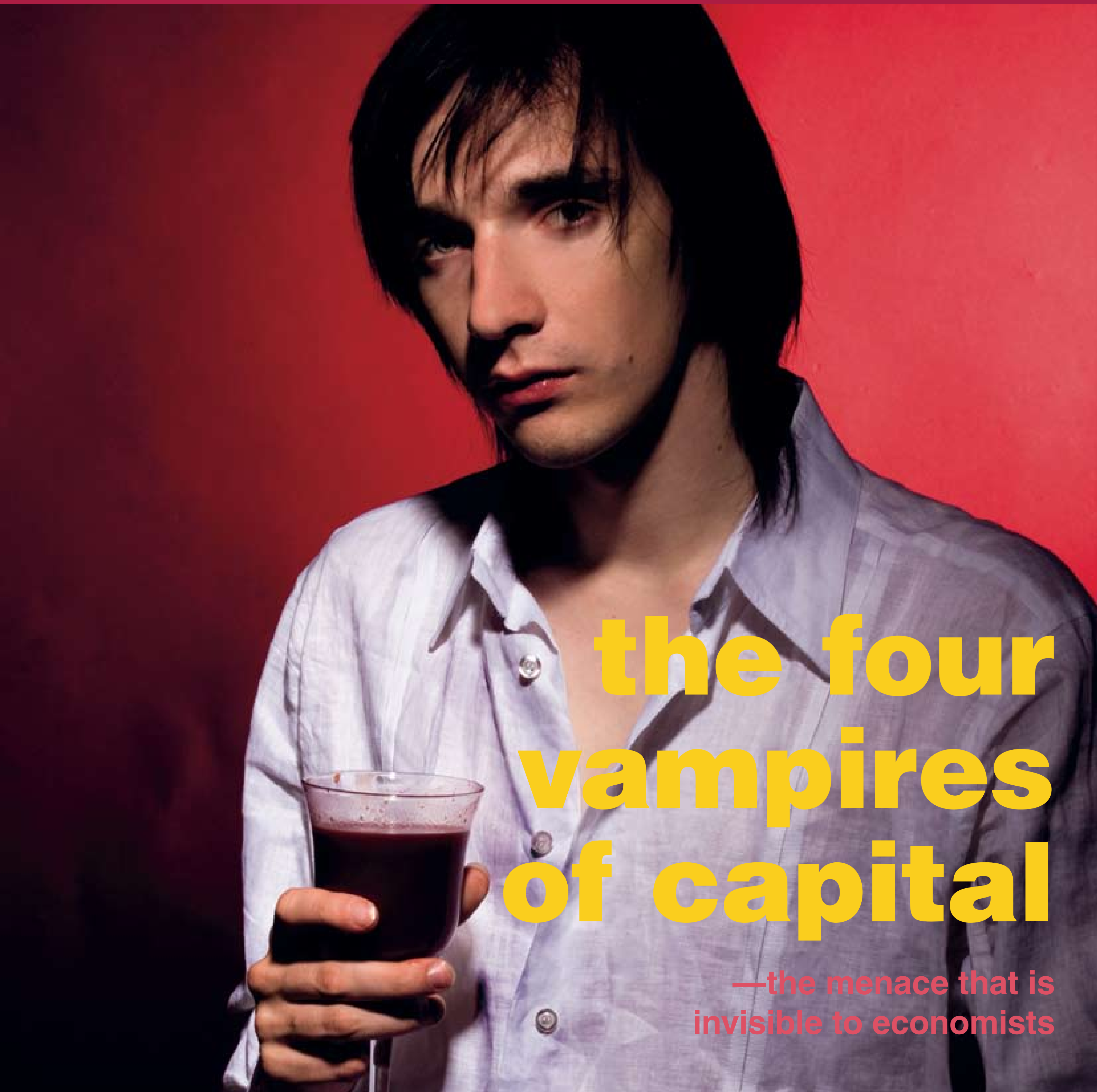
Land&Liberty

putting people at the heart of economics

since 1894



the four vampires of capital

—the menace that is invisible to economists

High Speed One: Kent homes to win £30k

Glasgow presents land tax initiative to Scots Parl'm'nt

Why Europe's farmers should get off the dole

1224 vol 116 SUMMER 2009

contents

cover story

Meet the Vampires of Capital—One, Two, Three & Four. (see feature p.12)

regulars

columnists

Edward J Dodson is Director of the US-based School of Cooperative Individualism and author of Discovery of First Principles.

