

A bit earlier in California, an American writer and self-taught economist, Henry George, was grappling with much the same problem, particularly why, in a country where there was no landed aristocracy, the gulf between rich and poor widened as the economy developed. His answer was expounded in a worldwide bestseller *Progress and Poverty*, published in 1879. It is not known when Tolstoy first became aware of it, but in *What then must we do?*, published in 1886, he referred to "Henry George's project for nationalising the land".

This was in fact a misrepresentation of George's 'remedy', prompted no doubt by Tolstoy's antipathy towards the State. He would have seen that handing ownership of land to the State would only increase the concentration of power, as in fact happened in the Soviet Union.

In an open letter to Pope Leo XIII in 1891 in response to the papal encyclical, *Rerum Novarum*, Henry George set out the moral basis for the right of property:

"This world is the creation of God. The men brought into it for the brief period of their earthly lives are the equal creatures of His bounty, the equal subjects of His provident care."

By his constitution man is beset by physical wants, on the satisfaction of which depend not only the maintenance of his physical life but also the development of his intellectual and spiritual life. God made the satisfaction of these wants dependent on man's own exertions, giving him the power and laying on him the injunction to labor – a power that of itself raises him far above the brute, since we may reverently say that it enables him to become, as it were, a helper in the creative work.

God has not put on man the task of making bricks without straw. With the need for labor and the power to labor, He has also given man the material for labor. This material is land – man physically being a land animal, who can live only on and from land, and can use other elements, such as air, sunshine and water, only by the use of land.

Being the equal creatures of the Creator, equally entitled under His providence to live their lives and satisfy their needs, men are equally entitled to the use of the land, and any adjustment that denies this equal use of land is morally wrong".

In July of 2014 Pope Francis called a summit to help build a more moral capitalism. He is on record as having derided the free market for allowing 'the powerful to feed upon the powerless', words reminiscent of Tolstoy. Unfortunately, the Pope has turned for advice to Jeffrey Sachs, an American economist who advised President Yeltsin on privatising land and state assets in Russia in the 1990s. This was hardly a moral form of capitalism.³

Henry George went on:

"Being created individuals, with individual wants and powers, men are individually entitled ... to the use of their own powers and the enjoyment of the results. There thus arises, anterior to human law, and deriving its validity from the law of God, a right of private ownership in things produced by labor – a right that the possessor may transfer, but of which to deprive him without his will is theft.

This right of property, originating in the right of the individual to himself, is the only full and complete right of property. It attaches to things produced by labor, but cannot attach to things produced by God. Thus, if a man take a fish from the ocean he acquires a right of property in that fish, which exclusive right he may transfer by sale or gift. But he cannot obtain a similar right of property in the ocean, so that he may sell it or give it or forbid others to use it.

Or, if he cultivate grain he acquires a right of property in the grain his labor brings forth. But he cannot obtain a similar right of property in the sun which ripened it or the soil in which it grew".⁴

In the modern world, the right of property extends not only to the "things produced by labor", but also to land itself, a contravention of the divine law. This means, as Adam Smith pointed out:⁵

“Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all”

Once Tolstoy fully understood George's proposal, he became a vigorous proponent of the reform and, out of concern for the Russian people, wrote to commend it to Tsar Nicholas II in 1902:

“Dear Brother,

I consider this form of address to be most appropriate because I address you in this letter not so much as a tsar but as a man – a brother ... I did not want to die before telling you what I think of your present activity, of what it could be, of what great good it could bring to millions of people and to yourself, and of what great evil it can bring to those people and yourself if it continues in the same direction in which it is now going ...

I personally think that in our time the private ownership of land is just as obvious and as crying an injustice as serfdom was 50 years ago. I think that its abolition will place the Russian people on a high level of independence, wellbeing and contentment. I also think that this measure will undoubtedly get rid of all the socialist and revolutionary irritation which is now flaring up among the workers and which threatens the greatest danger both to the people and the government.”⁶

The Tsar did not reply and history tells us how prescient Tolstoy was. In a long article⁷, published in *The Times* in London (Tolstoy's political works were banned in Russia), he argued that replacing autocracy with some form of democracy was not the answer. If political reform were the answer, why was there still social unrest, provoked by extremes of wealth and poverty, in the democratic countries of Europe and America? Democratic reform might be the means to economic reform, but it was not in itself the solution.

