

# Welfare or Reform?

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THE HISTORY of reasoned thought on the nature of economic justice, of which Professor Lister gives a modern definition, goes back at least as far as Plato (428-348 B.C.). Here are Plato's conclusions:<sup>1</sup>

*And the chief aims of their decisions (i.e. the Rulers) will be that neither party shall have what belongs to another or be deprived of what is his own.*

*Yes.*

*Because that is just?*

*Yes.*

*So here again justice admittedly means that a man should possess and concern himself with what properly belongs to him?*

*True.*

Since a previous discussion had established a separation of occupations, including that of shopkeeper, as the economic basis of the ideal community, it is clearly to be understood that "what properly belongs" to a man includes both what he has made himself and kept, and what he has bought with the proceeds of the sale of the rest.

Roughly 2,200 years later, the

*Ruth Lister, The Exclusive Society: Citizenship And The Poor, London: Child Poverty Action Group, 1990. £4.95.*

American Henry George (1839-1897) would be writing:<sup>2</sup>

Here are two simple principles, both of which are self-evident:

1) That all men have equal rights to the use and enjoyment of the elements provided by nature.

2) That each man has an exclusive right to the use and enjoyment of what is produced by his own labour.

If Plato did not feel obliged to enunciate what was to be George's first principle, it was probably because, at the time he wrote, land distribution in Athens was reasonably equitable.<sup>3</sup>

The same was certainly not true of George's time, since when change has not always been for the better. But the important thing to note about the two men is the complementary quality of their aims.

Plato wished to prevent unjust

differences in wealth, George to proclaim both their cause and the remedy for them, which is related to the cause.

The importance of these facts is emphasized by the parallel development of quite a different practice, for which the motive was not to tackle the cause of the unjust differences, but to ameliorate the condition of those suffering from them.

This too begins in classical antiquity, but on a large scale only as a subsidiary part of the plan of Gaius Gracchus (153-121 B.C.) to resume from a position of power the work started under less favourable conditions by his brother Tiberius Sempronius (163-135 B.C.).

The ultimate aim was to return the economy of an empire-building Rome to its pristine condition, which was more in accordance with economic justice.<sup>4</sup>

Tiberius Sempronius Gracchus, seeing that the declining number of family farms, and the proliferation of great estates worked by slave labour, were between them ruining Rome, had init-

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where a superstore food retailer is allowed to build on the adjoining old hospital site; alternatively it could be road works or parking facilities; it could be meeting rooms, a public house or a swimming pool associated with the building of a housing estate.

The concept is not new: a large department store in Washington D.C. paid for the station facilities at Metro Center, a unique station which has direct access to the store.

Where the land which is subject to change of use still belongs to the original owner, a farmer maybe, the local council sees him receive a massive benefit when he sells the land to the developer, a benefit which the local community does not share. Local people are becoming angered at this unjustified *PLANNING GAIN*

and are beginning to ask what can be done about it.

The right-wing "think tanks" suggest that we should recognise the reality of the situation and allow developers to tender for planning permission, the contract going to the highest bidder. In practice this is the only way, short of land value taxation, that would force developers to calculate the discounted benefit over future years. The developer sees the "gain" as an additional cost which goes to the community out of his rightful profits.

Nevertheless we can see that planning gain is establishing the principle that land values increase with the granting of "change of use" by the community and we are now moving towards the concept that more of the benefits from this change of use should be returned to the community.

# CAPE TOWN LVT SWITCH

A MAJOR victory for tax reformers is imminent in South Africa, writes Peter Poole.

An independent commission appointed by Cape Town City Council has recommended a reform to the property tax, in which land values would be taxed ten times greater than the value of the improvements.

The commission was headed by former judge and Urban Foundation chief Jan Steyn.

Cape Town currently uses a flat rating system, in which the total value of both land and buildings is assessed for tax purposes. Prominent among the opponents of this system is Councillor Patricia Sulcas, who strongly advocated a switch to taxation of site values alone.

The commission's "composite" rating system is to come before the council,



• Godfrey Dunkley

and is expected to be implemented next year.

Ms Sulcas states:

"It's one of the best things that's happened for Capetonians for a long time ... the move away from taxing improvements has been a long and arduous road."

Tax reformer Mr Godfrey Dunkley, of Johannesburg, told *Land And Liberty*: "If it is fully adopted it will represent a major break-through. That

would leave only Port Elizabeth as a major city on flat rating."

Mr Dunkley has just published a study of the tax system,\* which demonstrates the overwhelming public support for the property tax on site values.

But the opposition to the reform has been powerful, and led by Cape Town Chamber of Commerce, which represents most of the large commercial property owners.

