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18-year Cycles: the UK Evidence

The industrial economy regularly falls prey to the vice-tight grip of the jaws of an economic monster. This beast looks innocent enough when represented on graph paper: just two simple lines crossed like the blades of a pair of scissors. Yet the power that is unleashed by the dynamics that are concealed behind these two lines tells us a great deal about why people by the million are subjected to the humiliation of being thrown out of work, and of the scale of the challenge that lies before us if we wish to engineer the appropriate reforms.

Over a period of two decades a remarkable bifurcation opens up in the rate of return derived from the ownership of land and capital. The returns to capital investment diminish, while the returns to land increase. As the gap widens, it becomes increasingly attractive to pump money into land rather than into the creation of new capital. Firms consequently find it increasingly difficult to re-equip themselves with new, higher-productivity machines and buildings. This dampens the capital goods industry, with serious results for employment.

As the process continues, both the internal funds of the average firm (which are used for re-investment) diminish inexorably, and the money on the markets becomes less readily available to entrepreneurs. Speculators who want to borrow for land deals are not confronted with these difficulties, however, and so funds are channelled into an increasingly frenzied land market. It is this scissors movement that periodically cuts the upward trend in economic growth, and which needs to be eliminated if industrial society is to rid itself of traumatic recessions.

The declining rate of return on capital is a well-known phenomenon. It was inferred by the classical economists who argued that the rate of profits on capital shadowed the interest rates on the money markets. 'Accordingly, therefore,' wrote Adam Smith, 'as the usual market rate of interest varies in any country, we may be assured that the ordinary profits of stock must vary with it, must sink as it sinks, and rise as it rises. The progress of interest,

therefore, may lead us to form some notion of the progress of profit.'[1] Smith traced the decline in the rate of interest over a long period of time, and concluded: 'As riches, improvement, and population, have increased, interest has declined'.

Marx popularised the idea of the decline of profits. This could be used to propagate the 'crisis of capitalism' thesis. But the accounts of the long-term trends conceal cyclical movements which are vital for the correct diagnosis of what is happening within an economy.

Statisticians have produced data for the last 100 years which support the scissors hypothesis. But this phenomenon was operating during the first long business cycle in the history of industrial society, between 1795 and 1815. We will now elaborate on that cycle with additional statistical data.

The years 1815-16 have been described as 'one of the most difficult periods in the history of the British economy',[2] followed by an improvement in 1818 and a quick return to depression the following year.[3] The turning point was 1814. Up till that time, there had been no significant increases in money wages except for the textile industry (in the single year 1814), and agricultural money wages showed a consistent decline.[4] But unemployment occurred in every branch of manufacturing industry for which there is evidence. Thus there was no wage pressure on profits (though not for the want of trying: riots and other action broke out throughout the country). Yet profits were low indeed. The first decades of the Industrial Revolution were essentially the story of one industry: textiles, and in particular cotton manufacturing. There was a clear downward trend in the margin of profit. In 1784 the selling price of a lb. of spun yarn was 10s. 11d., and the cost of its raw material 2s. (margin: 8s. 11d.). In 1812 the price was 2s. 6d. and its raw material 1s. 6d. (margin: 1s.). This trend, attests Hobsbawm, was general throughout British industry.[5]

Some contemporary observers decided that capital had become too large, lumpy, and therefore immobile. Ricardo argued against this on the grounds that capital would move to alternative uses if profits were forthcoming. He campaigned vigorously against the corn laws which, he repeatedly told the Commons, were responsible for protecting domestic agriculture (which meant the landowner) and therefore retaining capital in this sector instead of releasing it to other uses.[6]

Various explanations have been advanced to explain the terrible visitations on the British economy during these years. Some of them, besides land monopoly, are valid. Peace with France was declared in June 1814, as a result of which 1.2m men were demobilized over the following three years. The cut-back in military expenditure had a severe effect on the iron industry. *But the seeds of the recession were sown earlier than June 1814.* Urban land values began to soar before the turn of the century. The price of land rendered the

construction of canals, houses and factories uneconomic. The production of bricks, for example, declined from 945.1m. in 1811 to 673m. in 1816.[7] Agricultural landowners contributed their share to the distress. Rural land prices had been rising sharply,[8] and when food prices dropped they refused to relieve the pressures on tenants by reducing their rents[9] (which in theory ought to have happened, if landowners passively accepted rent as a 'surplus').

We have to grapple with piece-meal evidence to show the trends and relationships in this first major cycle because statistics were not systematically compiled. Even today the deficiencies in the quantitative evidence present us with a serious difficulty. Economic rent, for example, is not published as a category in its own right; it is incorporated into a catch-all 'rent' category which includes the rents to capital improvements on land. In addition, this category ignores the imputed rent of idle and poorly used land, and freehold land where no rent money changes hands. By lumping rent and interest together, any differences that may exist in the trends are disguised. This problem, however, has been partly dealt with by two economists, Phelps Brown and Weber, who published a study in the *Economic Journal* which revealed a striking fact.[10] The rate of yield on capital in the industrial sector followed the anticipated downward trend. In the 1870s the rate of return was around 17 or 16 per cent; it was about 15 per cent for the last two decades of the century, and dropped to 14 per cent from 1900 to 1913 and fluctuated around the 11 per cent mark during the inter-war years. The authors then disaggregated their figures to show the rate of yield on buildings, which were found to be *upwards*, rising from four to six per cent between 1870 and 1895, and from 3.5 to around five per cent between 1924 and the late 1930s.