Lars Rindsig is Executive Editor of **L&L**.

David Triggs is Executive Chairman of the Henry George Foundation, publisher of **L&L**.

features

Photo: © iStockPhoto/Jorge Farres Sanchez. Cover photos: © Dreamstime/Ksenia Kozlovskaya (main photo); lewishamdreamer, Bob Shand and Nicholas Babaian (flickr/CC).

news in brief ...

SOLD—the morning chorus Amid global crisis, "land investment in Iceland represents unprecedented value". At Tjarnabyggð farm village 'investors' are asked to pay money to developers Búgarðabyggð Ltd for "all services—for instance maintenance of roads, snow removal, school-buses, refuse collection and distribution of hot and cold water…*provided by Árborg commune*"—and for "the birdsong and floral scented air" provided by wild, clean Icelandic nature. So shamelessly is economic immorality flaunted.

Value capture for transportation finance The University of Minnesota has published a major new study for the state legislature. "Large public investments in state transportation infrastructure—such as new freeway interchanges, highways or transit stations—can increase the value of surrounding private land, sometimes substantially", says the University: "Capturing the value of this benefit through various tools is gaining interest as a finance mechanism for infrastructure investments." WWW.CTS.UMN.EDU/RESEARCH/VALUECAPTURE

Olympics that won't go to the wire Ofcom is responsible for spectrum planning and licencing the London 2012 Olympics. The BBC says: "Demands on the airwaves will be huge as thousands of wireless devices will be used during the games to serve athletes, officials and broadcasters." Spectrum fees are being waived and current users will be required to 'lend' spectrum to "members of the Olympic Family". This will add a further hidden cost to the public purse for holding the Olympics. A public consultation ends 5th August. (see p.6 for more spectrum news)

Kenya The Kenya Cabinet has approved the country's new draft National Land Policy (see **L&L** winter 2008/9). Minister of Lands, Hon James Orengo said the "historic document is the culmination of protracted negotiations with key stakeholders". As **L&L** goes to press it remains unclear to what degree the radical thinking and provisions in earlier drafts have survived those negotiations. A Land Reform Transformation Unit has been established to "oversee the transformation process and the establishment of organs that will drive the land reform".

Land&Liberty

212 Piccadilly, London, W1J 9HG
ph +44 (0) 20 7917 1899
e office@LandandLiberty.net

Editor Peter Gibb
Executive Editor Lars Rindsig
Publisher Henry George Foundation
Contributors Eddie Cross, Ed Dodson, Karl Fitzgerald, Prof. Mason Gaffney, Geoffrey Lee, Dr. Duncan Pickard, Robin Smith, David Triggs
Editorial support John Triggs, David Chester
Distribution Michael Learoyd

To receive Land&Liberty or support the work of the Henry George Foundation contact us at the address above.

Land&Liberty has chronicled world events for over 100 years. It has offered a unique perspective with its reports, analysis and comment on the core issues of political economy. And that uniqueness remains. **Land&Liberty** aims to explore how our common wealth should be used—and to demonstrate that this is the key to building the bridge of sustainability between private life, the public sector and our resources—between the individual, the community and the environment. **Land&Liberty**—putting people at the heart of economics.

Land&Liberty is produced on a *pro bono* basis by the Henry George Foundation and printed by A Local Printer Ltd on Revive 100% post-consumer recycled paper.

ISSN 0023-7574

The Henry George Foundation is an independent economic and social justice think tank and public education group with offices in London and members throughout the UK. The Foundation deals in cutting-edge ideas, exploring and promoting principles for a just and prosperous society and a healthy environment.

The Henry George Foundation of Great Britain Limited is a company limited by guarantee, registered in England, no. 00956714, and a charity registered in England under the Charities Act 1960, no. 259194.

www.HenryGeorgeFoundation.org

www.LandandLiberty.net

letter from the editor

HAVING STARTED 'financial', then turned 'economic', the global crisis has now gone 'social'. Ordinary people everywhere are coming to feel what that means. National governments are floundering in their responses. At the global level, Joseph Stiglitz's UN Commission of Experts brings no breakthrough wisdom. For the moment perhaps the best we have from that fount is its observation that "most of the burden of the economic policy response to the crisis must now fall on the shoulders of fiscal policy"—and that "the international financial institutions have to strengthen their capacity to implement counter-cyclical instruments." Well so far so good.

