WORK and WAGES: THE PRACTICE

Land tenure

By DAVID RICHARDS

ARGUING that the new Irish tax on the annual value of farmland should be both increased and extended to all types of land is rather like arguing that Brendan Behan should be posthumously decorated by the Temperance Society.

In the words of the *Irish Times*, "agriculture is still a major force in this country; a sense of property more so."[1] The property editor refers to "those who meddle with the mechanisms of a free market" as "the people who would nuke the temple to get rid of the money-changers."[2]

Clearly, only a demonstration that the institution of landownership itself is the **primary** cause of Ireland's continuing economic woe can possibly justify a call for an increase in the taxation of land values.

IRELAND is famous for its "Land Question".

The irony is that the 19th century landlord/tenant system which the reformers blamed for the country's economic backwardness probably benefited the economy more than the peasant proprietorship which succeeded it.

The academic interpretation of Irish history, which had been dominated by nationalist writings, has undergone serious revision in the last 20 years. Michael Winstanley, summarising the state of the art, concludes that

> The traditional view that Irish development was retarded by the oppression and exploitation carried out by a small landowning class has been largely discredited by recent research . . . The British Government's land reforms, while ultimately contributing to the rapid expansion of owner-occupancy, had little impact on agricultural efficiency or economic prosperity.[3]

Does this mean that the arrangements made for ownership and occupation of land have no bearing on the state of the economy?

Evidently that is not the implication, for Winstanley also notes that

WORK and WAGES: THE THEORY

Unedifying edicts!

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not reduce the supply of land to users) – unlike a tax on wages or profits, would not distort production incentives or efficiency (p.605).

And they readily acknowledge one of the theoretically most solid economic laws – a tax on the value of land in its unimproved state cannot be passed on to anyone (it falls on the landowner (p.402).

Having pushed themselves to the limits of their expertise, however, the authors see fit to set aside their mortar boards and don the mantle of the cautionary sage.

"We thus see a valid and important element in the single-tax movement: taxation of pure economic rent does not impair economic efficiency. But people do not live on bread alone, and an economy cannot run on efficiency alone.

"While a stiff tax on land rents may be an efficient tax, it may also be perceived as unfair. Many voters will feel that landowners are just as deserving as are investors who have put their money into other things." (p.606).

Delightful the way the objective scientist subliminally suggests that the adoption of an efficient fiscal policy which would benefit everyone except that minority which happens to monopolise a natural resource may not be FAIR!

But they are not finished with the process of smuggling in value judgments for the benefit of the students. For they suggest that "in many countries, particularly in Latin America, the bounty from oil, gas and other subsoil assets is considered a national patrimony; turning these over to private individual owners would be close to sacrilege."

A generous concession, you might think, but the authors then employ their observation to further shape the reader's attitude towards the ideal tax policy by implying that it is inconsistent with "the predominantly free enterprise approach of the United States."

IN FACT, we are explicitly told that the ideal society is a "planned" one – and that concept, of course, is a buzz word for the Marxism with which no patriotic person would flirt.

This attempt at conditioning the reader emerges in the parable of the identical twins. Each of them works land of different fertility (p.689).

In order to achieve maximum output, and to ensure a fair distribution of wages (in this case, similar sums for the equally hard-working identical twins) it is necessary to put a price on land (economic rent) and then tax it.

"Our ideal society finds it essential to put a rent on land as a way of maximising the total consumption available to the society. But these efficiency rents need not go to the privileged – they can go to the state (in rents or in taxes on rents) and be distributed as a social dividend or be used to buy public goods." (p.690).

Fine in theory, it seems, but we are told that this is a "Utopian" society – which is one way for the teacher to influence the minds of his innocent readers who are more concerned about learning how to get to grips with the "real world."

Time and again, Professor Samuelson repeats that it is not his job to sway readers with his personal values. And then he goes and spoils it all by admitting (10th edn., p.8, n.2) that "Which questions we ask, and from what perspective we photograph the 'objective reality' – these are themselves at bottom subjective in nature."

Which is a nice way of saying that people should not uncritically abandon their commonsense judgments in favour of the edicts of experts!

matters in Ireland

both secure and low rent tenancy and owner-occupancy sheltered the less efficient from competition and retarded economic growth. (p.41).

Our task, therefore, is to find out just what part the land tenure system has played in the evolution of the Irish economy.

THE CONCEPT of "ownership" refers to a "bundle of rights and restrictions".

