The free market system was rescued in the 1930s by a world war. This military intervention distracted people who were tending towards the politics of extremism. After the war, a compromise was engineered on the basis of Keynesian principles. Capitalism was encrusted with a package of New Deal welfare programmes which entailed a massive redistribution of income and led to deep-rooted state control over people's homes, education, health and—as with the food stamps on which millions of American families rely—even their biological existence. The price of social security was increasing dependence upon bureaucratic administration.

The emergence of the New Right late in the 1970s sought to change all that. Unemployment and the instability of prices were to be cured through the reduction of tax levels and a decrease in the size of the public sector. More jobs, higher living standards and greater personal freedom were promised all round. The failure to live up to these promises has, once again, undermined the philosophical justifications for the free market system, and has thrown open the question of social evolution. The free market, because of its cyclical failures, is on the defensive. And the fundamental principles of the non-communist world are now at stake.

People prefer a liberal democratic society free of bureaucratic controls. They want to generate independent forms of employment to challenge the corporations that have built their strength on the monopoly control of natural resources. They find repugnant the adversarial approach to industrial relations, which results from the creation of countervailing power-centres. They yearn for the eradication of poverty and the development of a social system that enhances self-esteem. Yet all of these ideals are thwarted by land monopoly.

This enquiry has demonstrated that neither of the extremes of political philosophy, nor a mixture of the two, can deal effectively with the problem at its source. Yet the realignment of property rights entailed by the introduction of land value taxation is not even on today's political agenda. Why?
The debate about the legitimate divide between private and social property is distorted by the misrepresentation of the alternative systems that are available. One is either a socialist, seeking to nationalise indiscriminately all the means of production; or a conservative, for whom all of the means of production must be privately owned. Thus, fiscal reform is resisted because it is interpreted as an attack on the sanctity of private property. Land value taxation does not fit neatly into this dualistic model of alternatives because it establishes property rights at a new level of sophistication. It guarantees individual possession of land on which people can put their labour and capital to best use; while people in society share on an egalitarian basis that portion of economic wealth that can be attributed to the distinctive contribution of nature and of the community to the process of wealth creation. This complex set of rights is accomplished by the simple device of a 100% tax on the rental value of the land, raising an income for the exchequer that is offset by a reduction in other forms of taxes.

This third model is neither communism nor conservatism. Nor is it a model of reform that most people would find either offensive to their libertarian aspirations or difficult to grasp in its administrative implications. Indeed, it merely requires a change measured in degrees. For people today lose a large portion of their earned incomes which are taxed away by the exchequer. A quarter, a half, or even three-quarters of earned income is removed from wage packets. To tax away the whole of the annual income from land instead, then, is only to adapt this system while leaving the present occupants in possession of the land and free to use it as they see fit.

We do not seek to disguise the redistributive character of land value taxation, which is a necessary price to pay for both economic efficiency and social justice. This does result in a change in the structure of property rights, a change that would require thorough public examination. Yet when it comes to discussing property rights to land, the intellectual community is struck by a strange infirmity of purpose. As individuals, some of them are aware of the truth that land ought to belong equally to all. As a group, however, they have clouded previous efforts at clarifying the issues by the simple device of obfuscation. Can this charge be substantiated?

The disposition to nurture the interests of landowners was built into the fabric of the Western political system, even when these interests were perceived to be anti-social. The disposition was, indeed, a condition of the emergence of the modern state, which was born of violence and legitimated by the distortion of philosophy. The origins of this perverse tradition must be uncovered if we are now to achieve any philosophical advance. We can begin by looking back to the edicts of Sir William Blackstone, the author in the mid-18th century of the influential Commentaries on the Laws of England. Blackstone chronicled the historical facts:
Necessity begat property; and, in order to insure that property, recourse was had to civil society, which brought along with it a long train of inseparable concomitants: states, governments, laws, punishments and the public exercise of religious duties.¹

But he also saw that property rights in land rested on an unsound basis, for:

There is no foundation in nature or in natural law, why a set of words upon parchment should convey the dominion of land: why the son should have a right to exclude his fellow-creatures from a determinate spot of ground, because his father had done so before him.