The yields were calculated from rents recorded by Schedule A income tax assessments, and these include both economic rent and interest on capital (the buildings). How, then, do we know that the rising yields to 'buildings' in the Phelps Brown and Weber study were to the land component rather than to capital? Adam Smith gives the answer. In his discussion on 'Taxes upon the Rent of Houses',[11] he differentiates between building-rent and ground-rent. 'The building-rent is the interest or profit of the capital expended in building the house,' and interest on this capital behaved the same way as interest on capital in other sectors. 'The building-rent, or the ordinary profit of building, is, therefore everywhere regulated by the ordinary interest of money... Whatever part of the whole rent of a house is over and above what is sufficient for affording this reasonable profit, naturally goes to the ground-rent.' Thus, it follows that as general interest rates and yields from capital were declining while 'rent' was increasing, it must have been economic rent (Smith's 'ground-rent') which was rising. So the Phelps Brown and Weber calculations support our hypothesis of opposing trends.[12]

If the percentage increases for the latter decades of the nineteenth century

do not seem large, this was due to the annexation of over 11m. square miles of territory by the colonial powers between 1876 and 1914. North American railway lines increased from 30,800 miles in 1860 to 94,200 miles in 1880, making more accessible the prairies of the Middle West and offering cheap transportation of grain to Europe. The newly invented refrigerator ships made possible the large-scale exportation of meat from Australia and New Zealand. From 1880 this directly affected agricultural rents, especially for arable land, until 1895. The decline in demand for home-produced food resulted in distress among tenants; once again, because of the way rent is exacted under monopoly conditions, landlords refused to reduce their demands until many tenants were bankrupt and had to quit farms.[13] The downturn in farming revenue left a reduced surplus (= rent). An appropriately quick response to this, as would occur where tax authorities were taxing *current* values, would have enabled the farmers to continue growing food. For the rate of return on labour and capital would have remained at acceptable levels, but landowners resist downward movements of rents for as long as possible. As a result, thousands of acres fell into disuse and farms deteriorated.

We now have to amplify the thesis that the opposing trends in rents and interest conform to the long swings of business activity.

Collapse comes when the gaps between the two trends have opened up too far. The major recession that follows takes the form of a painful adjustment process. Traditionally, there is a cutback in rents and the selling price of land, which had been raised by speculation to levels which could not be supported by current economic output. For the engine of growth to restart, rents must

TABLE 6:I

Income Shares as a Percentage of GNP at Factor Cost, UK 1921-1938

	Employee compensation	Corporate Profits	Rents
1921-4	58.5	13.0	6.8
1925-9	58.1	12.5	7.5
1930-4	59.3	12.5	9.0
1935-8	58.9	15.0	8.8

Source: C.H. Feinstein, 'Changes in the Distribution of the National Income in the UK since 1860', in J. Marchal and B. Ducros (editors), *The Distribution of National Income*, London: Macmillan, 1968, Table 1, p. 117.

be at some realistic level which leave yields on capital at an acceptable rate. The recession forces people to reappraise their expectations. The interim unemployment, however, causes much suffering to innocent people who are not able to protect themselves with income from past savings.

The distribution of national income should provide a test for this hypothesis. Table 6:I shows what happened during the interwar cycle in the UK. Rental income is on an upward swing but the trend in corporate profits is confusing. According to our theory, profits should have slumped at the tail-end of the long swing in business activity; yet here they are shown as rising. Data which supports our theory is provided by Deane and Cole (Table 6:II), which shows movement in a continuous downward direction.

TABLE 6:II

Distribution of UK national income

	Average Decadel Percentages of total national income	
	Rents	Profits, interest and mixed incomes
1920-29	6.6	33.7
1925-34	8.1	31.2
1930-39	8.7	29.2

Source: P. Deane and W. A. Cole, *British Economic Growth 1688-1959*, Cambridge University Press, 1962, p. 247, Table 65.

The historical facts, however, suggest that the data in Table 6:I is more accurate. Accordingly, we accept these. In doing so, however, we need to explain the apparent anomalies if we are to preserve the symmetry postulated by our theory.

If the 18-year cycle in land values began at the end of the war in 1918, it should have peaked in 1936, followed by the recession 12 to 24 months later. This happened. The interwar years, surprisingly, were a period of almost continuous growth, in spite of the post 1929 slump.[14] This was induced to a considerable extent by the problems of the American economy, following the 1925 land speculation boom. UK unemployment during this recession was a regional phenomenon, and the grey image of the hungry '30s was more than offset by astonishing economic and social progress.[15] Output rose continuously except for 1926 (the General Strike and the protracted coal strike) and 1929-1933. The annual average rate of growth of industrial

output was 3.1% between 1920 and 1927, rising to 3.7% between 1927 and 1937. The real product per occupied person in the UK in 1932, as a percentage of the level through 1925-29, was 116%. This compared with 83% (USA) and 97% (Germany).[16]

Do the timings of the key events support our theory? Britain experienced a boom in 1919-20. National income rose significantly. If 1900 = 100, national income rose to 124.7 in 1919-20, with *per capita* income at 113.8[17] There was also a staggering boom in land sales—about a quarter of Britain's land changed ownership in just a few years!