George was by no means a communist in the modern sense - nor in the early Christian sense of advocating common ownership. He recognised the need for the individual to reap the benefit of his own efforts, or to own the factory, office block or house he had built, but he also saw how a peaceful reform could be introduced through a change in the tax system. The effect would be to give everyone the same right to use the gifts of nature without acquiring a right of property over nature. Taking the example of somebody's home to illustrate, we find both elements: i) the bricks and mortar with which it is built, and ii) the land on which it stands. The former is the result of work, the latter the gift of nature. So, a right of property can morally be claimed in the house, but not in the land on which it stands. Since both are necessary, what George proposed was that, to acquire the exclusive use of the site, thereby excluding everyone else from what is given to mankind in common, the occupier should compensate the rest of society for excluding them by paying a property tax based on the market value of the site, ignoring the value of the building as it is private property.

A simple analogy might help: If you buy a theatre or airline ticket, you can claim that the seat is 'yours', but you don't own it, you only have the right to its use for a specified time. In the same way, if you bought a house to live in, that house becomes yours by virtue of the purchase, but the land underneath does not. You can call it your house as long as you fulfil the conditions for occupying the site. What might these be? George recognised that a basic law of economics, the law of rent, provided the answer. The value of bricks and mortar do not vary from place to place, but the value of the site can vary enormously. In London, for example, a house in the vicinity of a good school can cost £30,000 to £50,000 more than an identical building in a less favoured location. This is because the value of the site is determined by the amenities from which it benefits. Since these externalities, as economists call them, are not produced by the occupant but by society as a whole, it is only fair and reasonable to recompense society for the expense of

providing them. The value of that benefit is automatically reflected in the market price of the site, and should be paid to society not to an individual. George also realised that this socially created value could provide the government with an income - just as the landowner enjoys today - in the form of an annual rental or tax. However, the government would simply be acting as the tax collector; not the owner of the land, and would have no right to determine who lives where - that would be decided by the property market, as it is today. If the government receives the rental income so determined, there is scope for considerable reduction, possibly elimination, of other taxes.

But how would such a change in the tax system relieve the poverty that Tolstoy and George saw as the major problem facing humanity? There is a well-known Chinese proverb:

“Give a man a fish, you feed him for a day. Teach him to fish and you feed him for life”.

The suggestion here is that the solution to poverty is education which many advocate today. Certainly it helps, but under present conditions the new fisherman would have to rent a site from the landowner before he can start. He would also be taxed on his income and buying a fishing rod, leaving him with barely enough to subsist. Were George's proposal to be fully implemented, if he could find a quiet spot which no one else was using, he would have no rent to pay and no income tax, so he could enjoy a better income and become a consumer of other people's products, thus improving their standard of living as well. However, if he wanted a better spot, perhaps nearer the market, for which other fishermen were competing, he would have to outbid the others for the privilege and pay a higher rent. Society, rather than a private landowner, would benefit from the higher rental income. The advantages and disadvantages of a site are summed up in its market price. The individual is free to choose which site he thinks is best for his home or business. If the site is much in demand the price is high, if not it can be very low. Successful businesses and rich people will gravitate to more expensive sites for the advantages they provide, thereby automatically contributing more revenue to the government. If governments understood the workings of this economic law, they would focus on improving facilities, thereby raising site values and so increasing their revenue rather than taxing people. Improving amenities rather than a tax hike would therefore be the best way for governments to increase revenue, a win-win situation for government and taxpayer.

Many other advantages flow from this simple reform, but I hope I have demonstrated that it offers a peaceful way out of the rising frustration with the unequal distribution of wealth. I would just like to leave you with a thought from Cicero:

*“Now if nature hath given us law, she has also given us justice – for as she has bestowed reason on all, she has equally bestowed the sense of justice on all. And therefore did Socrates deservedly execrate the man who first drew a distinction between the law of nature and the law of morals, for he justly conceived that this error is the source of most human vices”.*⁸

A culture of non-violence can only prevail where natural law is observed, just as an aircraft can only fly if the laws of aerodynamics are observed. It is to the natural law that we must look for the economic principles of the future. 📌

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HGF BRIEFING NOTES

FRIDAY EVENING PROGRAMME

Our students are currently exploring the speeches of Henry George on alternative weeks along with continuing studies of Plato's famous book *Laws*. George's speeches are especially interesting as we hear him directly addressing popular audiences and appealing to their sense of justice and goodness.