Was it beyond the wit of man, even in the 18th century, to devise a system that neatly secured the property rights of individuals — based on the claims to value actually created by labour and capital — while protecting the collective interests of society? Hardly. But Blackstone would not countenance such thoughts — at least, not from ordinary citizens. For although the questions which he raised challenged ‘the sole and despotic dominion’ of the property holder, he concluded that they were ‘useless and even troublesome in common life’. He invited people to leave the thinking to the philosophers:

... it is well if the mass of mankind will obey the laws when made, without scrutinizing too nicely into the reason for making them.

The 19th century saw the dawn of the age of the common man. Nonetheless, he was betrayed by the philosophers who inherited the Blackstone tradition. For example, in America, John Dewey and James Tufts, noting the rise in land values, saw clearly that ‘from the standpoint of natural rights the reply would seem to be unanswerable: the community gives the increased value; it belongs to the community’. But they then invoked ‘social welfare’ to arrive at the conclusion that:

It might, for example, be socially desirable to encourage the owners of farming land by leaving to them the increase in value due to the growth of the country ...²

This is not to say that land value taxation is lacking in advocates. Henry Reuss, who until 1982 was Representative for Milwaukee and a former chairman of the House Committee on Banking, Finance and Urban Affairs, promoted the virtues of the reform in Washington.³ In Britain a Cambridge professor advocated it in a letter to The Times,⁴ and the Liberal Party endorsed its faith in the policy at its annual conference at Bournemouth in September 1982. Anthony Harris, a distinguished columnist on London’s Financial Times, commended it as a technically feasible device for the budgetary needs of the European Economic Community.

Harris noted that the main burden of the Common Agricultural Policy
could be borne 'by those getting the biggest unenvied benefit'. A land tax, he wrote, had always seemed appealing in principle; it would fall exclusively on landowners, for in a competitive world it could not be passed on to consumers. ‘Now what the EEC has created, the EEC surely has some poetic right to take away; and I can imagine no more appropriate way of tapping the ridiculous values created by ridiculous policies than by taxing them.’ But why, Harris asked, limit the tax to agricultural land? ‘The arguments for taxing land values in general are just as strong, as is well understood in such countries as Australia and South Africa. It is a tax which falls on those best able to pay — indeed, they declare their own taxable capacity in every land deal; it is the perfect tax to balance regional problems. As a British Chancellor might well add, quietly, it has another greater merit as a tax base: you can’t take it with you. A land tax produces no tax exiles.’

That rental income cannot be disguised and avoided is a matter of no mean importance. In the USA, for example, the Internal Revenue Service estimated that Americans were not declaring income from the ‘underground economy’ of between $100bn. and $135bn., thereby costing the government at least $19bn. in taxes. Thus, people who earned their income — creating wealth and rendering services to others — were branded as ‘cheats’. Are not the landowners the cheats in society? But tapping their income was just one of the numerous merits of land value taxation, in Harris’s view. And that, apparently was its defect: ‘It is obviously far too sensible to stand a chance in the real world’. So, because of that paradoxical conclusion, Mr Harris — one of Fleet Street’s leading commentators, a man of influence among the politicians who apply policies in ‘the real world’ — decided that there was therefore no point in writing further on the subject.

Thus, while the idea of the community sharing the value of land has not died, the stuffing has been largely knocked out of the men who generate and disseminate ideas.

The ability of landowners to intimidate did not rely exclusively on the use of coercive power: their most effective weapon, one allied with the unwillingness of philosophers to think and talk uncompromisingly, was the ability to suppress information. Without the raw data, the ‘common’ people are unable to detect why the economic system persists in dislocating society. For example, land reforms cannot be implemented without cadastral surveys and publicly accessible registers of ownership and values. Thus, because of the insistence on the right to privacy (that is, secrecy), the landowning class has succeeded in limiting the political action which would otherwise lead inexorably to the destruction of their economic — and therefore their political — power. In Britain, for example, the Royal Commission which was set up by the Government under the chairmanship of Lord Diamond to investigate the distribution of income, discovered that it was hindered in its analysis of
land ownership because of what it called the 'remarkable' paucity of information.  