> Such an enormous and rapid transfer of land had not been seen since the confiscations and sequestrations of the Civil War, such a permanent transfer not since the dissolution of the monasteries in the sixteenth century. Indeed a transfer on this scale and in such a short space of time had probably not been equalled since the Norman Conquest.[18]

Tenant farmers complained bitterly about the speculation in agricultural land; residential land prices soared as well. 'Land values were high in relation to the income from land,' note Glynn and Oxborrow.[19] So the good start to the postwar growth of output had to be sharply curtailed, according to our theory. It was. Unemployment rose to 9.6% and national income slumped to 110.6 *Per capita* income came down to 102.8 for the years 1921-24. Glynn and Oxborrow calculate the British economy suffered a loss of output of £9,754m. (equivalent to two years income) during the interwar years because of the high rate of under-employment of labour and capital.[20]

The economy settled down to a lower rate of growth, which was sustained, with the two exceptions referred to above, until the late 1930s. Land values reached their peak by 1936.[21] Output peaked in 1937,[22] and began to slide—along with employment—in 1938, just 20 years after the end of the first World War. No-one will blame wage earners or their trade unions, presumably, because as we saw from Table 6:I, the wages and salaries received by employees remained an almost constant fraction of GNP. The average for the cycle was 58.7% and the deviation was plus or minus 0.5%.

At the end of the cycle, however, corporate profits should have been near the bottom. Instead, they were apparently rising. There were a number of reasons for this, of an exceptional nature. First, there were the striking contributions to growth of a once-for-all nature by the motor and electricity industries. The building industry was crucial in reviving activity after 1929. Government policies (tariff protection and import controls) had the general effect of reducing competition and promoting cartels and monopolies 'at the expense, usually, of the consumer'.[23] These were aimed at raising profits. Despite all this, however, the economic alarm bells started ringing in 1938. The recession would have come: the rhythmic pressures of the system would

have overridden these counter-cyclical factors. In Britain, unemployment was 40% higher in 1938 than the 1929 level; in the US, unemployment was 14.6% compared with 3.2% in 1929. The slump, however, was cushioned by the intervention of Adolf Hitler. Not all the mistakes of the first World War were to be repeated again. The British Government was better prepared for the next war with Germany, and the economy benefited as a result. Churchill's warnings of Nazi intentions rose to a crescendo in 1934, and on March 4, 1935, the Government issued a White Paper which concluded with these words: 'An additional expenditure on the armaments of the three Defence Services can, therefore, no longer be safely postponed'.[24] Expansion of the aircraft industry had begun the year before. Shipbuilding, which had generally suffered during the early postwar years from foreign competition, received a boost from the requirements of the Royal Navy (mainly cruisers and destroyers) in 1935, and the re-equipment of the Army began in 1936. Expenditure on armaments increased by 250 per cent between 1934 and 1938; expenditure on factory construction amounted to £8.7m. in 1938.[25] So while unemployment generally rose between 1936 and 1938, there was an expansion of work in key industries such as coal, shipbuilding and iron and steel.[26] Profits were boosted, and in 1939 the trend in unemployment came down; men were drafted into the Forces, and Britain swapped an economic tragedy for a human catastrophe. Similar forces were at work in Japan, coming to the rescue of the 'miracle' economy.

The post-World War II trends (Table 6:III) follow such a perfectly satisfactory course that we would be right to exercise caution. We want to know more about timing and the actual yields rather than just relative shares in national income.

The first problem is to decide when the cycle began. Economists using data

TABLE 6:III

Income Shares as a Percentage of GNP at Factor Cost, UK 1955-1973

	Employee compensation	Corporate profits	Rent
1955-59	67.0	18.0	4.5
1960-63	67.4	17.9	5.1
1964-68	67.6	16.8	6.4
1969-73	68.9	13.2	7.6

Source: J. King and P. Regan, *Relative Income Shares*, London: Macmillan, 1976, Table 1, p. 18.

reflecting 20-year cycles in such phenomena as population growth and housebuilding are not able to offer a precise prediction of a forthcoming major slump.[27] We, however, can select 1955 as our starting point. Eighteen years later the land values cycle peaked, and 1974 saw the slide into the deepest recession since the 1930s. So 1955 appears to be arithmetically convenient, but is it historically valid?

The cycle could not have begun earlier. The Labour Party which romped home to power in 1945, despite the wartime credit accumulated by Winston Churchill, introduced drastic measures affecting the land market.[28] Following the Uthwatt Report, the Government introduced a Town and Country Planning Act; among its provisions was the levy of a development charge on additional value accruing to land as a result of the grant of planning permission. This was an absurd piece of legislation, in that it unwittingly encouraged owners to sit tight on their land and wait for the repeal of an unworkable Act when the Conservatives assumed power.

