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By Roger Sandilands

Redirecting the revenue of the land

THE POWER IN THE LAND: UNEMPLOYMENT, THE PROFITS CRISIS AND THE LAND SPECULATOR

by Fred Harrison

Shepeard Walwyn, London, UK, 1983, pp 318, £8.95

One hundred years after the publication of Henry George's famous *Progress and Poverty*, Fred Harrison has attempted a major assessment of the contemporary relevance of Georgist economic analysis and policy prescriptions. George's basic message was that the market economy was not being allowed to function in a way that promoted a harmony of interests among all economic agents. This was due not only to conventional monopoly elements and government controls but more especially because of the expropriation of economic rent by 'monopoly' landowners.

This private ownership of land rents was deplored by George not only because of his ethical views on the just distribution of national income but also for reasons of economic efficiency. Land and natural resources are the 'free gifts of Nature', costlessly provided. The fruits of nature are enjoyed after man has applied his labour directly and indirectly (through the use of capital, or 'stored-up' labour) to extract its riches and shape them to satisfy human wants. These riches are distributed in three basic forms: wages to labour, with the competitive wage rate set at the margin of cultivation; interest on capital, with the competitive rate again determined 'at the margin'; and rent, the surplus yielded by intra-marginal land and natural resources.

On intra-marginal land, labour and capital are more productive because of favourable location (especially relative to urban facilities and markets) greater natural soil fertility, or easy access to mineral resources. But, with labour and capital both tending to receive a uniform competitive wage or interest rate, a surplus accrues to the owners of land. This surplus would not exist but for the combined efforts of labour and capital in the aggregate. Thus it is created by the community as a whole. However, where land has been alienated into private hands, the surplus does not return to the community. This then provides the ethical case for land taxation, based on distributional considerations.

Nevertheless, land rents play a vital allocative role in rationing scarce land to the most productive uses. For this reason Fred Harrison exposes in his book the inefficiency of socialist land policy in nationalizing the land and allocating it by bureaucratic decrees to specific uses without charging the users its scarcity value.

In market economies, on the other hand, the author notes that the efficiency of the system is also 'fatally flawed' when *laissez-faire* governs the land market and its essentially monopolistic nature is ignored. He draws on an impressive array of empirical detail, especially for the UK, USA, Australia and Japan, to expose the role of land speculation in creating an artificial scarcity of land and driving its price to levels that erode the normal or 'natural' returns to labour and capital.

Harrison advances the thesis that speculation in land has a remarkable tendency to produce 18-year cycles of land values, measuring the cycle from the year in which land values begin to recover from a depression to the year in which they peak. During the final stages of the upswing land is bought and sold increasingly as an asset to hold rather than to use, with the result that labour and capital are forced to use less and less productive or accessible land so that real wages and real returns on capital are depressed. Thus real economic activity slows and even declines. This eventually undermines the land market, pricking the speculative bubble.

Harrison's evidence suggests this as the most plausible explanation of the collapse of real land values and the associated depression of real economic activity in, for example, 1973 in many countries. Government intervention, such as the Bank of England's 'Operation Lifeboat' 1974–78, to prop up failing fringe banks and property companies, helped cushion the collapse, but only at the expense of more prolonged business recession than might have been necessary if land values had been allowed to fall to their 'natural' or economically realistic levels.

Speculation

Harrison brings out the economic difference between speculation in land and speculation in commodities. In the latter case the demand by speculators helps induce an increase in supply as commodity prices rise. Increased demand for speculative stocks of metals or grains does not reduce aggregate effective demand in the economy. By contrast, the speculative demand for land held idle does divert funds from productive activities and so depresses aggregate demand for the output of productive sectors. Admittedly, land purchases are pure transfer payments and the sellers may replace the proceeds into the financial and productive sectors. However, by holding more land out of use, real land prices and rents are increased and the profitability of productive activities reduced. When real economic activity is reduced real aggregate demand falls correspondingly and a vicious downward spiral may be set in motion.

This message is consistent with the supply-side economics of the Reagan–Thatcher administrations, including their programme of 'incentive taxation'. Indeed, Harrison notes that prominent supply-side economists such as Martin Feldstein and Arthur Laffer have themselves endorsed land tax proposals without, however, elevating them to the centre of the stage. But Harrison's diagnosis suggests that this policy reorientation is long overdue. The progressive transfer of the burden of taxation away from wages and profits and towards land rents would represent a radical shift in favour of incentives to more productive use of all factors. Harrison's documentation of the experience of various forms of land taxation in countries such as Australia, Japan, Taiwan, Denmark and South Africa provides support for this thesis and rebuts the common belief that such policies are administratively unworkable.

One of the most interesting sections of this book concerns the question of the ultimate incidence of various kinds of taxes. The followers of Henry George are often known as 'single taxers' in that their aim is to shift the entire burden of taxation away from labour and capital and on to land. Contemporary critics observe that in advanced economies such as the USA land rents now account for only around 10% of GNP. This represents only a fraction of the finance required to support modern government expenditures. Classical economists, however, especially physiocrats such as Turgot, suggested that ultimately all taxation was paid from the economic surplus which they defined as land rents. Taxes on wages, for example, would only temporarily reduce real, after-tax wages below subsistence. Likewise, a fall in taxes on wages would soon simply reduce the gross wage, leaving the net wage unchanged. The difference would be absorbed by land rents, the true economic surplus.

Comparison

If this thesis is correct, the shift of the tax system towards rents and away from wages and interest would have the effect of increasing the rental share in national income. A comparison of land values and the rental share of countries like Japan, where taxation generally is low, with countries like the UK and USA where taxation is much higher, does lend support to the thesis. But, as Harrison himself laments, in most countries there is relatively little interest in clarifying the role of land and natural resources in macroeconomic models and policies of stabilization and growth. This has resulted in a failure to compile the necessary data on urban and rural land values that would help our understanding of the nature of business cycles and growth as well as the functional distribution of income.

Despite this major handicap, Fred Harrison is to be commended for collating so much empirical detail on land speculation and use from a variety of historical and country sources, and for the most interesting and novel interpretations he has drawn. The book deserves a wide audience of academics and economic policy makers alike.

Roger Sandilands,
National University of Singapore

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