The paucity of data is nothing short of a scandal. We have to rely on amateur sleuths and impressionistic evidence to isolate the critical failures in the industrial junction boxes. We are told, for example, that 1.3m. acres in Britain are under-used, idle or derelict. This is twice the area of Northumberland, on which could be built 34 new towns. Ought this data not to be available in the official records? Some authoritative material is available. For example, nearly 9,950 acres of land — over 5% of the urban area — stood idle in South Wales in the 1970s. The figure for Swansea was over 9%. The careful sifting of this evidence was undertaken at the behest of a private charity. In the postwar years, furious rows in Parliament followed when the unemployment rate for labour rose above 2%; but the unemployment rate of land was deemed to be of no consequence at all, if the almost total silence is our guide. But who could cause a fuss when the statistics on land use were practically non-existent?  

The absence of adequate data has muzzled all efforts at formulating coherent policies. With pin-point accuracy we can set the dials and head for the moon and Mars, but we cannot ensure full employment for every willing and able-bodied person on earth. And so, following the eclipse of Keynesianism, we continue to grope around in a philosophical hiatus.  

But the common people will not be satisfied. They are the ones who are made redundant, walking the streets in search of jobs. From whom can they seek helpful directions? Marxism cannot provide a viable model of economic action because, in terms of the problem now defined, the Marxist critique is irrelevant. 'It consciously omits fluctuations, especially speculation, which now appear to play a dominant role in many cities.' So the field ought to be open to develop a re-conditioned *laissez faire* system.  

But Adam Smith's disciples are not equipped to meet the challenge, for they are as unaware as he was of the fatal vulnerability of the original model. In Britain, for example, the Institute of Economic Affairs has been immensely influential in promoting the efficacy of the free market, but it insists on treating land as precisely the same as other marketable goods. Similarly, in the United States, the chief exponent of the free market mechanism, Prof. Milton Friedman, revealed that 'I do not agree that land represents a major objection to *laissez faire* or that economics has gone down a wrong track by failing to make a greater distinction between land and other capital goods.'  

So the macro-economic lessons of land speculation have escaped the politicians who formulate the policies. This is hardly surprising, since they were authoritatively told that there was no problem. In Britain, the Royal Institution of Chartered Surveyors, which considered itself 'perhaps uniquely
qualified to offer a professional viewpoint on what ought to be the land policies of the future', declared:

We do not believe that land speculation, windfall profits, land-hoarding or monopoly ownership are significant problems. Yet intuitively, the policy-makers ought to have known that the land question was the piece missing from their puzzle boxes. For example, Britain’s Chancellor of the Exchequer, Sir Geoffrey Howe, was willing — in private — to concede that his experiment with Enterprise Zones was being spoilt by landowners who were more concerned with cashing in on their assets than creating jobs. But because of the absence of a detailed critique of the role of land, the government remained blank-faced even as the nation’s housebuilders tried to expose as a ‘myth’ the official claim that the sale of publicly-owned vacant land would meet a large part of the needs of the construction industry. Admittedly, in Canberra the Australian government did take some tough measures against land speculators; but not against speculation as such. Rather, the target was that favourite scapegoat, the foreigner. The economic objections to foreign-inspired real estate deals did not apparently apply to the domestic variety.

Yet it is one of the tragic ironies of our age that the intellectual leaders of the New Right are aware (parenthetically) that land speculation exercises a deleterious role on the productive economy. In the United States, for example, the book that voiced the philosophy that became known as Reaganomics identified land purchases as a ‘sink’, the effect of which was to divert cash and entrepreneurial skills away from the process of wealth creation. And in Britain, Margaret Thatcher told a radio interviewer what she thought about the speculative fever that gripped the country in the early 1970s:

We got an artificial boom, and do you know where the money went? It did not go into investment or expansion, it went into the biggest property boom we’ve ever seen and I don’t wish to see the like of it ever again. It did the Conservative Party immense harm, it not only went into these enormous prices of property, the boom eventually collapsed, and in the meantime inflation rose and rose and the moment inflation goes up you are much less competitive and eventually unemployment rose again... Spending more money than you’ve got when you are already over-spending is not the answer. What that does is to have another artificial boom, have prices going into property going up and up, and that would finish up with increased unemployment.

