Land & Liberty

JOURNAL OF THE UNITED COMMITTEE FOR THE TAXATION OF LAND VALUES LTD.
177 VAUXHALL BRIDGE ROAD, LONDON. S.W.1
TELEPHONE 01 834 4266

SEPTEMBER & OCTOBER, 1982
Established: JUNE, 1894
Nos. 1,060 & 1,061
VOL. LXXXIX
Editor:
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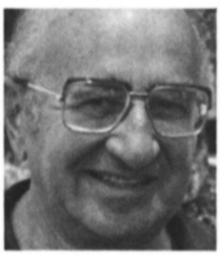
ISS No. 0023-7574
Annual Subscription:
U.K. and Sterling Area: £4.00
USA $10, Canada $11
Editorial Consultant:
V. H. BLUNDELL

TRUE LIBERTY MEANS EQUAL LIBERTY · TAX LAND VALUES



The Centre for Local Tax Research, which means (left to right) George Kerchner, Philip Finkelstein and Larry Spancake, is pressing New York officials to consider levying a land tax that would wipe out the city's massive $200m budget deficit. BERT BROOKES reports . . . P.88.

PRESIDENT Reagan's attempt to ban European involvement in the construction of the proposed Soviet gas pipeline from Siberia to Western Europe – and Washington's decision to severely restrict EEC steel imports – dramatically exposed strains within the Western Alliance. What lies behind this crisis?

Report by FRED HARRISON

A FULL-SCALE trade war among industrial nations threatens to begin this winter.

Desperate politicians are defining protectionist policies now that they are coming to terms with the cold fact that their predictions of an early recovery were baseless.

The main adversaries are the U.S. and Europe. Common Market leaders' tempers were so frayed at their June meeting that it needed a strong intervention from Britain's Prime Minister, Margaret Thatcher, to tone down a censure motion on American trade policies such as the duties imposed on European steel exports.

American leaders have recently censured the Europeans, especially for their agricultural policies. U.S. spokesmen have warned that a decision about the future world agricultural trading system will have to be made at the ministerial meeting of the General Agreement on Trade and Tarriffs (GATT) in Geneva in November.

Unless something is done about the EEC's farm subsidies, the U.S. will have to change its reliance on free market policies, says Richard Smith, administrator of foreign agricultural services in the U.S. Department of Agriculture (USDA).

Attitudes are now hardening in the face of mounting unemployment.

In Europe, for example, unemployment is expected to increase steadily to well over 10 per cent over the next five years (Table I). According to a major study coordinated by the Economist Intelligence Unit:

> **"Within Europe, countries are only very slowly coming to terms with a world in which productivity growth is now lower, terms of trade developments less favourable and hence the prospects of real per capita income growth much more subdued than earlier trends had led the population to expect."[1]**

The general desperation is born of

WINTER ALERT

WEST FACES TRADE WAR

● Pres. Reagan – forced to rethink strategy

● Mrs. Thatcher – cooling down tempers

a policy vacuum. Even the Reagan Administration has now begun to review its supply-side strategy, a clear admission that the tax-cutting policy will not yield the predicted results. Western leaders are uncertain about what course of action to adopt to lead them out of the worst recession since the 1930s.

As a result, the final option – defensive action, taking refuge behind tariff barriers and the like – is becoming increasingly attractive. But unless the analysts define the conditions that created the current problems, there can be no rational corrective programme for recovery.

THE FEATURES of a new interpretation can be derived from an examination of the employment problem in the U.S.

The highest levels of unemployment are in the construction industry, where it rose to 19.2 per cent in June, and in agriculture, where it fell from 18.2 per cent to 16.3 per cent.

In both these key industries, the role of the land market has been the direct and fatal element. As we have already examined the construction industry,[2] attention will now be given to agriculture.

Representative Pat Roberts of Kansas has grimly warned the House committee on agriculture that the U.S. was heading for "another farm-led depression."

- Since 1979, income has halved. The loss on a bushel of wheat has now increased to $3.35.
- One-third of farmers with government loans have stopped repayments, and 85 per cent of the commercial banks have defaulting farmers on their books.
- The USDA predicts that the volume of farm exports will drop for the first time since 1970 because of a slump in the average price of wheat.

Robert White of the Farm Equipment Institute explained the macro-economic significance of the rural contraction:

> **"Two out of every three American jobs is associated with agriculture. When the nation's largest industry cannot pay its bills from current cash flow – and has not been able to for two years – the entire economy goes into convulsions."**

The Commodity Credit Corporation, a government body legally obliged to lend cash to needy farmers, now has so many unpaid loans that it has had to borrow $2bn from the Treasury to stay in business. This increases the government borrowing requirement, which helps to push up interest rates.