Full ownership refers to "the greatest possible interest in a thing which a mature system of law recognises." It comprises rights of (1) possession, (2) use, (3) management, (4) income, (5) capital value, and (6) security; incidents of (7) transmissibility, (8) absence of term and (9) residuarity; (10) liability to execution; and (11) the prohibition of harmful use.[4]

Ownership may involve less than the full complement of property rights. In Table I, systems of land ownership have been classified according to three variables:

- The possession of the land; i.e. (1) and (3), the right to exclude others from the land, and to control who manages it;
- the possession of the land's value; i.e. (4) and (5), the right to the rent, or the capital value which stems from rent; and
- the responsibility for use; i.e. (2), (7) and (8).

Land may be either tenanted or owner-occupied. In the former case, the division of responsibilities for fixed and movable capital must be agreed between the landlord and tenant.

(6), (9), (10) and (11) may be regarded as external to the particular system of land ownership. They are matters of general law.

The arrangements described in Table 1 have economic consequences. In Table 2, each of the tenure types has been heuristically scored according to each of four conditions which would seem to be conducive to economic efficiency:

- Free from bureaucracy or red-tape, score 1.
- Subject to market cost pressures, score 1.

Table 1: Land Tenure Systems

Possession of the land	Possession of the rent	Responsibility for Use: a. Divided	Responsibility for Use: b. Unified
1. Public	A. Private	Land nationalisation (rent subsidised)	Nationalised industry (prices subsidised)
	B. Public	Land nationalisation	Government dept. or nationalised industry
2. Private	A. Private	Landlord/tenant	Owner-occupier
	B. Public	Full land value taxation Landlord/tenant	Owner-occupier
3. Communal	C. Communal	Feudal Lord/vassal	Tribal trust

Table 2: Some Economic Consequences of the Tenure Types in Table 1.

	1Aa	1Ab	1Ba	1Bb	2Aa	2Ab	2Ba	2Bb	3Ca	3Cb
Less red-tape	0	0	0	0	1	1	1	1	0	0
Market pressure	0	0	1	0	1	1/0*	1	1	0	0
Less taxes	0	0	1	1	0	0	1	1	1	0
Less hoarding	0	0	1	0	0	0	1	1	1	1
Total	0	0	3	1	2	2/1*	4	4	2	1

*see text

- Displaces existing tax system, score 1.
- Weak incentive to hoard land, score 1.

The considerations behind the scores are as follows.

Red tape is the prerogative of large organisations, notably governments.

Market pressure is experienced particularly by land users who have to pay a competitive rent. However, land owners who borrow money to purchase land must pay off their debts, which also exerts pressure.

Where land access is mainly through inheritance, and where direct annual taxes on land are low, there is little commercial pressure to be efficient. Owner-occupiers may thus be subject to market discipline as, notably, in Denmark, or they may not as, notably, in Ireland.

The existing tax structure distorts the market system and wastes resources.

Land hoarding occurs not only when there is little market pressure to use land efficiently, but when land prices offer the prospect of future capital gains. Thus, the mere existence of a capital market in land, which occurs where there is private possession of rent, creates the problem.

This reasoning, and therefore the results in the table, indicates that a system of land ownership in which private landowners have to yield up the rental value of their lands to government should raise the productivity of the economy most.

There is no name for such an economic model for there is no country in which it exists in its pure form. The possessors of either the land or the rent, be they public or private, are both loath to part with possession of the other.

However, there are many instances

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of a small part of the rental value being prised away from private owners by direct taxation, and these may be regarded as incipient forms of a fully-blown "land value tax" system.

Better than

OVER THE last 500 years, Ireland has moved from a tribal system of landownership, through private landlord/tenancy, to an owner-occupier or "peasant proprietor" system.

According to Table 2, this would suggest that in terms of economic development the final outcome is no improvement on the original arrangement, though there should have been a slight improvement in the intervening period.

History conforms to this pattern. The eighteenth century was the era of Ireland's most rapid economic growth, but it ended in disaster in the nineteenth century.

Perhaps, as the table suggests, the private landlord/tenant system was only a slight improvement.