In July 1946, the Government was warned by 167 of its own backbenchers that the proposed legislation was both economically unworkable (for example, it would not eliminate speculation) and did not do sufficient to realise their ethical aspiration — namely, that *all* socially-created land values should be taxed for the benefit of the community. The Government paid no heed, and the Bill became law the following year.

Landowners were correct in their expectations: the development charge was quickly removed from the statute book by the next Conservative administration. But important controls on development of land — and therefore realisation of 'hope' values pinned on it by owners — were retained. It was not until Nov. 2, 1954, that Nigel Birch, the Minister of Works, signalled the beginning of the 18-year cycle with a declaration in the House of Commons that building licences would be dropped. The result of this decision was illustrated by Marriott in his fine study of the land speculators in the early phase of the cycle:

> A week before this blow in favour of the freedom of the market, after fifteen years of varied controls, Gabriel Harrison, a young dealer in property in London, had clinched a deal in Grafton Street, off Piccadilly. Unable to extract a building licence from the Ministry of Works, he had sold a bomb-damaged site next door to the Medici Galleries for £59,000 to a 26-year-old estate agent, Harry Hyams. Immediately he heard that licences were abolished, Harrison cursed his luck and rang up Hyams on the off chance that he might buy the site back. Hyams replied that he would sell it back for £100,000; the end of licensing had changed values somewhat.[29]

So we have our starting point, and it fits perfectly with the timing of the cycles in both land values and business generally. Before the land values cycle

began, the yields accruing to labour and capital were on the increase; this trend suddenly reversed as soon as the land values cycle began to bite 12 months later, as can be seen in Table 6:IV, col. 3. The evidence in cols. 1 and 2 reveals a consistent decline in the pre-tax profits of commercial and industrial companies from 1955.[30] Attempts to bolster profits by handing out investment grants did not halt the trend (col. 4).

TABLE 6:IV

	Rate of pre-tax profit, less depreciation, on net assets of industrial and commerical companies: %[1]		All companies gross trading profits *less* stock appreciation *less* capital consumption as % of national income (Col. 4 includes investment grants)[2]	
	(1)	(2)	(3)	(4)
1950			12.6	
1951			14.0	
1952	16.5		14.1	
1953			14.0	
1954			14.2	
1955			14.6	
1956			13.1	
1957	14.7		12.9	
1958			12.5	
1959			13.0	
1960			13.9	
1961			11.9	
1962	13.0		10.9	
1963			11.9	
1964		13.7	12.0	
1965		12.8	11.5	
1966		11.3	10.0	
1967	11.7	11.7	10.0	10.6
1968		11.6	10.0	11.2
1969		11.1	8.3	9.9
1970		9.7	6.7	8.0
1971			6.6	7.8
1972			6.7	7.4

1 A. Glyn and B. Sutcliffe, *British Capitalism, Workers and the Profits Squeeze*, Harmondsworth: Penguin, 1972, p. 66, Table 3.3.

2 G. J. Burgess and A. J. Webb, 'The Profits of British Industry', *Lloyds Bank Rev.*, April 1974, p. 8, Table 2, col. 4.

The story repeats itself for employees, whose post-tax share of the employers' net revenue increased up to the mid-'50s. The trend then reversed itself and began an inexorable slide over the following 25 years (recovering momentarily in the 1970s during the period of Chancellor Anthony Barber's inflationary policies). Labour's increasing share, as we can see from Table 6:V, was an apparent one only. It was due entirely to the exactions of government, which drove a growing wedge into the pay bargaining process and reduced the size of the disposable income of employees.

But the yields from both urban and agricultural land were *increasing* over this period. The Government's Advisory Group on Commercial Property Development, which published its first report in 1975, declared that

> if the value of a development rises faster than construction and associated costs (*the normal position in the last twenty years* though this is not at present so), it will be the site value which will benefit as the residual in the calculation of values.[31]

In the housing sector, during the early phase of the cycle in land values, builders made their money out of the capital improvements upon their land, rather than from the land itself. But as the cycle moved upwards, the position was reversed; profits from the construction of houses were deemed to be modest, while the big returns were made from the land.[32]

Thus the oil price explosion can now be seen to be of secondary importance in the analysis of the recession of the 1970s which reached into the '80s. If the Arab oil exporters were mainly responsible for this recession, the random event — a price rise engineered at the end of 1973 — would remove scientific status from our theory, and the recession becomes an accident which could not have been foreseen in 1955. Yet an economist, if he had used the cycle in land values as his predictive tool, *could* have successfully pinpointed the economic contortions into which the UK economy would have spiralled in 1974 *even if OPEC had never been established.*

Employment is heavily determined by profitability and the rate of investment. A long.run decline in the yields on capital, by inhibiting fresh capital formation out of company funds, should produce a parallel pattern of rising unemployment. This was indeed the case. There was a stable level of employment in the postwar years up to 1955. Then an upward trend in unemployment began. The troughs in the cycles of unemployment rose from 1% in the mid-'50s to 1.5% in the mid-'60s and doubled to 3% in the mid-'70s.