What caused the cash crisis? Farmers offer two explanations.

- They blame President Carter's embargo on grain sales to Russia. This is less than fair: farm incomes were starting to drop anyway.
- At about the same time, the prime interest rate rocketed from 16 to 19 per cent in weeks. Many farmers found it impossible to finance these rates out of declining incomes.

These two factors emerged at the tail-end of a trend that was well on the way to shattering the lifestyles of many of America's 2.4m farmers.

Farmers in Europe were also suffering from declining incomes: yet there was no comparable ban on food exports or high interest rates. Table II illustrates this point: the index of Welsh farm incomes shows that the returns to farmers started to decline from a peak in 1974.

The origins of agriculture's problems, then, need to be traced back further than Jimmy Carter's Presidency.

THERE ARE two principal reasons for the farming crisis in both Europe and North America.

To favour farm incomes, policies have been pursued that were designed to boost prices above their competitive levels. This encouraged farmers to produce more than could be consumed.

In the U.S., for example, the generous dairy price support scheme, instituted at the request of the powerful dairy lobby, produced immense surpluses. Costs have jumped from $46m in the fiscal year 1979 to an expected $2bn in this fiscal year.[3]

TABLE I: ECONOMIC PROSPECTS

	SIX MAJOR EUROPEAN COUNTRIES		
	Output (annual % change)	Inflation	Unemployment (% of workforce)
1982	1.6	9.7	9.1
1983	2.4	9.0	9.4
1984	2.3	8.3	9.7
1985	2.3	8.1	10.1
1986	2.3	7.3	10.3
1987	2.4	7.1	10.6

Source: Economist Intelligence Unit

In mid-May, the government was forced to stock 419m lbs of butter, 684m lbs of cheese and 1bn lbs of non-fat dried milk. Parallel policies in Europe have produced the notorious food mountains and wine lakes, all of which have served to distort world trading patterns and prices (often at the expense of other countries which, because of soil fertility and weather, enjoy a comparative advantage in the production of some of these products).

But the primary cause of the crisis was the price of land. As farm incomes peaked around 1974, the rise in agricultural land prices – which had accelerated as a result of the preceding speculative boom over the preceding two years – took off into the stratosphere.

Now, this meant that farmers who wished to expand their operations, or who wished to break into agriculture for the first time, had to pay exhorbitant prices for their acres. So long as land prices continued to rise (and, as the graph shows, they outperformed stocks and shares as an investment asset), farmers could offer their holdings as security for new loans from the banks.

In this way, they could continue to finance their mortgate payments and the rising interest rates.

But last year, the price of U.S. farmland plunged, most severely in the corn belt. The index of average value per acre fell 1 per cent, the first decline in the index since 1954. The one asset that seemed to be better than money in the bank began to lose its attraction; so with a diminished ability to borrow, farmers were at the end of the road.

The land boom of the 1970s had reaped huge profits for speculators, but had left the working farmer holding an over-valued asset. Unable to meet his bank loans, he faced the prospect of bankruptcy.

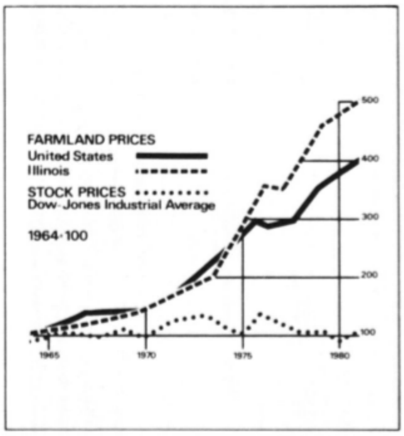
In the past, commercial banks were anxious to off-load money on to farmers. Now, their lending practices are tempered by a realistic appreciation of the industry's prospects.

UNITED STATES farmers are trying to resist bankruptcy by adopting a variety of methods for staying in business – including breaking the law (and becoming national heroes, as in the case of Wayne Cryts, who ran the gauntlet of federal marshalls and FBI agents to reclaim his crop of soybeans from a Missouri grain elevator, the owner of which had been declared bankrupt).

It is against this backcloth of a rapidly deteriorating financial and industrial situation that the policy-makers are setting their sites on building siege economies.