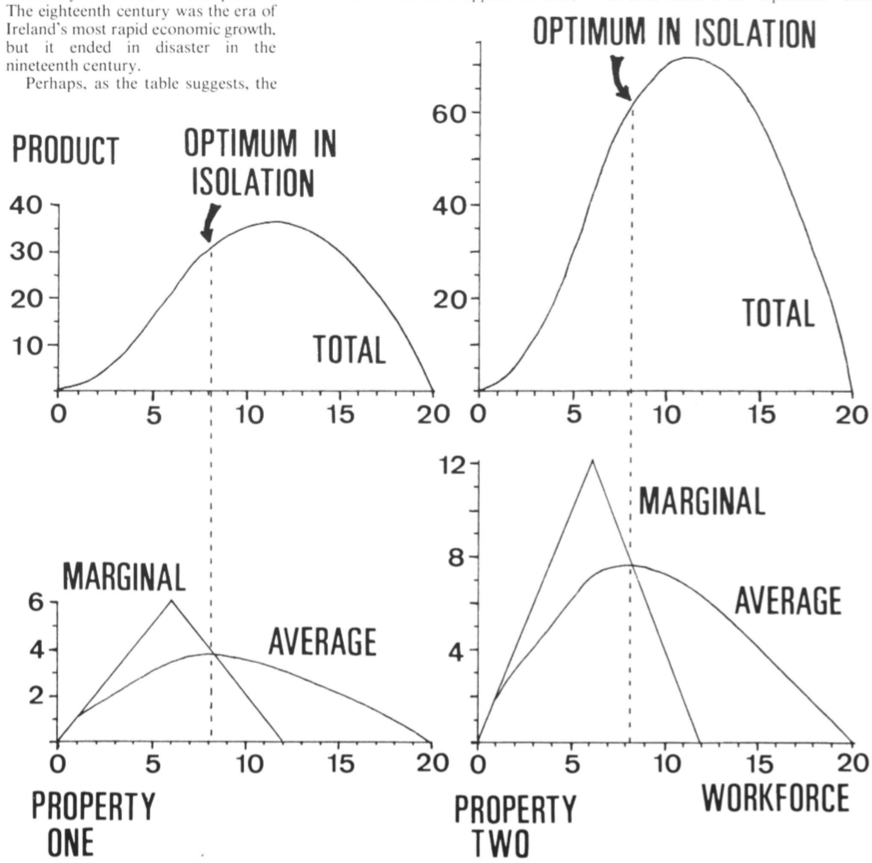
Economic analysis suggests that if a country wishes to maximise the wealth that it creates, it must adopt a system of land ownership in which competitive rents are charged to all land users.

The proportions in which the factors of production (land, labour and capital) are combined together determines the amount of wealth that they produce.

As more labour is applied to land, for example, the additional (or marginal) product, occasioned by an additional input of labour, tends at first to increase due to economies of scale, and then to decrease as diseconomies of scale outweigh the economies.

That marginal product will eventually decrease as one factor is added to another is the economist's *Law of Variable Proportions*, or *Diminishing Marginal Returns*.

The outcome is this: for each unit of land there is an "optimum" com-



the tribal system?

bination of labour and capital which produces the maximum possible output per factor used, or average product.

Fig. 1 represents a simple economy consisting of two landed properties at a fixed level of capital investment. The total output or product of each property conforms to the Law of Diminishing Marginal Returns.

The marginal and average product curves for each property are derived from the total output curve, just as a batsman's average is derived from his scores. The simplest possible hypothetical figures have been used.

It is assumed that Property 2 (P2) is by nature twice as productive as Property 1 (P1); also, that the aim of each member of the population is to maximise personal income, and that the population expands or contracts as the economy dictates.

Each additional worker's output (marginal product, MP) is higher than the average product (AP) of the workforce until MP = AP, at which point AP is maximised.

After that, the addition of each new worker to the workforce adds less than the average product to the total, and hence drags down the average (although total product keeps rising until MP = zero).

The workforce at which MP = AP on each property therefore produces the optimum output for each property in isolation. That is, if distributed as equal wages, it maximises the wage level.

In Fig. 1, and the accompanying Table 3, the optimum output of P1 in isolation is 30, employing 8 workers, and of P2 in isolation, 60, also employing 8 workers.

Now, if the two properties are integrated into one economy, P2 will tend to attract workers as it has twice as high wages as P1. However, the nature of the adjustment is dependent upon the land-tenure system which holds sway in the economy.

IF THE economy is a communal one, as under the Brehon tribal laws in Ireland before the Elizabethan invasion, then each member of the workforce has the right of access to land and an equal share in the total output.

It follows from the maximising assumption that average output will

Table 3: Figure 1 in Numbers

UNITS	Total Product or Income	Number of Workers	Population (i.e. Workers + Landowner)	Marginal Product (MP)	Average Product (AP)	General Wage Level	Rent	Product or Income per Capita
Property One								
In Isolation	30	8	8	4*	3.75	3.75	0	3.75
Communal Economy	30	8	8	4*	3.75	3.75	0	3.75
Private Economy								
(First Step)	(26)	(7)	(7)	(5)	(3.7)	(3.7)	(0)	(3.7)
Second Step	21	6	6	6	3.5	3.5	0	3.5
Property Two								
In Isolation	60	8	8	8*	7.5	7.5	0	7.5
Communal Economy	60	15	15	–6	4	4	0	4
Private Economy								
(First Step)	(66)	(9)	(10)	(6)	(7.3)	(3.7)	(32.7)	(6.6)
Second Step	66	9	10	6	7.3	3.5	34.5	6.6
TOTALS								
In Isolation**	90	16	16	4*	5.63	n.a.	0	5.63
Communal*** Economy	90	23	23	–6	3.9	3.9	0	3.9
Private Economy								
(First Step)	(92)	(16)	(17)	(5)	(5.75)	(3.7)	(32.7)	(5.31)
Second Step	87	15	16	6*	5.8	3.5	34.5	5.44