British economists have failed to agree on the causes of the secular decline in profits since 1955.[33] An examination of the testable hypotheses led a policy advisor at the Department of Industry (W.E. Martin) to conclude that 'the reasons for the secular decline in profitability remain something of a

TABLE 6:V
UK Labour Costs and Taxes, 1938-1981
% of employers' net revenue[1]

	Employers' labour cost[2]	Employees' take-home pay	Pay bargain tax wedge[3]
1938	55.6	52.6	3.0
1946	59.1	52.3	6.8
1947	59.2	52.9	6.3
1948	58.1	51.5	8.6
1949	59.0	51.7	7.3
1950	59.2	52.2	7.0
1951	60.2	53.0	7.2
1952	60.5	53.6	6.9
1953	60.1	53.6	6.5
1954	60.4	53.9	6.5
1955	61.8	54.9	6.9
1956	62.7	55.5	7.2
1957	62.8	55.4	7.4
1958	62.7	54.3	8.4
1959	62.3	54.1	8.2
1960	62.5	54.2	8.3
1961	63.4	54.4	9.0
1962	63.7	54.1	9.6
1963	63.0	53.8	9.2
1964	62.9	53.4	9.5
1965	62.9	52.4	10.5
1966	64.1	52.3	11.8
1967	63.9	51.2	12.7
1968	63.2	49.8	13.4
1969	63.1	48.9	14.2
1970	64.7	49.6	15.1
1971	63.7	49.1	14.6
1972	64.1	50.3	13.8
1973	63.3	49.6	13.7
1974	66.2	50.4	15.8
1975	69.4	50.8	18.6
1976	67.2	48.5	18.7
1977	65.7	47.5	18.2
1978	65.8	48.2	17.6
1979	66.4	48.8	17.6
1980	67.8	49.4	18.4
1981	66.7	47.8	18.9

Source: Calculations by R. Burgess of the Economic Study Association from the CSO's annual 'Blue Books' and *National Income and Expenditure of the UK 1946 to 1950*, London: HMSO, Cmnd. 8203, p. 40, Table 27.

1 Excludes capital consumption and stock appreciation.

2 Wages and salaries plus Selective Employment Tax or National Insurance Surcharge.

3 The sum of income tax on wages and salaries and pay of HM Forces, employees' and employers' social security contributions, Selective Employment Tax or National Insurance Surcharge.

mystery'.[34] This assessment is not surprising, given the concepts that were used to investigate the evidence. 'Profits' were defined as 'gross trading profit ... plus rent received', and real rates of return as a percentage of the capital stock of fixed assets 'excluding land because of lack of data'.[35] The trends in rents were concealed, and land was excluded from consideration, effectively wiping out the elements of a solution and leaving the analyst perplexed.

Martin lent credence to the view that political economy was a dismal science, given what he called 'a low rate of return... of explaining secular movements in income distribution'.[36] However, by reverting to the use of classical concepts, we can begin to shed light on ancient mysteries. In particular, we can now see that trends in both the distribution of national income and yields to the owners of land and capital verify the thesis that land monopoly has a powerful determinative influence on the industrial economy.

There are, however, features of the land tenure theory which at first sight may appear to be equally puzzling, and require explanation. The one which must be raised in the present context concerns the motive to invest in land at the beginning of the 18-year cycle when yields are low. Would it not be more rational to invest in industry where the returns — at least, at this stage of the economic cycle — are high?

Land buying in the early phase assumes — in part — an independent rhythm, determined by long-term expectations based on confidence in future growth of wealth. In the first half of the cycle, rental increases cause a rise in values. As the process gathers momentum, expectations diverge away from the actual performance of the economy; people buy and sell at prices which do not reflect the actual returns which could be expected from rent-paying tenants. During the second half of the cycle 'it is changes in yields which have had most of the effect on increasing values while rents have remained comparatively stable'.[37]

Income is not sacrificed if land is vacant for a long period of time. A high eventual selling price of land results in a recovery of the income stream; income is merely deferred into the future. One of the shrewdest British

property developers in the postwar years, Harry Hyams, understood this fact better than most.

Oliver Marriott illuminated the economics of vacant buildings and idle land by analysing a property owned by Hyams.[38] He bought a small shop and office building in Oxford Street and paid a price which assumed a rent of £12,500 per annum. His agents thought that he was joking when he set the rent at £20,000, which was well above the realistic price. The building remained empty for about three years — a prime property in the heart of London's commercial centre. It was finally let for £18,500 per annum, producing a capital value of £270,000. If, however, the rent had been £13,500 (the figure suggested by Hyams' agents), it would have been worth only £200,000 — a difference of £70,000. 'That capital gain would have far outweighed the loss of interest on borrowed money, which could be offset against tax, and the loss of rent, which is worth less than it appears to a high taxpayer. Moreover, no rates had to be paid on empties,' comments Marriott.

But the source of the problem, it must be stressed, is the structure of the property tax which shapes expectations, architecture and the use of land and buildings. The classic example is Centre Point, the 32-storey office tower that stands at the junction of Oxford Street and Tottenham Court Road in London's West End.