In its evidence to the commission, the Chamber claimed that site-value rating did not reflect the extent to which property owners enjoyed council services. The owner of a large building,

\* *That All May Live*, A. Whyte Publishers, The Law Shop, PO Box 48146, Roosevelt Park, 2129, South Africa.

with more occupants, benefited more from services than the owner of a small building with fewer occupants - even though both buildings may occupy sites of the same size and value.

The commission also made several other related recommendations:

- Customers should be directly charged for using sewerage and cleansing services. These user charges should be introduced simultaneously with the reform of the property tax, and not used to increase council revenue;

- The property valuation roll should be updated. Assessments have not changed since 1979. Since then, according to Ms Sulcas, the market value of land has increased by 900%, whereas the composite value of land and improvements has increased by 300%.

iated an agrarian law by which all public lands, either usurped or held on lease in quantities exceeding the holders' reasonable requirements, should be resumed on behalf of the state, and distributed to landless citizens in lots of 30 *iugera* as inalienable heritable leaseholds.

The reform was carried out, and showed good results; but it went so contrary to the interest of the corrupt oligarchy that they had the elder Gracchus murdered. Four years after his death, the distributions were suspended.

Gaius Gracchus, having had himself elected as tribune of the people, and established his position with a law authorising reelection, proceeded not only to secure resumption of the work started by his brother, but also to gain powerful political allies in the mercantile class and the city proletariat.

The various baits offered to the former need not concern us

here; but his offering to the latter is of vital current interest, in that it was both the foundation of the fatal "bread and circuses" policy of Imperial Rome, and an early simple example of what we now call the welfare state.

He made a permanent feature of the Roman economy out of the previously occasional practice of distributions of corn in the capital at purely nominal prices.

Gaius, like Tiberius Sempronius, ended by being hounded to death. One part of his work, the corn distributions, lived on to complete the demoralisation of the Roman populace. Another, the weakening of the power of the Senate, created a pattern for the future absolute rule of one man.

The great attempt, however, to establish economic justice by means of more equal access to natural resources came to nothing. It is likely, however, that in the end the plans of the Gracchi

would have been of no avail; for similar ones have since been carried out in revolutionary France and late nineteenth-century Ireland, with no further result than the expansion of the class privileged to hold land, and the continued depression of the rest.

What is required, as Henry George saw,<sup>5</sup> is not a physical redistribution of the land, but a fulfilment of the equal right of all to its use. This would be achieved by the collection on behalf of the state of the rent, or return to landownership over and above the return necessary to induce use. It would then be ensured that landholding was for use, and not for speculation or the extraction of rent from others.

There would be no need for tenants to worry: they are already paying to private people whatever is surplus to their pro-

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# TWENTY YEARS OF LVT WISDOM

\* Susan L. Roakes and Harvey M. Jacobs (1988), *Land Value Taxation And Urban Land Use Planning: An Annotated Bibliography*, No. 216, available from the Council of Planning Librarians, 1313 East 60th St., Chicago, ILL. 60637.

A BALANCED introduction to the literature published since 1970 on the subject of land value taxation (LVT) is now available.\*

The bibliography concentrates on the physical impact of this fiscal policy, but the authors offer a considered review of both the economic and social effects to be expected from a change in the tax structure.

The *theory* strongly favours LVT and the authors note that "recent trends in public opinion indicate support for LVT." But they fairly acknowledge that the empirical evidence in support of the policy is mixed. There are several reasons for this, not least the shortage of fiscal jurisdictions that have implemented the policy.

But even where the policy is in action - in places like New Zealand and Australia - studies often produce ambiguous verdicts. There may be good reasons for this. For example, authors Roakes and Jacobs fail to point out that the conclusions are derived from jurisdictions where the tax rates are very low indeed; there would be fewer ambiguities if the rent of land was taxed at rates similar to those that apply, say, to the wages of electricians and bricklayers.

The compilers of this bibliography are urban planners; even so, their summary of the economic virtues of LVT is an admirable one. The beneficial impact on the construction industry is analysed, providing researchers with clues as to where to look for further evidence.

The discussion on the adequacy of rent as a revenue base is not satisfying, but that is to be expected; after all, many of the most ardent advocates of LVT have failed to develop their case much beyond the original analysis in Henry George's *Progress And Poverty*.

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duction costs; and it would be useless to expect them to pay more.

Unfortunately, George's proposals have so far been applied only locally and in part. They have, however, had the interesting results of bringing more land into use, spreading its ownership, and increasing general wellbeing to some extent, all without further state action.

The same degree of success can hardly be claimed by the advocates of Marxist socialism, advanced originally as the only way to achieve economic justice, and given full scope for its application. Its weaknesses are now being amply demonstrated.

THE SECOND general plan of action, that of ignoring the basic injustice that causes gross inequality in the distribution of wealth, and instead concentrating on the mitigation of its effects, reached its culminating point in the welfare system constructed by the British labour government of 1945 on the model of the Beveridge Report, and now being steadily demolished by a conservative one.