Protectionism would be disastrous. It would postpone the recovery by preserving outmoded working practices and obsolete capital equipment.

Only a few people, among them Mrs. Thatcher, would engineer a recession as a mechanism for "shaking out" inefficient methods and machines. But since the recession is upon us, it might just as well be used to reallocate labour and capital to ensure that the wealth-creators receive the highest possible rewards when prosperity returns.



It would be tragic if the efforts and suffering of employees and entrepreneurs were now wasted behind the unimaginative decisions of the politicians. *What, then, ought to be done?*

The false economics of subsidised production should be eliminated as quickly as possible. The argument that will be presented against this approach is that it would result in a lot of land falling out of production, and that in the process many farmers would be rendered under-employed.

TABLE II: WELSH FARM INCOMES

Old farm classification (1970-71 = 100)	
1970-71	100
1971-72	157
1972-73	192
1973-74	202
1974-75	126
1975-76	162
1976-77	178
1977-78	178
New farm classification (1977-78 = 100)	
1977-78	100
1978-79	113
1979-80	65
1980-81	73

SOURCE: *Hansard*, 30.6.82., col. 323.

NOTES: Figures are for net farm incomes excluding breeding livestock appreciation, and allowing for inflation. Old classification reflects net incomes after deducting depreciation at historic cost; under new classification, depreciation is computed at current cost.

But for many years it has been part of U.S. government policy to "set aside" land, by paying farmers *not* to use their acres. Currently, the USDA has an acreage reduction programme in operation that requires a "set aside" of 10 per cent of the land used for feed grains, and 15 per cent for wheat, rice and cotton lands.

Last May a coalition of Democratic and Republican Congressman formed the Farm Crisis Group to introduce legislation to increase the acreage held out of production, to curtail output and increase prices.

This method has the effect of raising taxes and misallocating both income and labour. And it keeps out of use much of the best land that ought to be retained in production while less fertile, marginal land continues in production.

THE ONLY satisfactory long-term reform is a restructured fiscal policy, the centrepiece of which ought to be a tax on the annual rental value of land. Broadly speaking, this would have two immediate effects of crucial importance for economic recovery.

● A heavy tax on land values would bring down prices for all sectors of the economy. Construction would revive, a larger proportion of finance could be invested in new fixed capital, and so on.

In agriculture, the least efficient land would fall out of use, so that the consumer's needs for food would be met by the most fertile acres at the least cost of production possible.

This would be achieved by *raising* money for federal and state exchequers. It would not, therefore, be yet another policy for increasing government borrowings (to cover budget deficits), which help to force up interest rates.

● The increase in revenue from the land tax could be offset by a cut in taxes on productive effort. Domestic consumption would expand, thereby opening up new opportunities for jobs and investments.

Until this happens, the industrial economy will remain in the doldrums, and more people will find themselves relying on unemployment benefits.

All the contenders for the nomination of Presidential candidate for the Democratic Party demanded sweeping reforms of the tax system at their convention in Philadelphia in June.

They emphasised the need to preserve tax cuts for the lower paid while

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be taken to be in almost completely fixed supply – though it is often not made as *available* as it could be. When proper allowance is made for improvements and maintenance, the marginal cost of land is zero: it is a free gift of nature.

This being so, a tax on land values will have no adverse allocative effects; it can only help bring into better use land which hitherto was idle or poorly utilised, if the tax is based on the best permitted use rather than existing use.

At times, Prof. Prest cavils at this conclusion but on inspection his qualifications turn out again to be criticisms of development gains taxes or of the fact that SVR may be imposed by one local authority on urban land alone. This could have the consequence that rural areas that may be exempt from SVR will resist political absorption into the urban district, thus reducing the supply of land to a particular local authority. This is a minor point and if of any significance, would be an argument mainly for the application of SVR to rural as well as urban land.

IN THE END, the main objection to be raised against SVR is that it reduces the value of land as an asset compared with other assets that could have been purchased instead, and may be especially hard on recent purchasers. For this reason, a gradualist introduction of SVR is often advocated: a shallow-end approach, to use Prest's phrase, with progressively increasing rates over, say, 15-20 years. With the discounting of future expected earnings, current land values will be relatively unaffected by the heavy reduction of net earnings expected several years in the future. At a 10 per cent discount rate, £1,000 expected 15 years hence adds only £240 to the capitalised present value of land; £1,000 expected 20 years hence is worth only £150 today.

