X: ALLEVIATING POVERTY

Steep increases in land tax may not eliminate today's poverty and unemployment overnight, but they would quite rapidly alleviate these problems.

Land tax would do so by making land available to people who are now short of food. Some would then grow food while others could build houses, or produce clothes, furniture, household items and recreational facilities. Still others could educate children, provide power supplies, transport and other services, or offer medical, legal and similar professional help to their fellow men.

These processes would turn shanty towns into villages, villages into towns and towns into cities. Then, as time went by, each new town or city would acquire factories to simplify the production of necessities, while the nation's inhabitants - as they prospered further - would begin producing luxuries as well.

The manufacture of luxuries would give further employment. In these ways, then, numerous embryonic communities would grow steadily - just as Australian and American communities grew and prospered a couple of centuries ago, when settlers had access to cheap land. (Or, perhaps, as towns like Ballarat and Bendigo [in Victoria, Australia] thrived, even after the end of the gold rushes that gave them birth.

Computers, Microprocessors and Automation?

The above may seem a utopian view, now that huge numbers of people can be clothed, fed and housed by relatively few workers using automation, computers and other modern technology.

However, automation does not prevent anyone from growing vegetables in his own backyard. It would not, therefore, prevent the world's poor from producing their own basic necessities - if they could only afford the necessary land. And once people achieve a measure of independence through producing their own food, they soon extend their productive activities into other fields - again provided, always, that land is available at reasonable cost.

Locked-Out From Land

Are the people who crowd the streets of Calcutta and the shanty towns of Latin America, the Philippines and Indonesia incapable of providing for their own wants? Or are they unable to do so because - in one way or another - they are locked out from land? I don't think the first suggestion is tenable, but the second one does seem to fit the following facts:

\# "In Central America and in the Caribbean, where as many as 70 percent of the children are undernourished, at least half of the agricultural land, and the best land at that, grows crops for export, not food for the local people. In the Sahelian countries of sub-Saharan Africa, exports of cotton and peanuts in the early 1970's actually increased as drought and hunger loomed."

\# "In Columbia, according to a 1960 study, the largest landowners control 70 percent of all agricultural land, but actually cultivate only six percent."

\# "Haiti offers a shocking picture of environmental destruction. The majority of the utterly impoverished peasants ravage the once-green mountain slopes in near-futile efforts to survive... These mountain peasants must be seen

as exiles from their birthright - some of the world's richest agricultural land. The rich valley lands belong to a handful of elites who seek dollars in order to live an imported lifestyle, and to their American partners. These lands are thus made to produce largely low-nutrition and feed crops (sugar, coffee, cocoa, alfalfa for cattle) and exclusively for export. Grazing land is export-orientated too. Recently, U.S. firms began to fly Texas cattle into Haiti for grazing and re-export to American franchised hamburger restaurants."

"A World Bank study of Columbia states that 'large numbers of farm families... try to eke out an existence on too little land, often on slopes of... 45 degrees or more'", while "Columbia's good level land is in the hands of absentee landlords who use it to graze cattle, raise animal feed and even flowers for export to the United States ($18 million worth in 1975)."

"In Africa vast tracts of geologically old sediments perfectly suitable for permanent crops such as grazing grasses or trees have instead been torn up for planting cotton and peanuts for export. In parts of Senegal, peanut monoculture has devastated the soils."[16]

Cheap Labour and Land

This deplorable situation arises as multinational agribusinesses shift production of vegetables, fruits, flowers and meat out of the industrialized countries in search of cheap land and cheap labour in the under-developed countries[17]. It creates unemployment amongst farm workers and primary producers in the industrialized countries, while diverting land away from the inhabitants of under-developed countries - thereby condemning the latter to unemployment and poverty.

(Because no one can work or even live if he is denied access to land.)

Land Tax vs. Multinational Agribusiness

The practice described above could become unprofitable, if even developed countries taxed their land in the manner described in this book.

Such taxes would discourage anyone from holding land for which he had little or no immediate use. They would therefore bring numerous unused or partly used sites onto the market.

A great deal of this land would be on the outskirts of cities and towns - for this is where speculation exerts its maximal effect.

If this land were offered for sale at a reasonable price, it could be occupied by market gardeners and orchardists. In this way, land taxes would bring food producers and consumers close to one another, and reduce transport costs.