It is in the context of all these theories and events that Ruth Lister's book, one of a series of publications of the Child Poverty Action Group, needs to be considered.

She is propounding the comparatively new idea, contrasting strongly with previous ones, that economic justice consists, not in securing to each man what is properly his, according to Plato and George, not yet in securing to all an equal right to access to natural resources, according to George, but in a universal right to welfare benefits, untrammelled by the means test.

Welfare benefits, according to Ruth Lister, should be for all, without exception. Nor is she

alone in this opinion; for her text is supported by no fewer than 251 references and quotations - an average of 3.7 to a page.

What she and most of her quoted authors are advocating is in fact a remodelling, more fitted to the refinements of modern civilised life, of Gaius Gracchus' institutionalised distributions of corn.

But, whereas he acted with the ulterior motive of attracting to his own movement the proletarian hangers-on of the aristocracy, in the hope that they would pack the *comitia* and maintain what he thought would be a permanently beneficent land reform, Ruth Lister and those of like mind are thinking of their measure as in itself permanently beneficent.

There can be no doubt on this score. Such statements recur as:

*But housing, food and health are not gifts or benefactions. They are the first rights to be claimed by every citizen in civilised societies.*

*Or: It is perhaps a testimony to the strength and resilience of the citizenship ideal that, despite its imperfect incarnation in the post-war welfare state and its gradual demise as a principle guiding social policy, it is now acting as an inspiration once more to those who want to rebuild the welfare state on the foundations of justice and democratic participation.*

It must be that the welfare itself constitutes the justice; for no other interpretation is even hinted at.

The linking of citizenship with welfare is elaborated in this way. Citizenship implies a right to welfare; and its duties may be impossible of fulfilment for those not provided with it.

Democratic participation in the welfare state may be extended by claimants' being allowed to share in the administration of the benefit system, and par-



# Economics for real

OCCASIONALLY a book comes along that is full of sense, and this is one of them, writes Ian Barron. Christopher Huhne is economics editor of *The Independent On Sunday*, one of the New Wave newspapers to be launched in Britain.

In his book he eschews dogma and gets down to a hard-headed appraisal of the facts. As such, this volume becomes one of the starting points for a reassessment of the economics of the 1990s.

In terms of policies, in the last 30 years the world has had the lot: from Keynesianism to monetarism to Thatcherism (Reaganism was a simple-minded variety of the latter).

Today, all bets are off: where do we go from here? Huhne argues that the Market v Government dichotomy is ludicrous: "No economy can survive without a measured dollop of both, and the only real question is the correct field of action for each."

Governments, at the very least, have to lay down the rules within which markets can operate; but they are, of course, through their monetary and fiscal policies, also players in the market.

Huhne confronts all the major questions, ranging from the economics of the Welfare State to the Third World debt; from the crippling impact of the EEC's agricultural policies to the causes of the mid-'80s consumption boom that has compromised the Thatcher "revolution."

Most noteworthy, however - because of the neglect which the subject receives from the pens of other economists - is Huhne's treatment of the land market. In six pages he neatly summarises the impact of land speculation on the affordability of housing; the knock-on effects on the labour market,

Christopher Huhne, *Real World Economics: Essays On Imperfect Markets and Fallible Governments*, London: Macmillan, £19.



• Christopher Huhne

and the concomitant influence on wage bargaining; and the quality of life in the derelict inner city.

The correct policy, he points out, is a tax on land values. Tax buildings, he notes, and you deter investment; tax land, and you encourage construction. In the light of this fine contribution, it would be churlish to nit-pick; but it is worth doing so, because the property tax is a live topic in Britain, and will feature as a major policy issue in the next general election.

• Huhne thinks that the dispersed nature of property rights in land may be a hindrance to development; that "a critical mass is necessary". This view, alas, is influenced by the distorted nature of recent urban history, which is the story of the land speculator.

The finest neighbourhoods evolved and renewed themselves organically, building by building, site by site - not, usually, on the basis of large-scale development. The latter strategy was adopted by frustrated politicians who intervened to rectify the failures *not of*

the market but of the fiscal system.

If owners had to pay a hefty tax on the rental income imputed to their land, they would constantly recycle their sites in response to the needs of the community they served - not on the basis of a visionary plan, the inescapable component of the large scale renewal approach which has led to the creation of soulless housing estates and windswept business districts.

• On the land value tax, which Huhne advocates, there is one minor error which bears mentioning because it is currently being used by Labour politicians as an excuse not to adopt site-value rating as the alternative to the Poll Tax.

Huhne states: "The basis of the tax is the value of the site in the use allotted to it by the planning authorities ..." Labour's local government spokesman employs this kind of statement to claim that property developers would conspire with planners to destroy communities by the simple expedient of re-zoning land for more profitable uses.