Most landowners would not lose absolutely by this measure if SVR were accompanied by the progressive dismantling of taxes on any improvements they may also own. Those who would suffer most would be those holding vacant, but valuable, land. Even this group would be able to offset losses by a reduction in the tax liability on any improvements they did intend undertaking on their land.

Surprisingly, however, Prest takes a rather benign view of land held for purely speculative motives. He sees little difference between land speculation and speculation in commodities such as coffee. Speculators in the coffee market buy when prices are low and sell when they are high, thus helping to dampen wild fluctuations in price over time. However, if coffee is held off the market one year it will be available for consumption another year. When land is held off the market, its services are lost forever. The production of coffee is not lost by hoarding; hoarding merely defers its consumption.

However, despite Prest's scepticism about the evils of land speculation, he does acknowledge that only SVR would eliminate it; the other forms of taxation he examines may well encourage it.

This book is a most useful overview of the debates that have raged in academic and legislative circles over the last century. It includes many valuable insights into the advantages and disadvantages of various land control policies, but it should be read with the same caution that the author himself has practiced, and with an eye to the changing definitions he sometimes attaches to the same words, not least 'land taxation'.

Dr. Roger Sandilands is Editor of The Journal of Political Economy, published by the University of Strathclyde.

A legacy ignored . . .

The Land Use Policy Debate in the United States, edited by Judith Innes de Neufville, Plenum Press: NY and London, 1981.

THIS compendium of separate essays related to land policy issues had its origin in a colloquium sponsored by the Lincoln Institute five years ago. Given these auspices, one might expect some interest in the relation of the property tax, assessments and the distortions in the land market created by speculative holdings and inappropriate uses.

But for all the varied concerns of the authors with the economics of land policy, there is scarcely a reference to taxation, let alone the collection of a land value tax, or the failure to do so, as a significant factor in land use.

This could hardly be the fault of the authors, some of whom even recognize the distinction between land as a public good from private capital investment. Nor should the failure to deal with the crucial issue of economic rent of land be attributed to a pursuit of ideological neutrality. The book contains at least one explicitly Marxist analysis and a number of contributions tinted by the authors' positions on the political spectrum.

The only, rather tangential reference to Henry George is an historical one: "... The first proposal for a New York subway, along with extensions of New York tenement-house laws, resulted from Henry George's 1886 campaign for mayor as a candidate of a 'workingmen's coalition'" (Edel, 1977).

John C. Lincoln, with whose name and fortune this Institute was established, was an early and devoted supporter of Henry George and for a long time headed the school in New York. His concern with having the Georgist philosophy seriously debated in academic circles was a significant aspect of his legacy but one that is apparently either ignored or contravened by those who are today charged with its implementation.

A conscientious review of land use policy in the United States from a totally objective source could not ignore the tax and assessment problems documented by scholars and practitioners in the field alike. In a work such as this, the blinders seem to be set deliberately.

Philip Finkelstein

LAND TENURE IN FIJI

Mr. J. Salmon

IN the March-April 1982 issue of *Land & Liberty* we published an article relating to the system of land tenure in Fiji written by Mr. Terry Newlands. That article attributed certain comments to Mr. John Salmon of the Native Land Trust Board in Fiji.

Mr. Salmon has asked us to state that he did not make the comments attributed to him in the article and that he does not hold the opinions implied by those comments.

Mr. Newlands agrees that the comments attributed to Mr. Salmon do not constitute a verbatim record of what was said, and he sincerely regrets any inaccuracy which may have occurred.

We in turn apologise to Mr. Salmon for any embarrassment which has been caused to him.

The late W. E. Bland

Mr. W. E. (Bill) Bland, who died on June 18, was a Director of the United Committee for the Taxation of Land Values and Free Trade for 34 years.

He joined the United Committee in 1934. In 1952 he was elected President of the English League for the Taxation of Land Values, a position which he held when the League amalgamated with other organisations and became the Land Value Taxation League.

Born in 1894, Mr. Bland was keen to serve in the navy for the First World War. But Britain had run out of ships, so Winston S. Churchill created a regiment of soldiers with bell-bottomed trousers in which he served. He was wounded at Gallipoli.

TRADE WAR

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preventing the rich and the corporations from benefitting from the advantages granted to them by President Reagan.

The only policy that would accomplish these broad goals while preserving both equity and economic efficiency is land value taxation. There was no evidence that the Democrats would make this tax a central issue at the Presidential election in 1984, but there is still time to educate them.

The alternative is the international trade war that would impoverish us all and lead to a split in the Western political alliance.

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