

Robust alternative

IF LABOUR gains power in Britain's next election, the electors will have a long shopping list. Road users expect more of the road system, rail users expect more of the rail system and there is general dissatisfaction with the decayed state of Britain's infrastructure.

Council tenants expect the existing stock of local authority housing to be put into good order, parents and students expect more of the education system, and the growing proportion of elderly people expect to maintain a good quality of life to an advanced age.

All of these things will make growing demands on the tax system at a time when tax revenues are reduced by recession and welfare payments have to be made to an expected three million unemployed – and the government will also be under pressure to get the economy on the move once more.

Since 1945 the British economy has been characterised by a number of trends. Great material progress there has been, but unaccompanied by comparable economic and political progress.

Poverty and bad housing have never gone away. The mass of the population is now far better off than it was forty years ago, but the gains are due to developments in science and technology rather than politics and economics. Successive governments have all attempted to manage the economy by using the accelerator of monetary expansion and the brake of monetary stringency; superimposed upon this, taxation, interest rates and credit controls have been used as tweaking mechanisms.

The result has been that unemployment rose to a peak of over three million, has never

• **The empty shops and mid-season sales in Britain's high streets speak of recession now. But architects' lack of work indicates that the recession will continue for the next two years.**

By HENRY LAW

fallen below the two million mark and is now once more heading towards three million. This cannot be regarded as a success story.

WHY IS there this contrast between the successes of science and technology on the one hand and the failures of politics and economics on the other?

The answer is perhaps a simple one. Scientific method is a cyclic process of careful observation, followed by the devising of explanations which best fit those observations – hypothesis to best solution. The cycle is completed by further experiments which attempt to test the truth of the hypothesis.

Economics, however, does not operate in this way; as we saw recently in Eastern Europe, a large sector of the population had a personal stake in the system and were prepared to go to extreme lengths to discredit any challenge to the theories which underpinned that system.

So it is in the West. Whole professions owe their existence to the present system and their way of life would be changed if that system were shown to rest on false premises.

Unfortunately, the community at large pays a heavy price. The accepted theories give an account of economic processes which diverges so far from common experience as to be almost useless.

Characteristic of Western economies are market freedom heavily restricted by interventions such as tariff barriers and price controls, and a welfare safety net, with the taxation of

wages, interest, goods and services as the main source of public revenue.

This has produced the paradoxical state of affairs where low wages are combined with high labour costs, due to the existence of the tax wedge; the present tax system now acts as a major barrier to employment and the production and exchange of goods and services.

It is no accident that the smartest brains in the country have devoted their energies to property speculation and tax avoidance, making themselves rich in the process whilst producing absolutely nothing.

It is also clear that the present tax system is simply not robust enough to satisfy the expectations that people have of government.

There is, in any case, an alternative. Taxes can be levied on land, labour or capital. Western economies have gone down the road of taxation of labour and capital; land has been taxed lightly or not at all.

Yet the continuing growth of land values points to a substantial taxable capacity. Moreover, taxes can be levied on the rental value of land without detriment to the economy – an attribute which is accepted by most economists but regarded by them as an interesting theoretical byway, of no practical relevance.

The argument for taxing land values emerges from looking at the economy in a radically different way from that generally accepted by present-day academic economists, but the result of not taxing land values can be seen throughout Britain in the

shape of vacant houses, shops, offices, factories, and building sites; all witness to the fact that without a tax on land values, the property market will not respond freely to supply and demand.

The cost can be measured in the unemployment statistics, for, to quote a slogan from a famous election poster of 1910, "Idle Land means Idle Men".

THE POSTER was making the case for Site Value Rating, which was once an important element in Labour policy. Labour consistently campaigned for Site Value Rating/Land Value Taxation from its foundation until 1939, notable attempts to introduce it including Philip Snowden's budget of 1931, and a comprehensively drafted private parliamentary Bill presented by the Labour-controlled London County Council in 1938.

Labour abandoned Site Value Rating in 1947, on the introduction of the Town and Country Planning Act. This did not go unopposed; 167 Labour MPs signed a memorandum to the Prime Minister in July 1946, protesting against the proposed measure and supporting their protests with a set of reasoned arguments.

The abandonment of the poll tax now presents an opportunity to move towards the taxation of land. Now that the drawbacks of the Tory proposal are coming to light, what is also becoming clear is how much more powerful an attack Labour could have made if it had reverted to its former policy.

It would then have been free to raise every one of the objections to the Council Tax. As things are, Labour has hobbled itself by adopting a proposal against which many of the same objections apply, and it now has to be careful to avoid having its arguments turned against itself.

On political grounds also, the adoption of Site Value Rating

would put the Labour party in an advantageous position. At the next election, Labour is likely to gain, at most, a small parliamentary majority, and it may need the support of the Liberal Democrats to form a government.

Although the Liberal Democrats have abandoned their long-standing commitment to Site Value Rating and now advocate a Local Income Tax, there remains substantial support for Site Value Rating in the party, and a national Land Value Tax remains in the Liberal Democrat programme.

LABOUR's attitude towards Site Value Rating is a reversal of its previous stance. What are its objections?