At the moment students are diving into *Book Eleven of Laws*, where Plato returns to the question of property and stealing. Plato's approach to these questions are very different to those of our times.

This is in large part because, for Plato, commerce and making money are of secondary importance. His conception of a healthy society is one that is, in its very essence, self-sufficient - and thus does not need to embark on trade and commerce as an end in itself. We begin to see that our modern society is not so much the product of technological advancement, as one driven chiefly by land monopoly, where the greater part of life is aimed at staving off poverty.

FRIDAY AFTERNOON SESSIONS

In addition to the popular Friday evening events, the HGF's Friday afternoon sessions have continued as well; and will continue in the future. What has changed, however, is the name. *The Friday Study Group* will replace the previous designation: *The Library Group*.

SUMMER TERM

The HGF has started the Summer Term with another session on the Magna Carta. This included a diversion in that Tommas Graves described how an original copy of the 1297 version interestingly had been found at his school in Somerset and was now in Canberra - having later been sold to Australia some time in the 1950s.

This was later complimented by another paper from Seymour Rauch, "*Credit and the Rent-interest Index*" from 1953; followed by another visit from Alan Roberts "*Alexander Pope on Self-love and Social Forces*" to add a new scope to the intellectual discussion.



Next, students and teachers were treated to Cicero with readings of "*On the Laws*" and talks about Cicero's fascinating life history.

To bring everything to a meaningful and satisfactory conclusion Michael Learoyd suggested that all students make a serious study of Henry George's "*Social Problems*", and thus everyone have started on chapters downloaded from the Robert Schalkenbach Foundation. This will be the continued focus - except when other speakers are invited.

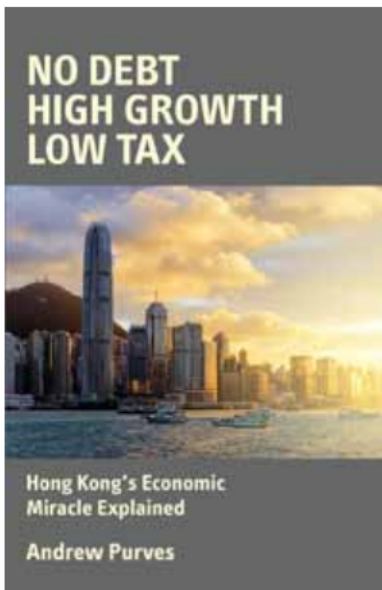
The Autumn Term set out with an interesting presentation by Haydon Bradshaw called "*Rent Maps*", starting with a 13,000 year old map found in a cave showing the best geographical places to hunt bison, or deer. A more modern example was the maps devised by Ronald Burgess showing how entry in the Common Market consequently would affect the areas with the highest economic potential.

To balance the earlier paper by David Cotton, Gordon Wratten gave a fascinating insight into the *deniers' view* of climate change.

Students now continue with "*Social Problems*", interspersed with Alan Roberts "*Alexander Pope and Society*". Towards Christmas Tommas Graves will be presenting "*What makes Money Work?*" as well as a much more detailed study of "*The Guernsey Experiment*".

As always: All members are more than welcome to share the feast!





NO DEBT, HIGH GROWTH, LOW TAX BY ANDREW PURVES

Reviewed by Brian Hodgkinson

Shephard-Walwyn Books, 2015
ISBN: 9780856835070

This book by Andrew Purves is a remarkably concise, yet well-researched, study of the Hong Kong economy. The author spent his childhood there and makes good use of his acquaintance both with the place itself and with people in strategic positions within the ex-British colony. His stated aim is to answer the question that the students whom he has taught in the School of Economic Science in London most frequently ask, namely 'Is there somewhere where Land Value Taxation is actually put into practice?' Yet the book is in no way an attempt to paint Hong Kong as an economy of milk and honey based upon a perfect tax system. Purves is only too well aware of deficiencies such as serious inequality. What he makes admirably clear is that the collection of a substantial amount of public revenue from the rent of land helps to promote a dynamic economy.