Centre Point stood empty for nine years before a Greek shipping company occupied one of the floors in 1975. During that decade, public antipathy for the land speculator intensified, reaching its climax in 1974. Nobody pointed out that the fiscal law — rather than the profit-seeking developer — was responsible for making it possible for a building to remain vacant while its capital value appreciated. Built in 1965 at a cost of £5.5m., Centre Point was worth £56m. in 1980 (excluding the value of 36 maisonettes which are part of the development).

Harry Hyams bore the brunt of criticism, yet he repeatedly proved in the civil courts that he did not deliberately keep Centre Point vacant. Nonetheless, in 1974, a new law was passed — inspired by Edward Heath's Conservative Government, then brought to the statute book by Harold Wilson's Labour Government — that aimed its penalties at Hyams' Oldham Estate, which owned Centre Point. Tories and socialists alike condemned Centre Point as symbolic of what was considered to be the 'unacceptable face of capitalism'. Successive cabinet ministers of both political hues poured execration on the vacant building as a 'scandal' and an 'affront'. But who was *really* to blame?

When the project was conceived in 1958, there was no property tax liability on vacant land or unused buildings. So it was possible to design a building to specifications that made it difficult to let, without the risk of a substantial and recurring tax liability. Centre Point, standing 385 feet high,

was intended to accommodate a single tenant. Had tax been payable on the building immediately on completion, the developer would have weighed this in the balance sheet when dictating his requirements to his architect. If the 32 storeys had had to be let quickly, to generate income out of which to pay taxes, different specifications might have been used.

As it was, the owners of vacant property were not liable to a property tax until 1968. A new law made them liable to 50% of the full rate; this was not a burden that was sufficient to change Hyams' expectations, and he began advertising for a single high-quality tenant in 17 countries. The quest was unsuccessful, despite the efforts of several real estate agencies, and it was not until 1974 that Hyams decided to change the company's policy and seek multiple tenancy. It was in 1974 that the penal property tax law was enacted as Section 16 of the Local Government Act. This required a local authority to double, treble, quadruple, and so on, the full property tax for each year that a building stood unused.

Camden Council wanted to invoke the provision against Centre Point, and claimed £1.89m., but abandoned its efforts in February 1976. This was because the law exempted owners who could prove that they had tried their best to let their vacant buildings: Mr Hyams proved that he had made strenuous world-wide efforts to find a tenant, and the council did not want to risk having to test its claim in court. The politicians, responding to public sentiment against speculators who had manifestly enriched themselves in the boom years, had concocted a tax that was long on vindictiveness but short on fiscal sense. It failed to address itself to the need to avoid the deterrent effect of taxing capital improvements, and the encouragement to waste land which was not taxed if left in an unused state.

The fiscal system, then, as Henry George pointed out, encouraged the misallocation of resources by actively rewarding the speculators. The UK evidence vindicates his contention that rent would absorb an increasing proportion of the output produced by an economy, a share which would be exaggerated by the exercise of monopoly power.

George arrived at his conclusions through the use of theory rather than statistical data. In discussing the influence of a rise in population, for example, he concluded:

> The effect of increasing population upon the distribution of wealth is to increase rent, and consequently to diminish the proportion of the produce which goes to capital and labour, in two ways: First, by lowering the margin of cultivation. Second, by bringing out in land special capabilities otherwise latent, and by attaching special capabilities to particular lands.[39]

This distributional effect, with all its implications for social harmony, is disregarded by modern economists, whose treatment of rent can at best be

described as complacent. An example is contained in *Economics*, written by Prof. Samuelson of the Massachusetts Institute of Technology. He assured his young readers:

> The Ricardians actually exaggerated the conflict of class interest. While population growth might imply higher rent per acre, they were wrong to think it *had to* imply a larger *percentage share* of GNP going to land... Historically, pure land rent has become a declining fraction of GNP and NNP.[40]

At least three points suggest themselves to disturb this misleading (but all too common) conclusion. First, by considering income trends over a long period like 100 years (which apparently reveal a downward trend for 'rent' in the officially-published figures), the crucial cyclical movements are concealed. Second, the data are incomplete. They do not include rents imputed to land monopolists who fail to put their holdings to rent-yielding uses. Third, class interests and interaction are influenced by individual decisions, whatever the size and trends in the aggregate statistics. For example, the attitudes and interests of thousands are affected by the actions of a few land monopolists who keep land vacant in the middle of an expanding city, thereby compressing socio-economic interaction into smaller spaces and generating unwarranted tensions.

Ricardo, despite the interpretation put on him by Samuelson, fully appreciated that the class conflict arose from the impact of micro-economic decisions. Samuelson[41] quotes a passage from Ricardo which makes the point dramatically:

> A conflict of interests arises between classes. More babies mean lower *per capita* incomes and wage rates; lower wage rates mean higher rent rates per acre of land. Landlords gain as labour loses.

What matters to an entrepreneur who is considering where to open a factory, or a family seeking to build a house, is the cost of a plot of land, not the overall status of rent in the nation's accounts. These national accounts, however, endorse the statements of Adam Smith, Ricardo and Henry George.