Land taxes would also reduce the price of land, the size of farm mortgages and the amount of interest incoming farmers have to pay. They would therefore cut costs in two ways, and allow local producers to undercut any agribusiness that might try to import food that could (and should) be grown locally.

As a result, multinationals would have less use for agricultural sites in under-developed countries, and more land would be available to the inhabitants of those countries.

Through land tax, then, the industrialized nations could improve conditions in the under-developed countries - without spending a cent in overseas aid.

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LAND COSTS AND INTEREST PAYMENTS
FOR PRIMARY PRODUCERS

The influence of land prices and interest pay-
ments on costs can be shown by considering an
average Victorian dairy farm.

In 1974, such a farm cost $100,000, 80 cows were
milked on it, and the annual production of each
cow was valued at $197.50. That provided the
farmer with a gross income of $15,800, 29% of
which was absorbed as production costs, leaving
him with a net income of approximately $11,200
per annum[18].

The farmer would have to buy his cows as well.
If he could do that, find a deposit of $33,333
for the farm, and borrow the remaining $66,667
at 10%, then he **MIGHT** repay his debt in 24 years
- **IF** he could devote $7,470 (two-thirds of his
net income) to the task!

This is somewhat hypothetical, for reasons given
on page 81. However, were it possible, the
calculation given in Table 5 would apply.

The farmer would pay over $108,000 as interest.
That shows the problems incoming farmers face,
and reveals why many farmers never get out of
debt. At today's land prices, few people can
enter farming without solid financial backing or
inherited land.

City "Farmers"

Over-priced farms are often bought by large compa-
nies or by professional men and other city folk.
These people buy farm land as an investment, and
then pay labourers to work on it.

They are encouraged to do this because, in Victo-
ria at least, land used for primary production

TABLE 5: AMORTIZATION OF A VICTORIAN DAIRY FARM
PURCHASE FINANCED WITH A $66,667 LOAN

YEAR	INTEREST ($)	REPAYMENT ($)	BALANCE ($)
1	6,666.70	803.30	65,863.70
2	6,586.37	883.63	64,980.07
3	6,498.01	971.99	64,008.08
4	6,400.81	1,069.19	62,938.89
5	6,293.89	1,176.11	61,762.78
6	6,176.28	1,293.72	60,469.06
7	6,046.91	1,423.09	59,045.97
8	5,904.60	1,565.40	57,480.57
9	5,748.06	1,721.94	55,758.63
10	5,575.86	1,894.14	53,864.49
11	5,386.45	2,083.55	51,780.94
12	5,178.09	2,291.91	49,489.03
13	4,948.90	2,521.10	46,967.93
14	4,696.79	2,773.21	44,194.72
15	4,419.47	3,050.53	41,144.19
16	4,114.42	3,355.58	37,788.61
17	3,778.86	3,691.14	34,097.47
18	3,409.75	4,060.25	30,037.22
19	3,003.72	4,466.28	25,570.94
20	2,557.09	4,912.91	20,658.03
21	2,065.80	5,404.20	15,253.83
22	1,525.38	5,944.62	9,309.21
23	930.92	6,539.08	2,770.13
24	277.01	2,770.13	

Totals: 108,190.14   66,667.00

is generally exempt from land tax (see page 32). Furthermore, if the farming venture should be unprofitable, then, for income tax purposes, losses can usually be deducted from the investor's other income. So the city "farmer" is not unduly worried if his farm runs at a loss.

LAND TAX = MORE INDEPENDENT FARMERS

Today, at least half the cost of an average farm

is the price of bare land. Consequently, many who now work on farms for wages could afford a farm of their own, if site rents were taken into the Treasury.

Were this done, then land costs could fall to five percent of earnings (as suggested on page 10). In that event, the following calculation would apply to the $100,000 dairy farm mentioned above.

Land Costs at Five Percent of Earnings

A farmer who earned $11,200 per annum for forty years would earn a total of $448,000. Five percent of this is $22,400, or $560 per year. Therefore, if land costs averaged five percent of earnings, then an average Victorian dairy farmer would have paid $560 per annum as land taxes and rates in 1974.

If the tax rate were set at 100 cents in the dollar, the farmer's land would also cost $560. (He could get this $560 back eventually, if he sold the land when he had finished with it.)

Under these circumstances, the farm would cost $50,560 — i.e., $50,000 for buildings and improvements and $560 for land.