This collection of rent is not achieved by a simple method of taxing the annual value of economic rent as recommended by Henry George. There is such a tax in the form of a 3% levy on the rateable value, but probably more significant is the practice of government sales of leases on land. Keen to ensure an ongoing source of income when the British secured Hong Kong from China in 1841, land was offered by lease in return for rent, and a system developed on an ad hoc basis which continues to this day – as detailed under Article 7 of the Basic Law, viz. 'The land and natural resources within the Hong Kong Special Administrative Region shall be State property'. When the colony was founded some leases were granted by the colonial government for 999 years. Fortunately Joseph Chamberlain in 1898 ordered that no more such leases should be granted. Since then new leases are mainly for 75 years, which means that as they have fallen due the land reverts to the Hong Kong government. Since leases are issued by means of an auction sale, they can be sold at a premium determined by the current market price, thus providing the government with an appreciable source of revenue.

Purves gives several pertinent examples of this procedure. An interesting one – amongst many – compares two adjacent sites

with more or less identical facilities and advantages. One has an old lease of 999 years, the other one of 75 years. The annual rent in 2011 payable to the government for the latter was about half a million UK£s, for the former UK£62! In fact the government works hand in hand with property developers to extract much of this land lease value. When property developers wish to begin a project the government may buy the relevant lease from the existing owner at a pre-development price. It is then sold to the developer at a premium with development rights. The developer may also agree to provide some public amenities on lines similar to the 106 agreements, or the recent Community Infrastructure Levy, negotiated by local authorities in the UK. Such co-operation with developers might not be welcomed by Georgist purists, but where land does not bear a full economic charge as public revenue it is a beneficial compromise. The theory behind the collection of public revenue by means of leases is clearly stated:

In an urban setting, such as Hong Kong, location is by far the most important determinant of value. It is created by the presence and activity of the surrounding community. The purchaser of a particular plot is putting a price on the benefits conferred by society on that site thereby hoping to recoup his investment.

The American economist, Milton Friedman admired the Hong Kong economy greatly for its low level of taxation. Purves points out that Friedman failed to refer to the prime reason for this, namely the revenue received from government ownership of land. Comparisons of taxation in relation to GDP, nevertheless, are revealing. In 2014 Denmark's public expenditure was 57% of GDP, the U.K.'s 48%, U.S.A.'s 41%, whilst Hong Kong's was 18%. Much could be learnt from these figures about how to deal with the U.K.'s deficit, provided Friedman's oversight is not made.

An analysis follows of how Hong Kong and the U.K. compare in the type of taxation in force. Unlike the latter's heavy reliance on Income Tax and National Insurance contributions, Hong Kong charges no such taxes on the majority of people. Nor is there any Value Added Tax, which in the U.K. constitutes 17% of revenue. Excise Duties are likewise absent in Hong Kong, being 8% of revenue in the U.K. On the other hand Hong Kong companies pay Corporation Tax at a rate of 16.5% - less than those in the U.K. - raising no less than 36% of revenue. The real difference arises with property taxes. Landowners in Hong Kong pay three taxes: Government Rent at 3% of rateable value, General Rates at 16% and a tax on rental income of 15% of 80% of actual income received. The only equivalent property tax in the U.K. is Rates levied by local authorities. Whilst both countries levy Stamp Duty on property transactions, Hong Kong charges considerably more. Rates vary from 1.5% to 8.5% on property over £1.6m. Foreign buyers and owners of second properties pay double the rates. Stamp Duty is thus 12% of total revenue. It is relatively insignificant in the U.K., as is Estate Duty, which is not levied in Hong Kong. These comparative figures taken together reveal how much Hong Kong benefits from revenue based upon land values when compared with the U.K. - and indeed with all Western economies. Finally Purves points out that taxation in Hong Kong is transparent in that no agents, like employers or retailers, are used as collectors, in contrast with the U.K.'s use of these, which renders tax payers largely unaware of the real charges being made.

