

● From p.65

If we cut through all the rhetoric and rot which accompanied the various challenges to international order during the inter-war period, one thing is very clear. A great many ordinary people sought in one way or another to break across existing economic barriers.

● Landless Japanese peasants, whose cottage industry of silk weaving was wrecked by the Depression, wanted to start a new life in Manchuria.

● Impoverished Italians hoped in some way to benefit from trading or settling in Abyssinia.

● Many Austrians and Sudeteners thought that by becoming incorporated in the German Reich, they would be able to buy and sell goods more easily than they could in two tiny, landlocked, tariff-ridden, states of Central Europe.

The militarists and dictators who proposed their own perilous "solutions" had plenty of willing hearers. What was the clamour for *Lebensraum* but a crude statement of land hunger? Why did people wish to trample down national frontiers, save that those national frontiers were economic barriers as well?

If these problems existed in the 1930s, are they not similar to problems which threaten the world today? Are there not still landless and starving peasants in Asia, Africa and Latin America? Are the existing trade barriers one whit less dangerous than those of the past?

The most complex, the more technological, the more densely-populated the world becomes, the more important and urgent it becomes that these problems should be solved. As so often happens, we return to the old and familiar problems of land and of international trade.

Are we in danger of falling into the very pitfall of which Professor Howard warned us: of creating another simplistic solution and then discovering later that the world does not fit this convenient model?

Yes, there is such a risk. Even if we identify one link in the chain which leads to war, it may not be enough to strike out that link. The most acute phase of inter-war economic misery had long passed when the 1939 war broke out. An economic solution of the Sudetenland problem might have been possible in 1930; it certainly wasn't possible in 1938.

Getting our economics right is a necessary prerequisite for an enduring peace; but it is not, of itself, a guarantee that peace will be preserved.

CYPRUS

WARFARE is a double-edged sword for landowners.

For those who are driven off by a conquering army, the outcome is catastrophic: total loss of the life-giving resource.

For the victors who share out the spoils, new land becomes the basis of greater wealth.

But this profit-and-loss calculation based on the ebb and flow of power at the territorial boundary over-simplifies a far more complex response to the outcome of military conflict.

The dislocation of population brings huge rewards for those who retain their land.

For under the present system of taxation and property rights, refugees who are forced to migrate inwards to

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safer territory have to pay for the security that they gain.

This demographic pressure is inevitably reflected in an accelerated increase in the value of land. Cyprus, the tortoise-shaped island at the eastern end of the Mediterranean, offers a dramatic illustration of these lessons.

TURKISH troops invaded Cyprus in 1974. They landed on the northern beaches, and 200,000 Greeks fled south.

In terms of the U.S. population, the number of displaced persons was equivalent to 83m people. The corresponding figure in the U.S.S.R. was 98m, in Britain 22m, and in France 20m.

By the time the truce was called, Turkey had staked a claim to 37% of Cyprus – the most productive, fertile third which accounted for 70% of the island's economic potential.



The Cypriot government received generous foreign aid, and began the arduous task of rebuilding the economy. Today, the *per capita* income of the 530,000 Greek Cypriots is U.S.\$5,000.

In the north, despite the rich resources, the *per capita* income of the Turkish population – supplemented by about 50,000 Turkish settlers from the mainland – lags at \$1,400.

These figures illustrate the extent of the boom in manufacturing and tourism since the invasion: what happened in the land market?

WAR brought the growth in land prices to a dead halt.

Before the invasion in July, 1974, prices were buoyant. As with all the other growing economies, the early years of the 1970s offered rich pickings for landowners.

Speculation was a social and economic problem.

Land needed for the tourist industry produced the highest returns, with rises between 15% and 20% (Table 1).

The invasion caused a slump in land values. People were running for their lives (22,000 emigrated to other countries), and they could not pack land in their bags.

The value of land that was suitable for the tourist industry dropped the most – by between 30% and 50%.