Marxist economists are equally inclined to underplay the importance of rent, although we cannot accuse Marx himself of making this mistake. He accepted the classical theory of the tendency for profits to decline in the long run. When it came to rent, however, he was emphatic that both in the industrial and agricultural sectors the share going to landowners was a rising one.

> In so far as commodity-production and thus the production of value develops with capitalist production so does the production of surplus-value and surplus-product. But in the same proportion as the latter

> develops, landed property acquires the capacity of capturing an *ever-increasing portion* of this surplus-value by means of its land monopoly and thereby, of raising the value of its rent and the price of the land itself... the landowner need only appropriate *the growing share* in the surplus-product and the surplus-value, without having contributed anything to this growth... The singularity of ground-rent is rather that together with the conditions which agricultural products develop as values (commodities) ... *there also grows an increasing portion* of these values, which were created without its assistance; and so an increasing portion of surplus-value is transformed into ground-rent.[42]

Marx's theory (which was shared by Adam Smith, David Ricardo, J. S. Mill and Henry George) conformed to the facts.

This observation by Marx (given his ideologically oriented emphasis on capital and the undiscriminating concept of profits, we can call the statement an admission) does not, however, serve the purpose of class conflict and the desire for world revolution. It is an article of faith among Marxists that the decline in the rate of profit is an index of the move towards crises in capitalism which must eventually lead to an overthrow of the existing order and the establishment of socialism. So the fact that beneficial results for yields to capital would follow from a correction of land monopoly holds no attraction. In terms of revolutionary propaganda, it is better to concentrate on the historical decline in the returns to capital.

Associated with this emphasis is the claim that profits decline because the share going to workers in the form of wages and salaries rises.[43] Ergo, we have the makings of pure class struggle. Exploited workers versus the capitalist; who could ask for anything more? The fallacy inherent in this perception is that rising wage demands are said to *cause* a squeeze on profits, which in turn forces a cutback in investment and results in unemployment. To halt this vicious circle, governments are told to control incomes. Incomes policies became a popular feature of postwar European economic management, yet they patently failed to prevent the structural recession which struck in the mid-'70s.

The politicians were unaware of the impact of land monopoly on the operations of the industrial economy. The analyses of their advisors — and, consequently, their policy prescriptions — were distorted by the concepts that were employed. Thus, if the share of national income going to salary and wage earners rose, it followed (using the conventional terms) that the share going to 'profits' declined.[44] But, as Prof. Matthews has noted, 'pointing to a rise in the real product wage is merely another way of restating the phenomenon of the fall in profit share and does not point to one explanation any more than to another explanation. Any fall in profit share would mean a rise in the real product wage, however it arose'.[45] In the evidence adduced for the

UK economy (and shadowed in the other industrialised nations of the West), a fall in 'profit' there certainly was, but this disguised an *increase* in the return to land. Meanwhile, the post-tax share of employers' revenue received by labour over the 18-year cycle was actually declining (Table 6:V).

By retrieving the classical concepts and disaggregating the data, we uncover the crucial conflict in the economy which is concealed by the use of the term 'profit'. Corrective policies differ according to the perception of the economist. Our view is that there has been a serious misdiagnosis of the nature of the problem, and this is consistent with the fact that incomes policies — one of the main corrective measures derived from the orthodox interpretation of postwar economic history — have failed. Yet this failure, far from generating a demand for a reappraisal of concepts and evidence, has merely reinforced the demand for more doses of the same treatment. Trade unions, anxious to preserve their share of national income and the structure of differentials, have reacted against constraints on the bargaining processes with ever-growing disruptive measures. This aggravated an already unstable economy, and while the wealth-creating agents locked themselves in mortal combat the economic monster in their midst continued to wreak havoc with impunity.

Notes

1 *Wealth of Nations*, *op. cit.*, p. 99.
2 A.D. Gayer, W.W. Rostow and A.J. Schwartz, *The Growth and Fluctuation of the British Economy 1790-1850*, Oxford: Clarendon Press, 1953, Vol. I, p. 136.
3 Clapham designated 1815-20 as 'economically probably the most wretched, difficult, and dangerous in modern English history'. Quoted by Gayer *et. al*, *ibid.*, p. 113.
4 *Ibid.*, p. 135.
5 E.J. Hobsbawm, *The Age of Revolution: Europe 1789-1848*, London: Weidenfeld & Nicolson, 1962, p. 41.
6 Gordon, *op. cit.*, p. 66 and *passim*.
7 Gayer *et al.*, *op. cit.*, Vol. I, p. 121. The cycles in brick production between 1702 and 1845 were closely correlated with capital investment aside from the construction of residential buildings. *Ibid.*, Vol. II, p. 704.
8 For the sharp rise in agricultural rents, see Thompson, 'An Enquiry into Rent', *op. cit.*, pp. 59-60.
9 Gayer *et. al.*, *op. cit.*, Vol. I, p. 129, n.4, quoting Lord Ernle.
10 E.H. Phelps Brown and B. Weber, 'Accumulation, Productivity and Distribution in the British Economy, 1870-1938', *Econ. J.*, 1953.
11 *Wealth of Nations*, *op. cit.*, p. 366.
12 In the middle of the period studied by Phelps Brown and Weber, from the turn of the century up to the first world war, the trend was on the whole a declining

one. This can be explained by several factors. The Liberal Government was determined to introduce a levy on land values (which produced the constitutional crisis of 1910 and the elections which finally removed from the House of Lords all rights to interfere with budgetary proposals from the Commons). Rent restriction after 1913, and the rise in building costs, also contributed to the uncertainty associated with landownership during this period.