The benefits accruing from Hong Kong's rational taxation system are enumerated. Publicly financed infrastructure projects, such as roads, buildings, ports, housing and airports are substantial. In particular, an Investment Fund finances such developments as the Hong Kong Housing Authority, Science and Technology



Parks, an Asian Development Bank, the Airport Authority, an International Exhibition Centre and an Urban Renewal Authority. The equivalent of a Sovereign Wealth Fund worth £233bn in 2013 amounts to 142% of GDP. This compares with a public sector net debt in the U.K. of £1,193bn or 74.5% of GDP. (!) Although housing in Hong Kong in the past has been of a poor quality for the majority of the population, with notoriously small flats, there has more recently been a large increase in public housing expenditure. New developments often include shops, open spaces, gardens and schools. Health expenditure ensures that 'no one should be prevented, through lack of means, from obtaining adequate medical treatment' ('Hong Kong: The Facts - Public Health'). However, a Confucian tradition of self-reliance has inhibited the growth of a significant welfare system.

Despite the taxes on land values, the price of land in Hong Kong is very high. This reflects the incompleteness of the various charges, such as the low rate of 3% Government Rent and the patchwork nature of the public leasing of land. Purves gives an account of the problems associated with this high land price. There are a handful of property billionaires, who have amassed agricultural land in the New Territories, which has acquired planning permission, or provided land for prime city office developments. The majority of the population, however, face high housing costs, so that the level of poverty is growing. Indeed Hong Kong is 'in the upper echelons of inequality' with a gini coefficient of 0.537 in 2011 compared with the U.K. at 0.34. Purves concludes that the major developers retain almost monopolistic control over the supply of new housing units. At this point Purves offers a general statement of the principle regarding land that Hong Kong only partially exemplifies:

According to the tenets of land value taxation, there should be no premium for the land. The only requirement from a public revenue point of view would be an annual payment of a percentage of the bare land value, reassessed every year. This payment could continue to be called the 'Government Rent' - it is in effect an annual charge for the value of the services provided to any particular location by the public purse.

He might perhaps have added that it is also a charge for the value to a site of the surrounding community as available labour, consumer markets and so on. What he rightly stresses is the absence of an up-front premium for the lease, which would open the land market to new entrants, with the requirement that they followed planning laws. A brief reference is made to the need for land valuations and for answers to critics who argue that land values cannot be separately assessed.

The book devotes a chapter to an account of Hong Kong's Mass Transit Railway (MTR), which is an object lesson in how to finance public infrastructure projects. Hong Kong had a population in 2013 of 7.2m in an area of 1100 sq.kms with a density in the Kowloon area of 46,000 per sq.km. No wonder that a rail system was preferred to emphasis on road transport. The secret of the great success of the MTR is that the land for it has been bought from the Hong Kong government at greenfield (i.e. pre-development) prices and leased out to developers or occupiers at its developed value. Land around and above stations becomes particularly valuable for shopping, housing, banks, restaurants and other facilities, so the MTR continues to benefit from rents. The financial outcome is striking. In 2012 profits were just over £1bn, most of which was paid as dividend to the government. Compare this with Transport for London, which receives an operating subsidy of more than £1bn. In fact, the MTR method has been used in the U.K., when the Metropolitan line was built in

the 1930s, although in that case the post-development land was sold outright. It has been ignored, however, for the Jubilee line extension and the new Crossrail. To add insult to injury the MTR has been granted a contract to run Crossrail with the expected profits going to finance public expenditure in Hong Kong.

Brief sections of the book are given over to Singapore and China. The former has much in common with Hong Kong - low personal tax, high GDP per capita, low unemployment, consistent growth, but a high gini coefficient. The key similarity, however, lies in the land system. 58% of all land in Singapore is State Land. This is sold under leases which yield a long term revenue and are not perpetual. Hence the government has a very significant income from land sales and rent, enabling it to follow Hong Kong in avoiding excessive taxation. A further consequence is that Singapore also has a huge Sovereign Wealth Fund of several hundred billion pounds. A final noteworthy feature is that the government has solved a serious housing crisis after independence from the U.K., so that 80% of the people live in Housing and Development Board flats, most of which are at least partially owner occupied.

