

to imbalances resulting from land ownership patterns could, he suggests, be tackled by way of adjustments in the taxation of wealth generally.

But to abolish the inequity in the distribution of wealth, the cause must be traced to its source and tackled there. We have had a surfeit of palliatives and we are still trying them.

While it must be admitted that Dr. Denman has made some valid points in his short booklet, including a well-reasoned case for a new Domesday Survey of land ownership, his findings are dominated by his strong defence of private land rights. In his criticism of the socialist inspired controls that have been tried and are being advocated today, he evokes much sympathy, but he has refrained from more than a superficial examination of George's fundamental reform or the versions of it current today. It is to be regretted that he has not examined such positive measures, for to the uninitiated it would appear that while the present situation gives rise to much dissatisfaction, in Doctor Denman's view there is little that can or should be done about it!

## LESSONS FROM HONG KONG

**L**AND is the base of all human activity and the source of all wealth; it supplies the raw materials, the soil, water, minerals, animal resources and other attributes of nature that are essential to man's development and well-being. In an expanding community land is in ever increasing demand for the construction of new towns, of schools, hospitals, universities and clinics, for factories, roads and reservoirs, for parks, playgrounds, shops and houses, for harbours, piers and ports. The importance of land makes the policy adopted for its administration the concern of all."

These words appear in the first section of the opening chapter of *Hong Kong 1963* — an official survey of the Colony. The officials who compiled the document were obviously well aware of the importance of land in the Colony's economy.

From the beginning the land of Hong Kong has been recognised as belonging to the Crown and this is still the position today. All land in private hands is held on lease and an annual rent is paid to the Crown.

It was laid down in 1843 that these leases were to be obtained at public auctions, the bidding turning upon the annual ground rent. In 1851, however, the principle was changed: a nominal crown rent was specified and the bidding turned upon the premium offered for a given lot. This has continued to the present day.

The standard lease issued was for seventy-five years, some with option of renewal, some not. At the expiry of a renewable lease no further premium can be charged, nor any change made in the terms, but the rent for the renewal period is re-assessed at current market values. Non-renewable leases are re-granted on the payment of a

premium at an increased (but still below market value) crown rent.

Where a lease is due for renewal but the increase from the nominal crown rent of seventy-five years ago to the current market rent is too great for the state of development of the site the old lease can be surrendered and a new lease taken out, restricting development to that existing, with a crown rent based on the existing-use value of the land. The redevelopment restrictions may be lifted at any time thereafter on payment of a premium representing the increase in land value brought about by the removal of the restrictions.

Similarly, restrictive covenants on development in existing leases may be waived on payment of a premium, again based on the resulting increase of land value.

Because land is relatively scarce in Hong Kong, its use is carefully safeguarded and planned. Land for new development is first laid out by the Government and provided with service roads, sewers etc. In certain circumstances plans for construction have to be approved at the time of granting the lease. Residential densities of 2,000 people to the acre are common and before recent changes in the planning regulations take effect densities of 10,000 people to the acre are theoretically possible. The problems of providing public services, particularly water and sewerage, at such densities are enormous, particularly since the country's water supply has to be collected mainly in a short five-month period and stored for the rest of the year.

What are the main lessons to be learned from Hong Kong's land tenure system? In the first place the system of leasing at fixed rents has led to great anomalies. Large areas of the Colony are subject to "zoned rents" that have no relation to market rental values. Ground rent provided about 50 per cent of government income in 1847; it now provides less than one third of one per cent. Nevertheless the Government enjoys income from premium payments for new leases and from variation of conditions in existing leases, and this totals about 20 per cent of total revenue. Land values have soared in recent years and have risen by about thirty times since 1947. Stamp duties, rates and revenue taxes have helped to put some of this increment in the public purse but the greater part has remained in private hands.

From these facts emerges an object lesson for those unfortunates whose task it will be to draw up legislation for the proposed Crown Land Commission in Great Britain. It is plain that unless the State Leases that may well be negotiated in the not-too-distant future by the present Government contain provision for regular rent revision much of the subsequent rise in land values that may be confidently expected with our rising population will remain still in private hands.