Despite these insights, however, there was an unwillingness to confront land speculation as a problem requiring the urgent attention of reformist policy-makers. Mrs Thatcher, for example, would not admit that the disposition to speculate was an intrinsic feature of the existing land market. She
blamed government deficit-financing for the speculation of the early 1970s. All that the policy-makers need do, then, is to restrain the temptation to finance public spending by printing money. This solution is spurious. During 1970-73, when US industries and household budgets were savagely battered by speculation, the country's deficit as a percentage of GNP declined consistently. It started an upward rise in 1974, by which time the economy had roller-coasted down into the trough of the depression.

If close regulation of the money supply and the banking system was consciously used as a weapon against land speculation, people would nonetheless find the means with which to continue to speculate. The existence of close substitutes for money, and the certainty of creating new institutions for channelling private funds from willing lenders, renders control of the established monetary system irrelevant. The Royal Commission which produced the Radcliffe Report (1959) documented the array of alternative sources of funds which were then available. In the 1970s, the 'fringe' banks in the UK, and the Real Estate Investment Trusts in the USA, emerged as testaments to the ingenuity of people who wished to marshall large sums of cash with which to speculate in land. As quickly as new devices are brought under legal or bureaucratic control, so others are created to serve the same purpose.

The only lasting solution is to remove all possibility of profiting from hoarding and trading in land. Then why is it that, apart from a few exceptions, there is no authoritative demand for land value taxation? The tax has not been short of endorsements from eminent economic scholars such as Nobel Prize winner Milton Friedman, who was moved to note: 'In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago'. Professor Martin Feldstein of Harvard, who was appointed chief economic adviser to President Reagan in 1982, took the following wisdom with him to Washington:

One of the reasons that economists have long been interested in the tax on pure rental income is that it is a tax without excess burden. Because the owners of land cannot alter the supply of land, the tax induces no distortions and therefore no welfare loss.

And Professor Bela Balassa, a World Bank consultant, urged Red China to adopt a tax on land values as a necessary part of its new economic strategy. Few voices, however, were raised in favour of its incorporation into the Western economic model. The over-riding explanation is that land is not seen to be a major influence over the market system. This dangerous belief can be traced back to the writings of John Maynard Keynes, whose influence needs to be isolated, if it is to be expunged in the process of establishing a new philosophical framework for the 1980s and beyond.

Keynes, the apostle of the mixed economy, travelled from Cambridge to
Berlin in 1926 to pronounce *The End of Laissez Faire*. His lecture\(^{21}\) to a university audience was one of a series of death blows to the concept of a completely free market economy, culminating in *The General Theory of Employment, Interest and Money*.

Keynes was not qualified to adjudicate on the superior virtues of government management of the economy. His impartiality as a judge must be questioned. Despite his familiarity with the writings of Henry George, which ought to have alerted him to the subversive influence of land monopoly, Keynes held the view that 'the land problem' no longer existed; there had been, he told the Liberal Summer School at Cambridge in 1925, 'a silent change in the facts'. And in *The General Theory* he relegated the deleterious impact of the land market to earlier, agricultural-based social organisations.\(^{22}\)

This myopia was also prevalent in the US, where 'popular faith in *laissez faire* had been greatly weakened'\(^ {23}\) in the period between the land speculation fever of 1925 and the stock market collapse of 1929. The causal links between these two events were completely misunderstood, and the free market was held culpable.

Keynes ought to have known better. His conclusion was glib; it was not formulated on the basis of an examination of history, but was rather the shallow view of conventional wisdom. He had failed to weigh all the evidence before delivering his guilty verdict against *laissez faire*. It was therefore likely that his sentence — the need for bureaucratic and political 'fine tuning' of the economy, to make up for the alleged deficiencies in entrepreneurial decision-making — would be an inappropriate remedy, a miscarriage of justice.

And so it was. But in promoting the need for a hybrid economy, Keynes was also a major architect of those political and economic institutions which were designed to limit personal freedom in the name of altruism.