Purves only makes a few comments on China, but they are telling ones. He quotes Sun Yat-sen, who was a Georgist: 'The land tax as the only means of supporting the government is an infinitely just, reasonable and equitably distributed tax, and on it we will found our new system'. Of course Sun Yat-sen did not live to achieve this, yet the present communist government has not completely forgotten his message. All land is vested in the State and leased out to tenants, thus creating revenue from land sales and rent. Purves' conclusion is that China stands at a fork in the road, one path leading to western style taxation, boom/bust cycles, low growth etc., the other the path followed by Hong Kong, which exploits the economic potential of the land. He finishes with a reminder that post-Soviet Russia was advised by 30 American economists to retain government ownership of all land, but chose instead the world of the oligarchs.

This book is a fine example of how to combine high principles with careful, detailed research. It shows how economic theory and practical policy could be reformed to take account of the vital importance of land, and demonstrates how this may work in a present-day economy. Purves does not idealize Hong Kong. He has observed at first hand the faults in its system, mainly following from the patchwork nature of its land and taxation laws. Yet he has shown clearly how there are real, substantial benefits from a system which recognises the central role of land and land rent. No longer need Economics tutors apologise for the absence of living examples of justice in their subject. *No Debt, High Growth, Low Tax* fills a major gap in their armoury. ■

BOOKS WORTH READING

If there is another aspect of economics besides the land question that demands understanding at this time, it is the question of the nature of money. What complicates the question of money is how it can gain interest through lending. A new book, which takes this question head on, is *The Church and the Usurers: Unprofitable Lending for the Modern Economy* by Brian McCall. In this very clearly written book we are given a rich history of the ideas about usury, but with particular attention focused on the traditional natural law theory adopted by the Catholic Church through a combination of the biblical prohibition against usury, Roman law and usury, and Aristotelian understanding of usury. McCall also shows how the emerging secular society departed from the Catholic teaching on usury, so that for a period the two came in conflict. ■

WHOSE LAND IS IT ANYWAY?

According to conventional wisdom, South Africa has erased all traces of apartheid. How could it be otherwise, in the land of Nelson Mandela? When it came to power, the ANC resolved – through the country’s constitution, that “*South Africa belongs to all who live in it*”.

That the ANC government was under an obligation to realise that aspiration was made mandatory by §25 (5) of the constitution. This declares: “The state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis”. Furthermore, §237 declares: “*All constitutional obligations must be performed diligently and without delay.*”

It did not happen.

South Africa today still belongs to the minority: Those who own the title deeds to land, and who fail to pay the socially-created rent into the public purse.

The failure of governance is a tragedy for most people. The economics of apartheid prevail in Mandela’s republic. True, the elites now include black Africans. But that is of no comfort for the millions who suffer separate “development” in the shanty towns of Cape Town and Johannesburg.

There is no excuse for this failure. As the authors of the recently published book *Our Land, Our Rent, Our Jobs* note, until 2004 most of the municipalities raised revenue by a direct charge on the imputed rent of land. This model, if generalised by central government, would have made it possible to abolish the treadmill taxes that deprive people of jobs and the decent living standards that they would otherwise provide for themselves.

The theory that underpins the treatment of land as public revenue was established long ago, and repeated time and again by Joseph Stiglitz, the Nobel prize-winner who continues to advocate rent as public revenue in these terms:

One of the general principles of taxation is that one should tax factors that are inelastic in supply, since there are no adverse supply side effects. Land does not disappear when it is taxed... But it is not just land that faces a low elasticity of supply. It is the case for other depletable natural resources. Subsidies might encourage the early discovery of some resource, but it does not increase the supply of the resource; that is largely a matter of nature. That is why it also makes sense, from an efficiency point of view, to tax natural resource rents at as close to 100% as possible.

During its years of exile, the ANC committed itself to the rent-as-public-revenue policy. In Rhodesia, another anti-colonial activist – Joshua Nkomo, leader of the Zimbabwe African People’s Union – committed a post-colonial Zimbabwe to a similar policy. He stated:

We don’t believe in trading land or selling land - no. And in any government that I lead, you can be certain those practices must go. That does not mean we will be taking people’s land. It means that other people who haven’t got money will have a chance to use land, which is the common property of everybody. And if they have to pay

some rates or rent, that will go to a general fund of the people. In this way citizens can use as much land as they want. Our system is this: Once you use land, that land belongs to you. But you have not bought it. You cannot sell it to someone. The land belongs to the people, but everything on that land is yours.