* Lumpiness of numbers prevents exact equalisation of MP and AP.

** The total for the properties in isolation is high relative to the integrated private economy because economies of scale from integration have not been introduced into the figures.

*** The total for the communal economy is high relative to the private economy because income-maximising behaviour is assumed. But "satisficing" behaviour and lack of competition would suggest a lower output.

be maximised on the least productive land in use, P1 (which therefore remains unchanged), and that the number of workers that produces the same average product and hence wage level (i.e. 3.75) will be attracted to P2. Thus, 15 workers will produce the same total product as 8 workers produce when P2 is a separate economy.

Any more workers in the economy will lower the average wage; any less on P1 will do the same. Any less on P2 will raise the average wage on P2 and attract more workers there.

If the economy has private land-ownership, as introduced to Ireland in the 1580s, then the outcome is different. The person with the title to land has the power to exclude others from it.

If the land (i.e. P2) happens to be naturally more productive than other land in use (i.e. P1), this entitlement enables him to claim as rent for permission to use the land the *extra* output that the land yields the workforce. The workers are no worse off paying the rent than they are working on the poorer land.

Wage levels are equalised by migration. Their absolute level is determined by the optimum output, or the maximum achievable wage, on the worst land in use (P1), where no rent is chargeable.

The rent-maximising landowner will allow the number of workers onto his land that achieves its optimum output. For at this output level, and at the going wage rate, the maximum surplus is realised over and above the wage bill.

This means that rather than workers crowding on to the better land (P2) and driving down the *average product* on that land to the level of *average product* on the worst land in use (P1), the number of workers on P2 is limited to that number at which the *marginal product* is equal to the *marginal product* on P1.

Equalisation of marginal products rather than average products throughout the economy is the means by which wealth creation *per capita* is maximised.

The landowner need not be involved in production at all. He need only charge the maximum rent obtainable

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by letting out the property to the highest-bidding entrepreneur.

Only the landowner on the marginal property, the least productive in use (P1), cannot obtain any rent. In Table 2, it is assumed that the owner of P1 is, by necessity, part of the workforce.

THE OPTIMISING process under private ownership involves two distinct steps. In Table 3, it can be seen that the first step – when integrating the economy – is for one of the labourers on P1 to move over to P2.

This raises the MP on P1 from 4 to 5, and lowers it on P2 from 8 to 6. The migrating worker's product rises from 4 to 6 and thus raises the total product of the economy from 90 to 92 and the average product per worker from 5.63 to 5.75. If a further worker migrated from P1 to P2, that worker's product would fall from 5 to

Worst of both

● Raymond Crotty

4, thus lowering total and average product.

However, there is a way of further increasing the average product, or productivity, of the economy, and that is by reducing further the workforce on P1. One less worker raises the MP on P1 to 6 and makes it equal to the MP on P2, thus fulfilling the optimising condition for the economy that all MPs be equal.

Total output is lowered by 5 to 87, but average product per worker is raised from 5.75 to 5.8. The laid-off worker's product, 5, is less than the average, and so lowers it. The aim of maximising the land rent, the wage level and average income dictates that the population must fall.

WHAT HAVE we learned from this analysis?

● The shift from a communal to a private economy results in a lowering of the workforce on the land, other things being equal.

● The shift involves a massive redistribution of income towards landowners, so that although average income and average product rise the general wage level may well fall.

It is not surprising, therefore, that Barbara Solow has argued that "the issue between landlord and tenant in Ireland was whether property was to be thought of as private or in some way communal . . ."