In spite of the fact that this has happened to a large extent in Hong Kong the system of land tenure there has had a profound effect on the Colony's economic progress. One of the outstanding features of the Hong Kong system is its comprehensive records library. All land transactions are carefully recorded for

each plot and can be examined openly. Prospective purchasers can quickly ascertain the rent levels, tax liabilities and restrictions applying to any particular site. This is something that the UK would do well to copy.

The report itself states: "Sectional interests have maintained constant pressure on the Government, as the residual owner of all Crown land, to grant land at concessionary rates, and while, in the public interest, it has resisted these pressures, the Government has sought to meet all vital land requirements. While the main policy was laid down in the early years, principles have been built up by custom and precedent . . . Fundamentally the policy has been for the Government to allow private enterprise full rein, with minimum restriction, while retaining the long term interest in land in the hands of the Crown . . . Land has been from the earliest days of first importance in the life of the Colony and a source of great wealth and the policy has been to maintain a balance between the interest of the community and that of the individual."

While it is easy for us to fault the Hong Kong system in terms of pure economic theory and complete social justice the Colony remains an outstanding example of what can be achieved if the approach to problems stems from the right base and premises.

### **A SOCIALIST BACKS CAPITALISM**

"All the statistics, national and international, all the research, agrees that what counts immediately is:

"Not the hours worked.

"Not the number of strikes.

"Not whether great or little muscular effort is exerted.

"Not restrictive practices by management or trades unions.

"Not the morale of the nation.

"Not whether the industry is publicly or privately owned.

"Not even whether or not the management is intelligent or energetic.

"Except in so far as all these things bear upon and affect the one thing that really does count, which is:—

"The amount of machinery, automation, electronics, horsepower the hand of each worker can command.

"In short, the less work by people and the more by machines, the higher the production. In other words, what counts is capital investment".

Hugh Jenkins, M.P.

### **A. G. HUIE**

We regret to announce the death, November 7, of Mr. A. G. Huie, Australian vice-president of the International Union and for fifty years secretary of the Henry George League of New South Wales. A tribute to Mr. Huie will appear in our next issue.

## **Inflation and the Sordid Scramble**

**NOT THE LEAST SERIOUS** of the consequences of having abandoned the policy of "sound money" has been adverse sociological reactions. Almost all inflations have some of the features of repressed inflation. And where "controls" intended to curb the effects of an increase in deposits and currency in circulation exist, enterprise tends to be diverted into blackmarket operations and to lobbying for licences, or dealing in them, etc. We all know that, as the necessary "controls" increase, opportunities for corruption multiply and the temptations to corruption are fostered. For this reason also the incentives to the investment of time, effort and money in skill acquisition are dampened through the resultant narrowing of the gap between the remuneration of skilled and unskilled work. But most important of all, cheap money tends to weaken the process of what Turrone has called "the natural selection of firms." The cessation of bankruptcies, which is so often and so easily hailed as evidence of "prosperity," properly seen, wrote Turrone, as "a symptom of the malaise of the economic system." It means that the incentives of both rewards for efficiency or success and penalties for inefficiency or failure of entrepreneurial activity are weakened.

Nor can we be blind to the distributive injustices associated with inflation; its merciless treatment of the politically weak; its tendency to reward those responsible for the disordinations which it so crudely rectifies; its penalisation of those whose actions have in no sense been responsible (those classes that loathe the idea of striking or threatening to strike — the salaried middle classes, the thrifty rentiers, the learned and charitable institutions that have relied upon interest on endowments, the pensioners, and so forth); its encouragement of a sordid scramble on the part of each organised group to get more for itself out of the common pool; its destruction of the motive to give of one's best in the common social task, particularly at the entrepreneurial level; its weakening of the rewards for ingenuity, enterprise and effort; its sapping of the incentive to thrift and growth; its discouragement of individual responsibility towards one's own future and that of one's dependants; its creation of resignation towards a taxation system that robs the community of capital for the financing of innovations; its encouragement of acquiescence in the squandering of the community's capital; its need, in practice, for a multitude of officials and controllers with delegated judicial and legislative powers, able to make or destroy fortunes and subject to the temptations of corruption; and the tendency it serves towards the degeneration of representative government into a system of vote-buying.

—W. H. Hutt, in *Keynesianism—Retrospect and Prospect*. (Henry Regnery Company, Chicago.)