But once the new territorial borders had been set – a "green line" now

Table 1
Cyprus land values, 1970-1984
Percentage changes

	Agricultural land	Residential land	Tourist land
1970-73	8	15	20
1974 invasion	-10	-30	-50
1975-78	2	10	30
1979-80	10	20	150
1981-84	8	15	30

A divided land

dissects the island, patrolled by UN forces – people needed land to rebuild their lives.

The data in Table 1, which was provided by the Land Registry in Nicosia, tells the story of what happened.

- There was a modest increase in prices in the early years. Again – because of the need to attract foreign currency – the emphasis placed on the tourist industry provided lucrative opportunities for people who owned land near the warm waters of the Mediterranean.

- Land on the western coast near Paphos, worth £300 an acre before the invasion, now costs £30,000.

- By 1979, the rate of increase in land prices had regained its pre-invasion pace. Many poor peasants were suddenly rich. The price of inland agricultural fields – going for £30 a donum (= 0.302 acres) – was multiplied by a factor of 10.

- The government's ambitious programme to rehouse refugees was successful, and this tempered the demands on the land market. Even so, land values out-paced the other costs of construction (Table 2).

THE LESSONS of this tragedy ought to be clear.

At a time of large-scale social calamities, the special status of land is thrown into sharp relief.

It is recognised as a national resource, which ought to be used for the benefit of the whole community.

It certainly ought not to be an economic weapon which a small minority can use against fellow citizens.

But in Cyprus, the invasion provided landowners with the means for extracting an increasingly disproportionate part of the wealth which the population created in its vigorous efforts to rebuild the economy.

Is this socially just? Hardly.

Nor is it economically sensible (for the impact on house-building, see the article on p.69).

In 1977, the Cyprus government reviewed its property taxes. Owners were asked to assess the market value of their assets, and a small tax was imposed.

Table 2 Housing construction % change in prices, 1977-1981	
Land	400
Site development	100
Labour and materials	62

Properties worth less than C£35,000 were exempt, and tax rates rose from 2.5% (on property values between £35,000 and £100,000) to 3.5% (for property values over £200,000).

This action was intended to curb speculation. The Property Owners Association were angry, but their general secretary, Thassos Catsourides, recalled for *Land and Liberty*:

"Property price increases were phenomenal. That's a normal thing to happen, because there was a shortage of houses and buildings and land.

"This was because of the refugee problem and the fact that 27% of the territory was under Turkish occupation."

Then, in 1983, the government decided to revise its tax rates. The tax provisions on immovable property

were changed last year. Property values up to £35,000 (based on 1980 values) became liable for a 1.5% tax.

And, said Mr. Catsourides: "For the first time, this law applies to vacant land and church land."

The property owners hit back hard, arguing that it was unfair to administer a system of rent controls and tax the value of what they collected.

But would the property tax really retard development, as the association claimed? Said Mr. Catsourides, speaking in his office in Nicosia: "That's the official view. And that's the aim of the government.

"The government of Cyprus thinks that investment in property, except for tourist purposes, is not one of the priorities. They don't consider it as a productive investment. They are trying to deter it.

"They have forbidden banks to give loans, or these loans are limited under strict regulation by the central bank.

Immediately after the invasion, they provided incentives to help rebuild the economy. In the last two years, they have withdrawn all incentives and are imposing disincentives."

SOcial justice requires a higher rate of tax on land values.

Why should individuals, who were fortunate not to be touched by a war, be legally free to exploit the misfortunes of others?

In fact, the rental value of land is the primary source from which a nation ought to finance the reconstruction of its war-torn economy.

After all, rent is a flow of income

● Turn to p.68



● FAMAGUSTA, prosperous tourist centre . . .



. . . until the invasion brought devastation

generated by the presence and united efforts of the community, *not* the isolated efforts of deedholders.

But property owners do have a case when they say that a tax that falls on their capital investments – the improvements they make to the land – deters construction.

