

**T**HIS IMPORTANT book has two main purposes.

First, it seeks to expose the failure of capitalist, socialist and Keynesian 'mixed' economic systems alike to provide non-totalitarian solutions to the chronic persistence of poverty amidst rapid technical progress, and to the problem of cyclical instability that produces periodic bouts of mass unemployment.

The intellectual roots of all three systems are examined and found to contain fatal flaws.

Second, it re-examines the intellectual case originally advanced by Henry George in 1879 for placing land at the centre of the economic stage, as the primary factor of production without which labour and capital cannot function; and it studies the evidence that economic cycles and depressions are universally linked to the failure to prevent urban and agricultural land from being held off the market by land speculators.

**This is a major undertaking but one which Fred Harrison has carried out with a laudable mixture of passionate conviction, dispassionate scholarship and lucid exposition of theory and evidence.**

The author looks first at Adam Smith's widely accepted model of the workings of a capitalist system where a harmony of interests is supposed to exist between all members of a community freely seeking to maximize their private interests. The duties of government are limited to a few social provisions such as defence, education and lighthouses and to discouraging the monopolization of capital and labour. Free competition would minimize costs of production and maximize output. Harrison shows, however, that these principles cannot — and do not — apply to land in the basic sense of the free gifts of Nature.

Land has zero cost of production yet inside the margin, land does command a price, often fabulous.

In the conventional modern economic theory of the firm, when price lies above the marginal cost of production, the firm is said to enjoy monopoly profit, providing a *prima facie* case for taxation and regulation. The socially-optimal output is defined by the volume at which market price equals marginal cost of production. Thus Harrison is justified in referring to *monopoly* landowners and ultimately advancing the case for 100 per cent land value taxation that would capture the monopoly surplus for the community, reduce the market price of land to zero, its cost of production, and ensure that land is not held off the market in speculative hoards.

By contrast, Adam Smith ignored the full implications of this inherent monopoly element in economies that has alienated property rights in land from the public domain. Perhaps this is attributable to the conventional definition of monopoly as a single producer. There are, of course, many owners of land, so most modern students of economics would, like Adam Smith, balk at the phrase monopoly landowner. But none of these owners are producers of land, and the fixity of the aggregate supply of land is what gives an individual owner a monopoly rent.

Unfortunately, individuals currently acquiring property rights in land are obliged to pay the market price, which capitalizes prospective rentals. This is a pure transfer

# Land markets: the fatal flaw in the economy

## BOOK REVIEW

by Roger Sandilands



Fred Harrison — author of:

*The Power in the Land: An Enquiry into Unemployment, the Profits Crisis and Land Speculation.*

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payment and not a cost of production. In a free land market, with perfect knowledge, purchasers of land will tend to pay a price that equalizes prospective yields from land and any other asset on the market. Land taxation would reduce their prospective incomes, which is why many urge that, to cushion the landowners' losses, the tax should be introduced gradually, or involve a system of gradually declining rebates.

Harrison, however, is anxious that the tax be quickly set at a level sufficiently high to deter speculation. Otherwise it invites the criticism that it is an ineffective and irrelevant measure; the pervasive harm caused by land speculation would continue until the levy was penal.

**'A tax upon ground rents would not raise the rents of houses. It would fall altogether upon the owner of the ground rent . . . whether the tax was to be advanced by the inhabitant or by the owner of the ground, would be of little importance. The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground, so that the final payment of the tax would fall altogether on the owner of the ground rent.'**

Adam Smith (*Wealth of Nations* 5, ii, 1).

**T**HE NATURE of this pervasive harm is explored thoroughly. First the author explains clearly why speculation in land has radically different consequences than other types of speculation.

- Commodity speculation and hoarding does not reduce aggregate demand, and stimulates current production of the commodities.

- Stock market speculation involves paper transactions that can indirectly lower the cost of business finance.

- But land speculation and hoarding reduce the availability of an essential factor of production and drive up the price of land in use. Efficiency is reduced and production costs rise, driving labour and capital out of business and reducing aggregate supply and demand.

Harrison documents the way in which land speculation has tended to produce 18-year cycles in land values unless modified by exogenous shocks such as war or inflationary finance. Toward the end of the cycle, a frenzy of speculative activity drives land prices up while reducing the amount of land held for productive purposes. This drives down the natural rate of interest on capital. The initial impact falls mainly on the construction sector which is starved of reasonably-priced land, but this is soon followed by a downturn in general economic activity that is heavily dependent on a healthy construction industry.

The evidence supports this explanation of business cycles far more convincingly than any of the alternatives, such as Marxist theories of excessively high wages that reduce profits, excessively low wages that reduce demand, excessive government spending (the Reagan-Thatcher thesis), or the effects of OPEC. These latter explanations are faulted on their timing or because different countries have different experiences of prosperity or depression with similar ratios of government spending to GDP or degree of labour unionization.

The author might have noted, however, that some of the explanations such as low wages and under-consumption theories are not inconsistent with the thesis that land speculation reduces profits and wages and, hence, aggregate demand despite a desperate need (not the same thing as *effective demand*) for basic commodities.

However, by providing a more fundamental explanation of the source of trouble, his diagnosis points to fundamental solutions rather than palliatives such as Keynesian demand management.

Curiously, the awareness that land is fixed in supply has been responsible for the wide-

spread view in orthodox economics literature that land plays no role in the process of economic growth. Harrison reminds us of the crucial distinction between a fixed potential supply of land and the very variable supply made available to the market for use.

The scandalous paucity of official data on land ownership, use and non-use has encouraged this neglect of land's role in economic growth and cyclical instability. It has made Harrison's researches more difficult but also all the more important. Despite these difficulties, he presents us with very informative case studies in the history of land's alienation and monopoly in Britain, the USA, Japan and Australia.

