

Land-use blueprint to

PRESIDENT Ronald Reagan believes that his style of free market economics is "the great enemy of poverty".

He said so, when it was announced that the number of Americans at the poverty level fell from 35.5m in 1983 to 33.7m last year, the first significant fall since 1976.

The Don Quixote of the New Right was once again jousting at windmills.

- The fall in the poverty rate still leaves it higher than it has been since 1968, with the exception of 1982 and 1983.

- The richest two-fifths of Americans received 67.3% of the national income, while the poorest two-fifths received only 15.7% – slightly less than their share in 1983.

- While poverty among the aged section of the population dropped (see chart), it rose for some segments of society. For example, the proportion of black children under six who were living in poverty in 1984 rose from 49.4% to 51.1%.

The most telling fact to emerge from a Census Bureau report is that it took a growth of 6.8% in GNP for a modest fall of 0.9% in the proportion of people living in poverty.

WHEN you set the miniscule gains against the street-level realities, it is difficult to imagine how the president can crow about the achievements of his supply-side economics.

Soup kitchens proliferate. Some adults without jobs in Philadelphia are surviving because a boy named Trevor Ferrell takes them food at night.

The sick are becoming increasingly vulnerable. A National Association of



**By PETER POOLE
in Washington**

Public Hospitals study confirms what people already know: the statistics reveal that more than 40% of patients who are turned away by private hospitals required emergency room treatment. Nearly 43% had no insurance.

Theoreticians who help to shape social and economic policies, however, are not able to offer a convincing analysis of how the economy works.

Charles Murray, the Reaganite author of *Losing Ground* (Basic Books), points out that the general level of poverty did not decline during the 1970s even though government spending on social welfare programs (after allowing for inflation) doubled to about \$300bn.

But, Senator Daniel Moynihan points out, an 11-year experiment in reducing real welfare benefits has not stopped the rise in the number of AFDC (aid to families with dependent children) families.

Slashing social spending, then, is not the answer to the conundrum of poverty.

THROTTLED . . . AS THE RICH GET RICHER!

THE CITY of New York highlights the way in which the land-and-tax system throttles the labour and housing markets.

With building land costing a minimum of \$4 a square inch, middle and low income families are being squeezed out by high rents.

Builders are forced to construct apartments for the rich end of the market – and also to build smaller units (new apartments have a fifth less space than those built 10 years ago).

A man earning \$30,000 a year has no hope of owning a home in Manhattan – and anyone with half that salary is broke.

One result: more women are forced to defer marriage, or to defer having babies. Many single people have two jobs in order to enable them to pay the rent.

Housing costs are forcing middle-

income families out into the suburbs (which imposes new costs – of transportation, for example – and lower satisfaction with the amenities that are available).

Meanwhile, the number of homeless and poor increases – as companies are forced to close, because they find it impossible to renegotiate realistic leases with landlords.

A quarter of the people in the city live below the government poverty line of \$10,600 a year for a family of four. At the same time, the landowners continue to reap huge capital gains based on values that are created not by themselves, but by the community.

EMPLOYMENT and wage levels are determined by the way in which we use natural resources.

This theory receives no attention in the economic literature today, in which analysts are more concerned with highlighting the institutional framework within which Labour grapples with Capital in a life-and-death struggle.

Economists, however, have forgotten that the frictions and oligopolistic power that is exercised in the labour market today are the product of what happened yesteryear, when the free land ran out.

In the United States, wages were high until the Western frontier was closed 100 years ago. But it was not so much that vacant land was no longer available, as the fact that it had been appropriated and enclosed by a minority of settlers who were thus

blow away despair of soup kitchens

able to hold workers to ransom.

Result: wages dropped to subsistence levels.

The same process can be seen today. Landless workers in Central and South America, excluded from the fertile acres by the land-hoarders, are forced to migrate.

They go over the border to California and Texas in search of work. Result: wage-rates on the big farms are cut to the bone, as hungry people vie with each other for employment.

A rational land use system, one in which owners were forced to put their sites to the most appropriate use, would throw hundreds of thousands of city centre acres onto the market.

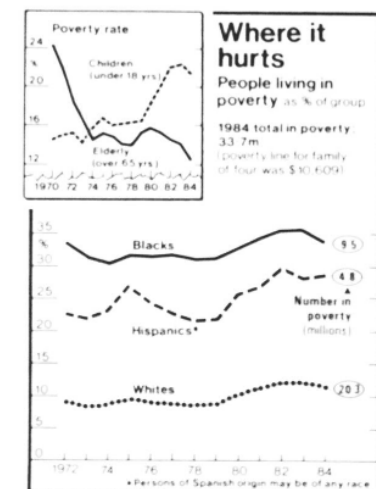
The effect of this would be to reduce rents and so open up investment opportunities. New companies would create jobs, and the competition for labour would raise the basic level of wages.

And lower rents would mean higher disposable incomes to be spent on consumer goods — having the knock-on effect of spurring entrepreneurs to expand their operations.

HOW could this system be implemented efficiently?

There is only one instrument that is consistent with the free market system: a high tax on the annual value of land, levied irrespective of whether the land was put to use or not.

Since the tax could only be levied on rents that could actually be



realised in the market, land that had no value would be tax-free.

Everyone seems to agree that the western tax system is both unfair and destructive.

Unfair because the wrong people escape taxation.

In Britain, for example, the owner of valuable urban sites does not pay a penny in property taxes on the

income stream that he **could** receive if he was not speculating on higher capital gains in the future.

In the United States, 3,170 taxpayers who earned more than \$1m in 1983 paid virtually no tax at all, whereas a family of four with an income of \$45,000 paid an average of \$6,272 in federal taxes alone.

Destructive because the tax system hits people who want to create wealth, while all but exempting those who live off unearned income.

So nothing less than a radical restructuring of the tax system itself will finally solve — in one fell swoop — the interlocking problems which today appear to be insoluble.

If a government raised a higher proportion of its revenue by land value taxation, the western frontier (figuratively speaking) would open up again.

New jobs would be created, and the lowest wage rates would rise. People would be less dependent on the state for hand-outs, as poverty was eradicated through the free operation of the market.

This is a coherent theory, administratively easy to implement, and socially equitable. All that we now require is the political will.

MR SMITH'S EXPERTS SPELL OUT STRATEGY TO THE SANDINISTAS

A DELEGATION of experts on land taxation is to visit Nicaragua, to advocate an alternative economic strategy for the war-torn economy.

"The US wants to return exploitative capitalism to Nicaragua, while the Sandinistas are experimenting with a Latin-style communism", says Jeffery Smith, the San Diego-based organiser for the delegation.

He was in the country recently as a member of an official environmental delegation. The Sandinistas invited him to

return to spell out ways in which they could modify their mixed economy.

"They have yet to hear of redistributing land value", says Mr. Smith, "but they have no qualms about redistributing thousands of acres of land hoarded by Somoza, the deposed dictator."

"They have begun to run into difficulties with this approach, but they are sceptical about free enterprise, which to them means the National Guard,

land hoarding, illiteracy, infant mortality and pesticide poisoning.

"They are willing to experiment, and I want Georgists from around the world to join the delegation to tell them about an alternative strategy".

Costs for the visit, between Jan. 6-20, 1986, will range from \$700 to \$1,000. Mr. Smith's address: Basic Economic Education, 2200 Morley Street, San Diego, CA 92111.



● Jeffery Smith