One of Labour's main concerns, based on what they claim has happened in Pennsylvania, is that older historic urban areas would suffer wholesale clearance, and the small businesses that exist in such areas could not survive.

Not only is this fear without foundation, but the introduction of Site Value Rating would give such areas, and their occupants, far more protection than exists at present. Furthermore, the British planning system has all the powers necessary to prevent it.

Although the present UK Conservation Area legislation is possibly in need of stiffening up, Site Value Rating would reinforce the protection afforded to Conservation Areas; SVR would present no threat to historic urban areas.

On the contrary, the pressure for development in Conservation Areas would be reduced, for the valuations would reflect the advantages and restrictions of Conservation Area status.

Overall, the full site value rate would fall on property whether occupied or not. Owners would therefore derive no advantage

from neglecting buildings to the point where demolition was the only option, and then applying pressure on local planning authorities to be allowed to redevelop and intensify the use of their sites.

Site Value Rating would protect tenants running small businesses, which suffer especially badly under the present system, with its upwards-only rent revision clauses (such clauses should be illegal).

The problem is that when leases expire, landlords ask extortionate rents, which the tenants cannot afford. The tenants close their businesses, the premises stand empty, and although the business rate now has to be paid on vacant property, it is insufficient to provide an effective incentive to bringing the premises back into use promptly - if necessary, at lower (affordable) rents.

Although Site Value Rating does not claim to be directly related to "ability to pay" it is directly related to "benefits received". The wealthiest members of society occupy the most attractive areas, where land values are highest.

TURNING now to the "benefits received" principle, there is an urgent need to renew the nation's infrastructure. In the absence of a tax on site values, however, the benefits of the improved infrastructure will simply be capitalised into land values in those areas deriving the most benefit, as has happened in recent years following motorway construction and when British Rail has electrified suburban lines.

Site value taxation would recapture the benefits of the investment for the community, which is surely a desirable Labour objective.

Site Value Rating would also

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(It does not seem, incidentally, to have occurred to him that a more likely cause would have been that the commons were a mere remainder that were worth no influential person's while to enclose.)

Critics were not slow to point out that, as a matter of historical fact, English commons were subject to a process of regulation by users' consent, whereas Lloyd's herdsmen seem not to have noticed each other's presence. As a result, Dr Hardin now admits that the title of his essay should have been *The Tragedy Of The Unmanaged Commons*, and that the situation discussed by Lloyd and himself 'was one of non-management of the commons under conditions of scarcity'.

This immediately and obviously puts the whole subject where Dr Hardin intended it to be in the first place, namely into the realms of symbolism, where it has a number of useful present-day applications.

Dr Hardin has thought of some of these himself. The Marxist doctrine of 'to each according to his needs' is an outstanding example of the abuse of 'commons'. So are the gains to speculators from the

increased value of land that has been brought about by community development.

Such speculation, of course, is the cause of the 'conditions of scarcity' under which the commons miss out on management. Here he makes it evident that his own thought and Henry George's run parallel. Insurance and socialised medicine are two further examples that he quotes.

Dr Hardin's contribution crowns the whole; but what goes before is in effect an elaboration of his arguments. Here are to be found specialist analyses of the causes of population growth and decline; of how the philosophy of Henry George may be applied to the solution of ecological problems that had only just begun in his time to make themselves felt; and of how the same philosophy could, given the

goodwill, provide an alternative to violent resolutions of territorial disputes, and a clue to the future management of yet unexploited parts of the Earth.

All this is not to say that this book is in any way a definitive guide to the future conduct of world affairs. It is rather intended to provide a series of openings for serious discussions that start from the premise that they cannot go on as they are.

If it is accepted, for example, that Malthus was right to the extent that the combined population growth and standard of living now considered to be normal in Europe and the U.S.A. cannot be maintained without irreparable damage to the environment, what system of government can be devised that will ensure the adoption of effective remedial measures?

We are left with the suggestion that the ultimate answer could be self-government by communities of such a size that all members were at least acquainted with each other.

Shame would then be an effective deterrent to action contrary to the common interest, just as it was in England during what we may now think of as the golden age before the enclosures.

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2. Henry George, *Progress and Poverty* (1879), Book VIII, Ch. II. Robert Schalkenbach Foundation, 1979.
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place as soon as possible after Labour took charge, this would set off a non-inflationary development-led boom, but it would also bring further benefits.

If the government were to borrow to pay for infrastructure improvements, the resulting land value increases could be recaptured through the local tax system. This would allow a Labour Chancellor of the Exchequer to reduce central government support of local

government, and provide an opportunity to pull the additional money out of the system and maintain stable prices.

SINCE 1945, there have been four periods of Labour government and three of Conservative government. None have managed to establish a state of non-inflationary prosperity. All have failed to live to up their initial promise and all their policies have come to grief.

Each Tory boom has ended in a property (land price) boom, followed by a severe bout of

depression. Labour policies have fared no better. A principal reason for this history of failure is the absence of any tax on land values, since a causal link can be demonstrated.

Economists and governments of all colours have ignored this and it has cost the country dear. We have taxed that which we ought not to have taxed - wages and the return to capital, and left untaxed that which we ought to have taxed - the rental value of land.

If Labour is not going to lead us out of this morass, who will?