Well, the Huhne formulation is acceptable if the planners have correctly judged the needs of users. But if they have not, then it is not the new planning permission which dictates the amount that would be paid by the owners of the sites, but rather the market. Or, more precisely: competition among prospective users sets the level of land values. The market reveals those prices, and the Inland Revenue accepts them for tax purposes.

It is to be hoped that Macmillan will publish a paperback edition of Christopher Huhne's book, so that it may be accessible to a wider audience.

ticularly in the appeals procedures.

As things are, many "viewed their experience (i.e. at sessions of tribunals) as one of intimidation, alienation and powerlessness".

How the "share" would help

them to overcome these feelings is open to question, especially when one thinks of the author's admissions that many appellants would gain from receiving free legal representation, and that a high proportion of them fail to

understand their appeal papers.

Altogether there is much to criticise here. An individual's only indisputable and unconditional right is to the fruits of his own labour. To try to sub-

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# Berlin 'gold mine'

THE "Peace Dividend" is being mopped up by property owners in West Berlin. With the unification of Germany, prices in the western sector have started to soar. One realtor explained: "Everybody now wants to buy property here. The trouble is there is not enough sellers. People know they are sitting on a gold-mine".

The pickings will also be large in East Berlin, but westerners are not yet allowed to buy property here. Nevertheless, the speculation has begun, oiled by the conversion of the currency in favour of the D-mark.

As the economy enters the boom phase of reconstruction, the German authorities are planning to spend about \$1bn on 100,000 low-rent homes or apartments next year.

But the Mayor of Stuttgart - son of the famous Field Marshall Erwin Rommel - says this is not enough,

and that the government should spend at least five times that sum to meet the needs.

BRITAIN'S Conservative Government, under strong criticism for its interest rate policy which has seized up the housing market, has announced plans to bring vacant homes into use. Councils own an estimated 100,000 properties that stand empty; this is overshadowed by the private sector, which has about 600,000 houses and apartments empty. The government plans pressure on councils and incentives for private landlords to bring the homes into use - which, at current rate of building of rented accommodation, is the equivalent to more than 20 years' supply.

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stitute for its rights to a basic income, to housing, to a certain standard of living - without, it may be added, any reasoned justification - is not only to indulge in flights of imagination, it is also to try, unconsciously maybe, to perpetuate the child-like state of dependence induced in a people by long deprivation of their collective right to "the elements provided by nature".

THE GRACCHI had a different conception of the problem of their times. They considered it not impossible that, among the rabble in the city, there might still be found men with enough of the old spirit of diligence and independence to take up their offer of a leasehold on 30 *iugera*; and they were right.

The census for 125 B.C., compared with that for 131 B.C., showed an increase from 319,000 to 395,000 in the number of

citizens capable of bearing arms. This was at a time, of course, when only those men with a stake in the country were liable for military service.

There must be many among our own unemployed, or those employed in an inferior capacity, who would relish the varied opportunities afforded by the greater availability of both rural and urban land that would be brought about by George's reform; and they in their turn would have jobs to offer to those endowed with less personal enterprise.

Certainly, by the govern-

## REFERENCES

1. Plato, *The Republic*, pt.II, ch.xii; ed. F.M. Cornford, Oxford: Clarendon Press, 1942.
2. Henry George, *Protection Or Free Trade*, 1886.
3. Davide Redfearn, "Athenian Dreams", *Land and Liberty*, May/June 1989.
4. Theodor Mommsen, *The History of Rome*, bk.IV, chs.ii & iii (tr. W.P. Diskson), London: Dent, 1911.
5. Henry George, *Progress And Poverty*, 1879.

ment's own admission, many people fail to apply for welfare benefits to which the rules would entitle them. Why? Because they want to work for their living, not to receive free hand-outs.

When, curious about the financing of universal welfare benefits, one turns to a list of concrete proposals at the end of the book, one finds the following:

*Taxation policies, both national and local, should be based on the principle of the individual's ability to pay.*

This is not a principle, though evidently any attempt to extract taxes from those *unable* to pay would stand little chance of success. It is pure and unjustifiable expediency.

When compared with George's principle that wages should be inviolate, and that rent, arising through human association in sub-divided labour, and through enhanced opportunities for marketing in built-up areas, should be the source of public revenue, it appears ill-considered indeed.

When all this has been said, it must be conceded that this book shows throughout a genuine concern for society's victims, and a desire to restore both their standard of living and their self-respect. There is also a clear indictment of the government for their callousness in eroding the welfare benefit system.

It is formulated, however, because the author and her associates want the splint to stay for ever on the broken leg.

Their complaint is not, as one would have wished, that the government are removing it with no intention of correcting the faulty setting of the fracture, and of so reducing the period for which the splint is needed.

The time is now ripe for following up a reform that has shown some promise, not for repeating an ancient mistake.