13 C.S. Orwin and E.H. Whetham, *History of British Agriculture 1846-1914*, Newton Abbot: David & Charles, 1971, p.248. Competition for agricultural land near the farming areas of Britain, however, ensured that farming practices were quickly adapted so that higher rents and wages were produced. *Ibid.*, p.286. Agricultural landowners who had urban rents to fall back on — such as the Dukes of Bedford — had less difficulty in weathering the difficulties of this period. *Ibid.*, p.312.

14 C.P. Kindleberger, *The World in Depression 1929-1939*, London: Allen Lane, 1973.

15 J. Stevenson and C. Cook, *The Slump*, London: Jonathan Cape, 1977, expose the myths shrouding this decade while acknowledging the real social and human costs of unemployment.

16 E.H. Phelps Brown and M.H. Browne, *A Century of Pay*, London: Macmillan, 1968, p.234, Table 20.

17 A.R. Prest, 'National Income of the UK 1870-1946', *Econ. J.*, 1948.

18 Thompson, *English Landed Society, op. cit.*, pp.332-3.

19 S. Glynn and J. Oxborrow, *Interwar Britain: a Social and Economic History*, London: George Allen & Unwin, 1976, p.101.

20 *Ibid.*, p.32.

21 E.A. Vallis, 'Urban Land and Building Prices 1892-1969', *Estates Gazette*, May 13, 1972, p.1016.

22 K.S. Lomas, 'Growth and Productivity in the UK', *Productivity Measurement Review*, Vol. 38 (1964).

23 Glynn and Oxborrow, *op. cit.*, pp.111-3. See also L. Hannah, 'Managerial Innovation and the Rise of the Large Scale Company in Interwar Britain', *Econ. Hist. Rev.*, (1974).

24 *Statement Relating to Defence*, Cmnd. 4827, 1935, p.10.

25 C.L. Mowat, *Britain Between the Wars 1918-1940*, London: Methuen, 1955, p.628.

26 D.H. Aldcroft, *The Inter-War Economy: Britain 1919-1939*, London: Batsford, 1973, p.147.

27 For a discussion of these predictions see Shonfield, *op. cit.*, pp.19-22.

28 R. Douglas, *Land, People & Politics*, London: Allison & Busby, 1976, pp.212-215.

29 O. Marriott, *The Property Boom*, London: Hamish Hamilton, 1967, p.1.

30 For the downward trend in company gross trading profits as a proportion of business sales, see K. Coutts, 'Short-run Variations in Company Profits', *Econ. Policy Rev.*, University of Cambridge, March 1978, p.54, Fig. 6.1.

31 *Commercial Property Development*, London: HMSO, 1975, p.32, para. 5.23, our emphasis. Note also that 'Vacant possession farms have consistently out-yielded both equities and general property shares over the past decade in terms of capital appreciation, and land's traditional advantage as a hedge against inflation seems more solid than ever' (*The Farmland Market*, Feb. 1974, p.6). See C.T. Sandford, *Taxing Personal Wealth*, London: George Allen & Unwin, 1971, p.256, for the

mid-'50s as the turning point in the relative attractions of land and capital as investment assets.

32 Economist Intelligence Unit and Halpern and Partners, *Housing Land Availability in the South East*, London: HMSO, 1975, para. 1.32, and *The Role of the Local Authority in Land Programming and the Process of Private Residential Development*, Birmingham: Centre for Urban and Regional Studies, Research Memorandum 80, April 1980, p. 15.
33 W.E. Martin, *The Economics of the Profits Crisis*, London: HMSO, 1981, p. 223.
34 W.E. Martin and M. O'Connor, 'Profitability: a background paper', *ibid.*, p. 10.
35 *Ibid.*, p. 12.
36 *Ibid.*, p. 67.
37 *An Analysis of Commercial Property Values 1962-1976*, London: Economist Intelligence Unit, 1977, p. 8.
38 *Op. cit.*, p. 109.
39 *Progress & Poverty*, *op. cit.*, p. 243.
40 *Op. cit.*, p. 733, n.6, his emphases. See also, for example, A. K. Cairncross, *Home and Foreign Investment 1870-1913*, Cambridge University Press, 1953, p. 8.
41 *Op. cit.*, p. 730.
42 *Capital*, Vol. II, *op. cit.*, pp. 623-4. Our emphases.
43 Glynn and Sutcliffe, *op. cit.*, Ch. 4.
44 For a recent restatement of this position, see G. W. Maynard, 'Factors affecting profitability and employment in UK manufacturing industry, 1960-78', in Martin, *op. cit.*
45 *Ibid.*, p. 219.