Unfortunately, wisdom did not prevail, either in Zimbabwe or South Africa; and millions continue to suffer as a consequence.

There is one solution only to the poverty which disgraces Mandela’s land. The perverse logic that led to the Local Government Municipal Property Rates Act (2004), under which buildings as well as land are taxed, should be seen for what it is: an affront to the sentiments in the Constitution

Conflict did not end when apartheid was formally outlawed. Truth and reconciliation did not emerge from the commission headed by Archbishop Tutu. An economic war continues to disrupt South Africa, and all because – as the authors note – “Where the Treasury does not collect the natural rent, someone else will!” Victims include those who are crammed into “shoebox” houses in the townships, with tenants, legal or illegal, in backyard shacks paying the owners.

The tragedy throughout Africa today is the direct result of the failure to recover the pre-colonial doctrines of land rights, which ensured an equitable access to natural resources for everyone. This ethic chimes elegantly with the fiscal wisdom of philosophers ranging from Adam Smith through Henry George to Joseph Stiglitz. Africa needs to integrate its ancient wisdom with the fiscal practices that deliver freedom and prosperity for everyone. ■



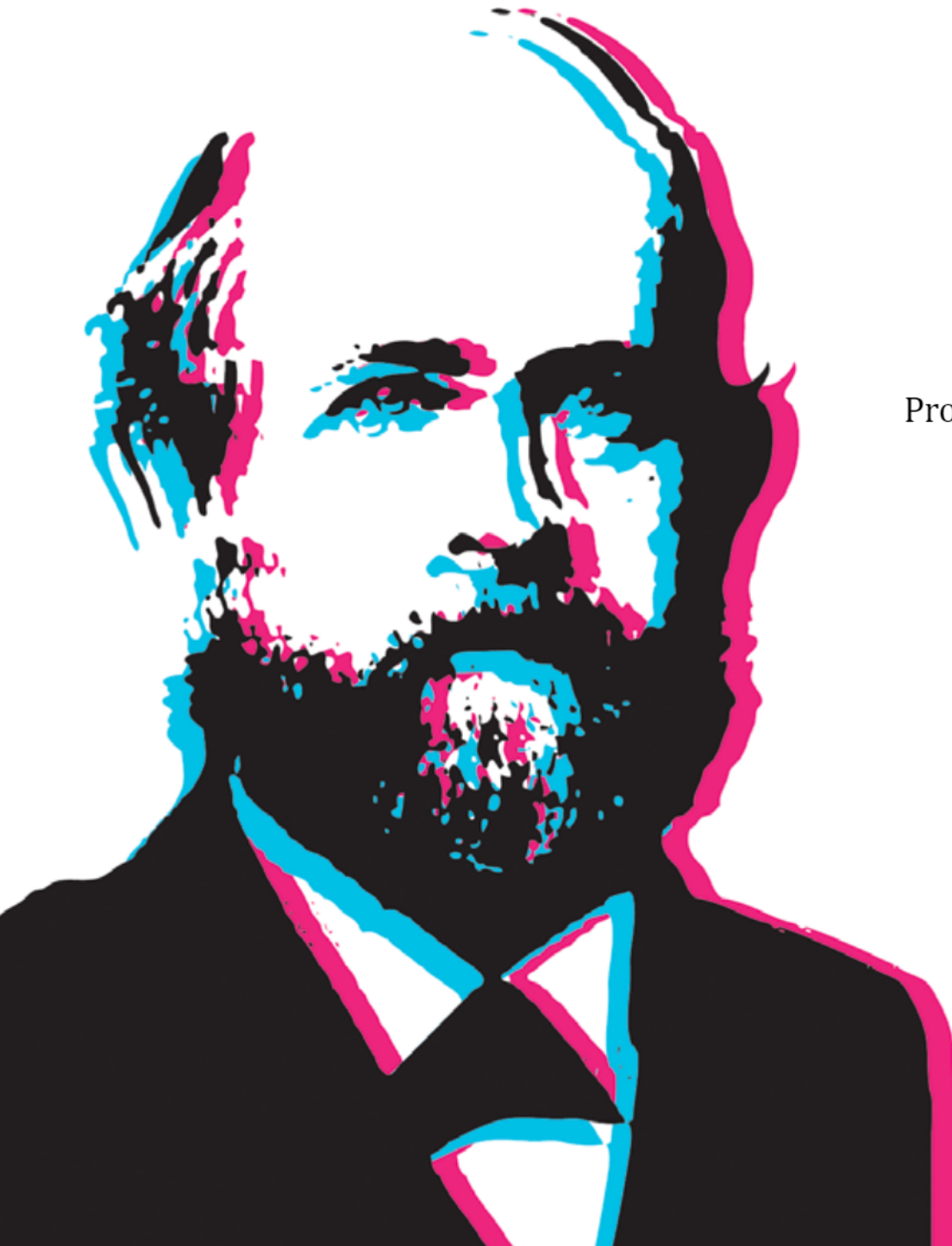
For more on this subject the book *Our Land, Our Rent, Our Jobs* by Stephen Meintjes and Michael Jacques is now available from Shephard-Walwyn. Go to www.shephard-walwyn.co.uk