**T**HE EXPERIENCE of Soviet bloc countries is also reviewed. Whereas land monopoly and speculative hoarding are the fatal flaw in the capitalist free enterprise model, the socialist model suffers from an equally-fatal error stemming from Marx's labour theory of value. Since land has no direct or indirect labour costs of production, it can have no labour value, hence no value. In socialist systems, there is no market to guide the efficient allocation of scarce land resources and rents are not collected from users. Instead, a corrupt totalitarian bureaucracy presides over the rationing process, with predictable results.

The gloomy concluding message of this book is that unless the liberal democracies introduce the proposed fiscal reform to their land markets, the appeal of an illiberal socialism may prove too hard to resist.

Lastly, there are some very important sections of the book, perhaps not brought together or emphasised sufficiently, that deal with the question of the adequacy of land rents to finance the requirements of modern governments.

The conventional view, popularised by textbooks such as Paul Samuelson's, is that rent is now only a small fraction of governments' financial needs. Harrison explains the nature of pure economic rent as the only true surplus from which taxation can ultimately be derived, the insight originally propounded by the eighteenth-century French physiocrats. Taxes on capital and labour not only distort resource allocation and discourage supply, they also tend to be passed on in higher prices that ultimately must reduce land rents if labour and capital are to remain employed at their minimum acceptable levels of wages and interest.

If this diagnosis is correct, it means that gross rents would rise as taxes on labour and capital are reduced. The growth of taxation as a proportion of national income in modern industrial economies indicates that the physiocrats, Henry George and Ricardo may not, after all, have been wrong in their prediction that rents would capture a growing share of income even in the face of land-saving as well as labour and capital-saving technical progress. If so, the case in favour of the *impôt unique* (single tax), on grounds of efficiency, equity, certainty and 'buoyancy', deserves careful re-examination by modern economists and politicians.

Fred Harrison's work has provided them with ample material and a comprehensive bibliography and documentation.

## VIC BLUNDELL

analyses official reports  
and Britain's land laws



**M**YTHS, like misquotations, have a habit of persisting despite all attempts to put the record straight.

In the political and economic field, land-value taxation has perhaps more than its fair share of myths, many of them generated by political hostility and perpetuated by the lazy and prejudiced who, whenever the subject comes up for discussion, rush to quote biased sources of information rather than do a little original thinking.

Much of the mythology can be traced back through Green Papers on the rating system to the report of the Simes Committee (Chairman, Sir Erskine Simes), which dealt exclusively with the rating of site values. This Committee was set up by the Labour Government in 1948 and reported in 1952.

Of the four Green Papers published since then, the latest in December 1981 *Alternatives to Domestic Rates*, ignored site-value rating with only a passing reference, citing the previous two Green Papers: these were published in May 1976 (the Layfield Committee report) and July 1971 (*The Future Shape of Local Government*).

Although over the last hundred years there have been a number of Government committees and Royal Commissions dealing directly and indirectly with our land tenure system and taxation, it is the Simes Committee report that has gained the greatest currency and credibility. The terms of reference given to this Committee were:

"To consider and report upon the practicability and desirability of meeting a part of local expenditure by an additional rate on site values, having regard to the provisions of the Town and Country Planning Acts and other factors."

The majority (six) found site-value rating neither practicable nor desirable having regard to the provisions largely of the 1947 Town and Country Planning Act. The minority (three) was favourable to site-value rating.

The arguments of the majority report received a severe blow by the repeal of the very development charges of the Town and Country Planning Act which they had said made site-value rating impracticable, and by the publication of the first Whitstable valuation of land (1962) which refuted other arguments as to practicability.

'A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden upon anyone else. It does not affect the value or price of produce, for this is determined by the cost of production in the most unfavourable circumstances... a tax on rent, therefore, has no effect other than its obvious one. It merely takes so much from the landlord and transfers it to the State.'

John Stuart Mill (*Principles of Political Economy* 5, iii, 2).

Specifically, the Whitstable valuation demolished what appeared to be an irresistible argument regarding the amount of revenue that could be raised by rating sites only. The committee, with apparent logic, argued that the value of sites alone must be less than the value of sites plus buildings. This would of course have been true, had the value of a site been determined separately and then added to the value of the building standing upon it. However, as members of the committee must have known, under the present rating system, valuations are not done in this manner. Valuations are based upon what a property would let for from year to year with the site in its existing use and the building in its existing condition. Thus, a poor building on a valuable site would have a low valuation irrespective of the fact that, on its own, the site might have a higher value.

Also, under the present system, vacant land and agricultural land is excluded from valuation and from rates.

The Simes Committee estimated that the value of sites was between 20 per cent and 50 per cent of the then composite valuation of land and buildings for rating purposes. Taking 35 per cent as an average, we can see how far out they were then. The Whitstable Survey revealed that the total value of all the sites in Whitstable was almost 90 per cent of the composite valuation for rating purposes.

It is no wonder that *The Guardian*, commenting on the results of the Whitstable experiment, said: "The Simes Committee reported adversely in 1952 on site-value rating but their report cannot continue to be Holy Writ..."

Despite this, many of the arguments in the majority report of the Simes Committee continue to be quoted and used as evidence against site-value rating.

## LAND LAWS

**T**HE HISTORY of land legislation in Britain makes dismal reading. Not only have successive Labour governments since the war failed to get to the heart of the matter, with their lack of understanding of the economic principles involved, but they have muddied the waters so much with unworkable land schemes that new proposals for land legislation may well provoke fears of the same nasty medicine as before.

Looking back to pre-war land legislation, there were two attempts at taxing land that were aborted.

● The first piece of legislation, the Lloyd George Land Value Duties of 1909-10, was subsequently repealed and the land duties that had been collec-