If the farmer put down a deposit of $33,333 (as in the example given on page 76), he would have to borrow only $17,227. That could be repaid in nine years, if one-third of the farmer's net income were devoted to land tax and amortization of the farm.

One-third of the farmer's net income would be $3,730 per year. Land tax would absorb $560 of this, leaving $3,170 as an annual repayment plus interest. The repayment schedule is shown in Table 6.

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TABLE 6: AMORTIZATION OF A FARM WITH LAND COSTS AT FIVE PERCENT OF EARNINGS AND A LOAN OF $17,227 WITH INTEREST AT 10%

YEAR	INTEREST ($)	REPAYMENT ($)	BALANCE ($)
1	1,722.70	1,447.30	15,779.70
2	1,577.97	1,592.03	14,187.67
3	1,418.77	1,751.23	12,436.44
4	1,243.64	1,926.36	10,510.08
5	1,051.01	2,118.99	8,391.09
6	839.11	2,330.89	6,060.20
7	606.02	2,563.98	3,496.22
8	349.62	2,820.38	675.84
9	67.58	675.84	
Totals:	8,876.42	17,227.00	

Land Costs at Ten Percent of Earnings

Even if land costs were double the figure suggested earlier, and absorbed ten percent of earnings, incoming farmers would still be far better off than they are today. Under those circumstances, the following calculation would apply to farms such as the one under discussion here:

Cost of buildings and improvements:	$50,000
Purchase price of land:	1,120
Total cost of farm:	$51,120

If the farmer put down a deposit of $33,333 (as in the other examples), he would then have to borrow $17,787. If, in addition, the land were taxed at 100 cents in the dollar, then his annual land tax payment would be the same as the purchase price of the land - i.e., $1,120.

Such a farmer could almost certainly afford to devote one-third of his net income to amortization plus land tax. Therefore, his annual repayment plus interest would be ($3,730 - $1,120)

= $2,610. Repayments would span thirteen years,
as shown in Table 7.

TABLE 7: AMORTIZATION OF A FARM WITH LAND COSTS
          AT TEN PERCENT OF EARNINGS
     AND A LOAN OF $17,787 WITH INTEREST AT 10%

YEAR	INTEREST ($)	REPAYMENT ($)	BALANCE ($)
1	1,778.70	831.30	16,955.70
2	1,695.57	914.43	16,041.27
3	1,604.13	1,005.87	15,035.40
4	1,503.54	1,106.46	13,928.94
5	1,392.89	1,217.11	12,711.83
6	1,271.18	1,338.82	11,373.01
7	1,137.30	1,472.70	9,900.31
8	990.03	1,619.97	8,280.34
9	828.03	1,781.97	6,498.37
10	649.84	1,960.16	4,538.21
11	453.82	2,156.18	2,382.03
12	238.20	2,371.80	10.23
13	1.02	10.23	

Totals: 13,544.25   17,787.00

In Summary

Summarizing all this we see:

1: A farmer who bought a farm at 1974 prices
   could pay $50,000 for the site, another
   $50,000 for the home, outbuildings and other
   improvements, and then a total of $108,190 in
   interest – a final sum of $208,190.

2: With land costs at five percent of earnings,
   the same farmer would spend $22,960 on land
   over forty years, $50,000 on improvements,
   and $8,876 as interest – a total of $81,836,
   and:

3: With land costs at ten percent of earnings, he would spend $45,920 on land, $50,000 on improvements, and $13,544 as interest – a final sum of $109,464.

Costly Land = Costly Mortgages

The first example is probably hypothetical. Few farmers could spend two-thirds of their income on amortization. In practice, such a farmer would need a deposit of at least $50,000. Even then he would need one-half of his net income, just to service the debt.

But $50,000 would almost buy the farm in the second and third examples. So today's land prices impose a tremendous and unnecessary burden on incoming farmers – whatever way we look at it.

Costly land means costly mortgages. Incoming farmers could save thousands upon thousands of dollars in interest, if the price of land were drastically reduced.

Land Tax Provides The Key

Today, farm land is costly because it is generally free of tax.

The situation could be corrected if land taxes – on farm land as on all other land – were steadily increased while other taxes were reduced. That measure would have no adverse effect on any owner who used land to an optimum extent. He or she would simply pay more tax on land and less in other ways. But it **would** affect the owners of idle or under-used farms, and bring many such farms onto the real estate market.

The resulting increase in the supply of farm land would bring its price down, and provide the benefits described above.