Western democracy can survive only if it is underpinned by an economic system consistent with its political tenets. The liberty of the sovereign individual is the supreme principle. Institutions have been designed accordingly. Thus, equal weight is given to political preferences by allocating one vote to each person. The reality conflicts with the philosophy.

The monopolistic foundations of the market economy are reflected in the power blocks that dominate the political processes. The manufacturers' associations and trades unions that try to compensate for the vulnerability of capital and labour in the production process combat each other instead of collaborating against the common enemy, the land monopolists whose interests go unchallenged. The distortions in the free market caused by land monopoly spawned the secondary, or derivative, power blocks; yet so well concealed are the motive forces that we are told by a distinguished economic historian that powerful interest groups are created by the democratic process itself.\(^{24}\)
Requiem or Revival?

Future generations will judge us on the basis of the choices which are now made — by design or default — to cope with the strains imposed by a capitalism on crutches. We have to undermine the disposition of industrial economies to surrender to those violent cyclical recessions which deepen the trough of human misery and encourage the rearguard actions which culminate in the creation of new defensive institutions that further negate the aspirations of the citizens of the free world.

The outlook is not bright. The failure of the General Agreement on Tariffs and Trade, meeting in 1982 to produce a forceful defence of free international trade, reinforced the growing demands for mean-minded protectionism. Autarky — the erection of border barriers, locking out the products of other people's labours ostensibly in the name of self-sufficiency — was the cry of the leaders of both workers and the owners of capital. Little did they appreciate that the Trojan horses were already deployed within their camps.

Alas, there is no coherent strategy for dealing with the exercise of the unique power that derives from the land. That power was poignantly reaffirmed when Kakuei Tanaka (labelled the 'shogun of the darkness' by opposition parties) enjoyed the role of kingmaker in Japan's political process. Although he was driven from the Prime Minister's office because of his shady land deals (see pp. 165-7), Tanaka continued to wield power as leader of a 130-strong parliamentary faction. Yasuhiro Nakasone owed his move into the premier's office in November 1982 to the decisive backing that he received from Tanaka.

But would the free market respond constructively to the opportunities even if enlightened legislators promulgated a thoroughgoing land value tax? Sceptics continue to tell us that fiscal reform is 'ultimately flawed' by the historical facts: that when competing for the use of land, today's owners have an advantage over prospective users. From this, it follows that change can only be engineered through revolution, and the ultimate result would not be a system based on laissez-faire.

In fact, the market would rise to the occasion and ensure that landowners would not retain their determinative influence over the distribution and price of land, provided that the tax was pitched at a deterrent level. Land value taxation would place the holders and potential users of land on an equal footing. The obligation to pay rent as a tax to the community would ensure that landholders put their possessions to optimum use, for otherwise they would have to pay their tax liabilities out of previous accumulations of capital, a sacrifice that could not be endured indefinitely.

In the new tax regime, a prospective employer of labour and capital can calculate what the economic surplus, or rent, would be after paying wages and interest. He can then bid this tax payment (the equivalent of the rent that he would agree to pay to a landlord under the present fiscal and tenurial
system) at an auction against all-comers. If the existing possessor of the land is economically more efficient, and is willing to bid a higher rent for the right to retain possession, then everyone is satisfied. For the community benefits from maximum output at lowest prices from the use of the given resource endowments, and the people who lose at the auction are equal beneficiaries of higher exchequer revenue.

This defence of a reformed free market is tenable provided the entrepreneurial class is not a closed one. For if the system relied on the prior accumulation of private capital for the development of new economic enterprises, those who did not already enjoy access to property are indeed at a severe disadvantage. But the entrepreneurial class is not a closed one. For reassurance we need go no further than that well-known authority on capitalism, Karl Marx. He observed that

the commercial value of each individual is pretty accurately estimated under the capitalist mode of production—it is greatly admired by apologists of the capitalist system...this circumstance continually brings an unwelcome number of new soldiers of fortune into the field and into competition with the already existing individual capitalists...