> The "3Fs" ["Fair Rents, Fixity of Tenure and Free Sale of Tenant Right," the battlecry of the Land League] are only comprehensible in terms of communal property rights . . . [They] boil down to a rent-setting institutional arrangement that will ensure the older concept of property relations. The tenant has a right to occupy the land which cannot be extinguished by rent increases.[5]

Nature exacerbates the problem in Ireland. Raymond Crotty has shown that the country's comparative advantage lies in extensive rather than intensive land uses. Of pre-Famine Ireland he writes,

> The overall low level of Irish agricultural output was not due to low yields of tillage crops but to the low proportion of tillage which gave a high gross output, and the high proportion of pasture which gave a low gross output.[6]

The interests of the private landowner in Ireland are thus even more in conflict with those of the workforce than they are in most countries. Joel Mokyr notes that in the early nineteenth century, whereas "In England agrarian violence was the exception, in Ireland it was the rule."[7]

Crotty suggested that at least 20% of the workforce in pre-Famine Ireland had a marginal productivity of zero or less, for that was the proportion by which the workforce was reduced, 1845-51, with no appreciable effect on output.

> . . . it is well to bear in mind that had landlords single-mindedly pursued the maximising of their incomes they would have cleared more than $1\frac{1}{2}$ million more people off the land before 1845. (p.45).

The peasant proprietorship solution to Ireland's land problem is certainly not a rent-maximising one. It is rather a landowner-satisficing one. Has it solved the problem of land access without doing undue harm to economic efficiency?

It would appear to have done neither, and so achieved the worst of both possible worlds. Crotty showed that both gross and net agricultural output remained static in volume terms between 1847 and 1963. Between 1860 and 1960, rural population more than halved, and between 1901 and 1961, $1\frac{1}{4}$m people emigrated from the country whose population in 1961 was less than three million.

There is every temptation for the peasant proprietor not to realize the land rent as a surplus but to allow it to subsidise his wages. The user of better land need not produce the same wages or invest as much capital as the user of worse land in order to receive the same income.

In fact, the peasant proprietor system suffers from the opposite

worlds

defect to the communal system. It encourages under-use rather than over-use of the better land. Thus, it adds its own impetus to emigration.

Irish agricultural conditions ensure that the soft option, cattle or sheep, with few labour and capital management problems, is relatively profitable. So the peasant proprietor has even less incentive to contribute to overall output and employment.

Whereas the surplus under the landlord/tenant system tended to be squandered on dependants and profligate living, and much of it was spent on foreign produce, the surplus is not created in the first place under peasant proprietorship, just as it was not created under the communal system (or was consumed by "surplus" population).

CAPITAL investment and economic growth have been ignored in the preceding static analysis, but it seems likely that the land value tax system which ranked highest in Table 1 would be more conducive to economic growth than the other systems. Such growth would counter the effect of rent in lowering the size of the workforce.

The spending of rent by government could also be expected to be directed, at least partly, towards satisfying the workforce and therefore raising its real income. Private possessors of rent can be expected to direct the rent only towards satisfying their own desires.

Thus, the depressing effect of rent on wages may be counter-balanced by its being spent publicly.

It may well be, after all, that the money-changers may be driven out of the temple of private property in land without destroying it. But a closer examination of history rather than theory will be necessary to shed light on the need for such a cleansing.

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LAND REFORMER NKOMO BOUND FOR VANCOUVER

DR. JOSHUA NKOMO, Zimbabwe's isolated politician, will address the International Union conference in Vancouver on May 18.

The conference organisers in Canada extended the invitation because Dr. Nkomo has some important views on how to redistribute land and rental income.

He and Robert Mugabe led the guerrilla movement that sought independence for Rhodesia. They led the Zimbabwe African People's Union (which Mr. Mugabe then left to form the Zimbabwe African National Union).

The two leaders knew that land tenure was at the heart of the social and economic problems that confronted the millions of poor black families.

In 1979, Dr. Nkomo suggested a policy for an independent Zimbabwe:

"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 rents, 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."

But once the Mugabe-Nkomo team formed their government, differences appeared between them that resulted in Dr. Nkomo falling from power.

Prime Minister Mugabe emphasised a socialist future for his country, which caused alarm among the white landowners. Some form of corrective action was needed, for 6,000 farmers occupied 15m hectares while 6m blacks were crowded into communal areas which were rapidly losing their fertility through over-cultivation.

● Dr Joshua Nkomo

Paul Knight writes: Dr. Nkomo's solution – a tax on the rental value of land, which could be distributed equally among all citizens of the nation – seems to be a sensible solution to Zimbabwe's agricultural problem. Unfortunately, the political split between him and Mr. Mugabe has forced this fiscal solution to the land tenure problem into the background.

Dr. Nkomo will fly to Vancouver for the conference organised by the International Union for Land Value Taxation and Free Trade if he is free of his commitments in Zimbabwe.

The conference is being organised by Ms. Mary Rawson, 1406 Woodland Drive, Vancouver, B.C., Canada V5L 3S6. Tele: (604) 251-2908.