Cyprus needs an unimpeded flow of construction, if it is to maintain its high level of economic activity.

A sensible reform of the property tax would make a major contribution to alleviating the social and economic pressures on the island.

The tax ought to fall on the unimproved value of land. This would deter people from holding vacant land for speculative purposes, when it is needed for current use; and investors would not be deterred from sinking their resources into new structures, which would serve to hold back the rate of increase in rents and land prices.

ABOVE all, perhaps, the land value tax might make a contribution to peace.

It would be seen as a unifying principle capable of overriding ethnic – and territorial – boundaries.

Could such a fiscal reform constitute one of the pillars of a peace pact with the Turkish population?

The territorial re-unification of the island is the major obstacle to peace, with squabbles over who should have what. The fiscal solution is a simple one. The land belongs to *no one*

'Cyprus needs unimpeded construction'



● Motorway construction – in pursuit of economic recovery

TURKEY appropriated one-third of Cyprus in 1974 – but the region produced 70% of the island's gross output.

● Now, 30,000 troops have dug into Cyprus, and the Turkish community has declared itself an independent sovereign state.

● Washington's criticism of the invasion was muted by the fact that Turkey has strategic importance in the global chess game with Moscow.

● Turkey's border with the Warsaw Pact countries is longer than any other NATO country's. She has over 650,000 men under arms (the second largest NATO army after the USA).

● The Kyprianou administration in Nicosia says that the Turkish minority (18% of the population) should settle for 25% of the land, and should agree to a federal constitution.

individual, class or community: it belongs to *everyone*, equally.

Individuals would continue to hold and use their tracts for so long as they paid their dues to the community for the benefit of holding land. Thus, the rental value of the whole island would be shared out equally among the population through exchequer expenditures on socially necessary projects.

This would enable the government to reduce the tax burden on working people and their capital investments, which would in turn increase consumption, investment, employment and real living standards.

With the rise in prosperity, the flames of old jealousies and animosities would die out, thereby diminishing the risks of future civil and military conflict.

Land tax and the dowry

THE DOWRY is a major reason for land-hoarding in Cyprus.

Traditionally, parents provide land and a house for a daughter when she gets married.

Even the humblest citizen regards it as his duty to provide this wedding present.

The financial burden, however, can be crippling for low-income families, which is why many of them buy plots of land 10 or 15 years ahead of need, while their daughters are small children.

Their logic is rational: while they can barely afford to buy land today (when family costs, such as the need for education, are high), the cost will be much higher tomorrow.

So they sink themselves into debt and pay-off in instalments.

Complementing this private cost is the social cost of distorting the process of urban growth. The outward expansion

onto fertile agricultural land is accelerated, and towns are pock-marked by vacant sites.

A reformed property tax – switching the emphasis on to the unimproved value of land – would have a major impact on both economy and society.

● Land would be properly developed within towns, thereby reducing many private costs (such as transportation), and *ipso facto* increasing the living standards of those on the lowest income scales;

● Land values would be reduced to levels proportionate to current economic activity: gone would be that portion of the price of land that can be attributed to land hoarding (whatever the motive).

Thus, wage-workers would be able to save more money over the family life-cycle, and so they would be better placed to finance dowries nearer to the time of the wedding.

GONE would be the traditional need to tie up income in the form of idle land 10 or more years before the wedding.

DOWN would go the proportion of family income needed to buy land.

Land value taxation, in fact, would reinforce the wishes of many poor families, and the emerging women's rights movement, that the importance of the dowry ought to be down-graded.

For if the tax rate was near 100% (which a sensible property tax on the unimproved value of land would be), the family would not have to lay out a large capital sum to buy land. There would just be the annual rent to find (payable to the exchequer), a cost which the newly married couple could easily meet.

Parents, then, would be relieved of a major part of the financial costs; they would have to meet only the expense of the house.