A free market equalises the opportunities for people to demonstrate their individual worth, whereas monopolies are designed to prevent it from operating effectively for everyone and at all times.

The prospects for a radical reform are not high, but we should have a clear perception of the risks of trying to retain the present structure of the Western economy. The crudities of East European socialism may not enthral most reformers, but these will reign supreme if we do not define a practical alternative to the crippled capitalism that originated in Britain 200 years ago. Either that, or the Western economy will recover and enjoy 18 years of growth before tail-spinning into yet another deep-seated depression of even greater magnitude than the structural recession which began in 1974.

Eventually, however, if we are to achieve the civil liberties to which Western society aspires, we must reform the land market. Such a reform is both a necessary and sufficient step in the direction of economic stability and social sanity. Even Marx perceived that the destruction of the power of land monopoly would transform society. He understood that the power of capital was derivative; that it depended on an original monopoly—the private appropriation of land by a minority who were able to exclude others from equal access to the value of nature’s products. In his Critique of the Gotha Programme, Marx wrote: ‘In present-day society the instruments of labour are the monopoly of the landowners and the capitalists’. But he added in parenthesis: ‘...the monopoly of property in land is even the basis of the monopoly of capital...’ There is no more hostile critic of capitalism than
Marx, yet he acknowledged that 'The nationalisation of land will work a complete change in the relations between labour and capital', an observation that destroyed the logic of his call for the complete overthrow of the capitalist system by alienated workers.

Marx, because of his ideological commitment to socialism, prescribed nationalisation as a solution to the fundamental problem of the distribution of power and property. The evidence, however, favours the free market associated with an effectively-high tax on the value of land. Such a system would harmonise equity with economic efficiency; these are the twin achievements of most pre-industrial societies which are surely not beyond the wit of Space Age man?

Notes

2. J. Dewey and J. H. Tufts, *Ethics*, London: G. Bell & Sons, 1908, p. 565. Even Joseph Schumpeter, the socialist critic of capitalism, in his diagnosis of 'observable tendencies' towards socialism, in Western economies, noted in an address to the American Economic Association (Dec. 1949): 'Thus, a socialist regime in this country would have to be bold indeed if it ever thought of touching the subsidised independence of the farmer'. Reprinted in *Capitalism, Socialism, & Democracy*, op. cit. p. 422.
3. See *Compact Cities*, op. cit. In 1979 Reuss urged the Secretary of Labour to compile an index of land values, which he described as a serious gap in the consumer and wholesale price indices. Until such an index is routinely compiled economic policy formation will continue to be critically impeded.
5. A. Harris, 'EEC's untapped resource bank', *Financial Times*, 22.3.79.
6. For an authoritative analysis of the principles supporting this statement (the truth of which is denied by lobbyists who seek to preserve the tax privileges of farmland owners), see Lipsey, *op. cit.*, p. 370.
12. Letter from Friedman dated 26.5.80, to Dr R. J. Sandilands, Dept. of Economics, University of Strathclyde.
14. 'Chancellor wakes up to land profiteering', *Land and Liberty*, Nov.-Dec., 1982. That the lessons were not learned, however, is evidenced by such cases as
Belgium's decision to establish seven enterprise zones along the lines of the British model — property tax exemption and all.


16 Gilder, op. cit., who states of the US in the early 1980s (p.20): 'The upper classes, normally the cutting edge of the economy — the source of most investment — fled to unproductive tax shelters and hoards of gold, real estate, and speculation. The demoralization of the elite, moreover, worsened the pains of the classes below.'


18 Comment during public debate of the American Education League, quoted in Human Events, 18.11.78, p.14.


23 Galbraith, op. cit., p.160.


25 'Shogun's mate', The Economist, 27.11.82.


27 Op. cit., p.343. Elsewhere, Marx notes that free access to land was dangerous for capital; in such conditions, 'the capitalist finds that his capital ceases to be capital without wage labour, and that one of the presuppositions of the latter is not only landed property in general, but modern landed property; landed property which, as capitalized rent, is expensive, and which, as such, excludes the direct use of the soil by individuals'. K. Marx, Grundrisse, Harmondsworth: Penguin, 1973, p.278.