The authors provide the forensic evidence for charting the route to general prosperity. Their book provides a thorough evaluation of the nation’s public finances, ranging from the disgrace of poverty in the rural areas, the failure to capture resource rents from the mining industries, and the opportunities that would arise from switching taxes away from earned incomes. ■

... AND DESIRE MOUNTS
WITH EVERY ADDITIONAL
OPPORTUNITY FOR
GRATIFICATION

”

Henry George,
Progress and Poverty 1879



To find out more visit
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Our Philosophy



What is Land & Liberty?

Land&Liberty, a quarterly magazine published by the Henry George Foundation, has chronicled world events for over 100 years. Dedicated to promoting economic justice along lines suggested by the American writer, social reformer and economist Henry George, it offers a unique perspective to stimulate debate on political economy with its reports, analysis and comment.

Who was Henry George and what is special about his ideas?

In 1879 George published one of the best-selling books on political economy ever written, *'Progress and Poverty'*. By the twentieth century the wisdom he expounded was recognised and supported by many of the world's most respected thinkers including, Tolstoy, Einstein, Churchill, Keller, Shaw, Huxley, Woodrow Wilson, Stiglitz, and Friedman. Today, as the world faces environmental and economic crises, we believe George's philosophy is more relevant than ever. But, as George foresaw in *Progress and Poverty*, and is inscribed on his gravestone:

"The truth that I have tried to make clear will not find easy acceptance. If that could be, it would have been accepted long ago. If that could be, it would never have been obscured."

Today Henry George is mostly remembered for his recognition that the systems of taxation employed in his day, and which continue to dominate fiscal policy in the UK and throughout the world, are unjust, inefficient, and ineffective.

He saw how taxes discourage wealth creation, positive economic activity and employment and prevent people and nations from realising their full potential. By ignoring property rights they involve theft and encourage dishonesty and environmental abuse. In short, as a method of raising public revenue, they fail. By offering an alternative, George also showed that taxes are unnecessary.

George realised that some land at particular locations acquired a value that was not due to the actions of any individual or firm but was due to natural influences and the presence, protections and services provided by the whole community. He saw that this value grows as the need for public revenue grows and is sufficient to replace all existing taxes. This could be collected by levying a charge based on land values and is commonly referred to as land value tax or LVT. However, George was clear that this is not actually a tax but is a rental payment individuals and groups need to pay to receive exclusive use of something of value from the whole community, i.e. the exclusive possession of a common, limited and highly-valued natural resource.

Henry George's ideas were not limited to his proposal to change taxes. His

profound body of theory also included issues such as: the difficulties inherent in the study of political economy, the fundamentals of economic value, a proper basis for private and public property, trade, money, credit, banking and the management of monopolies.

Key to 'the truth' that Henry George tried to make clear is that every thing is bound to act in accordance with the laws of its own nature. He saw that these laws of nature operate everywhere, at all times, and throughout a creation that includes man and society and the worlds of body, mind and spirit. Further, that people and societies can only behave ethically and succeed in their own designs where they take proper cognisance of, and act in harmony with, those natural laws.

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