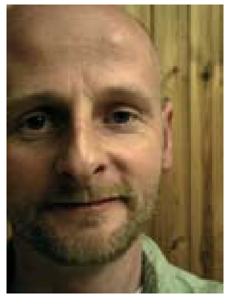
Focus, so far, has been on reform of the banking and global finance system. This is dismaying, for the root of the crisis seems to be elsewhere. Might it be not endemic to the banking system *per se*—but rather lie in the operational 'environment' in which banks do their business? Might the cause of the present crisis lie in the *real* asset landscape that are brought into being by our legal institutions, and upon which our financial institutions rely for debt security? Could reliance on cyclical market land values for the securitisation of credit (and supplementing individual income) be the root of the crisis?

Securitisation of another sort has been linked to things—though fallaciously: but the secondary packaging-up of original mortgage securities into novel wholesale financial products such as 'collateral debt obligations'—for on-trading around the world to further profit and off-load risk—is a problem only of secondary concern.

However if the banks were to open up these CDO packages to public view (which they seem unwilling to do, presumably fearing exposure might fatally threaten balance sheets), we would be able to see better in what ways this strange new class of asset has been contributing to the banking crisis. We could better assess the degree to which lending to NINJA defaulters (No Income, No Jobs or Assets—the original media scapegoat) really is to blame: and the degree to which market confidence in CDOs has been hit because of the asset bottom line—the original physical property values on which the derived financial assets are ultimately secured.

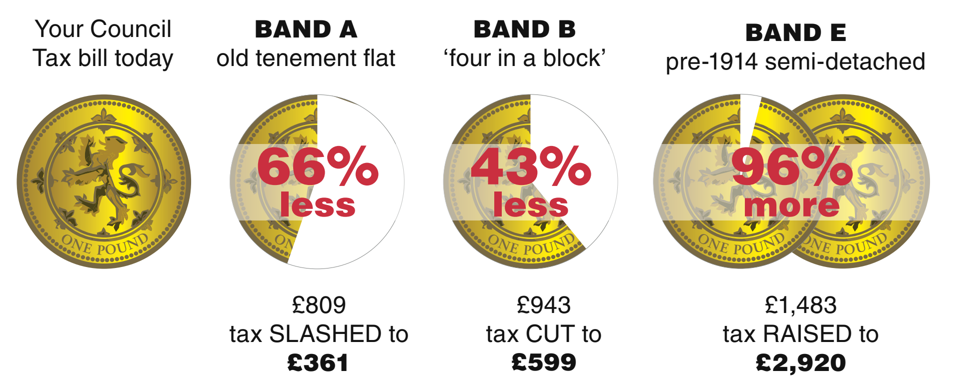
If the latter rather than the former turned out to be at the root of the financial crisis—if burst land value was the real subject of the imperilling human greed now exposed—then no amount of 'banking reform' will provide the solution to the current or any future crisis.

It is clear to **L&L** that the solution to the crisis lies in the conjoined spheres of property law and taxation. It lies in removing from private asset value, available for credit security, that 'unearned increment' attributable to land and resources. This can be achieved through taxation policy. In this issue of **L&L** Mason Gaffney identifies a sixteen-point action plan for achieving the aim. Each item would impact positively on the environment within which banking operates—stabilising and securing the industry and the future global economy. We must immediately start work on that list and hope that we've got down it far enough before the next crisis hits in 2027—or that one will be a shocker, the likes of which we even yet cannot imagine.



Peter Gibb
editor@LandandLiberty.net

Glasgow goes for land tax



Glasgow City Council reveals what new tax bills would be like under a land value tax system. The property wealthy are hit harder: the poor are better off.

data source: Glasgow City Council

Glasgow, Scotland's biggest city—'the second city of the Empire'—wants to replace the unpopular local Council Tax with a tax based on land values.

The radical proposal was agreed by Glasgow City Council on the 25th of June, and "the idea could become the blueprint for Scotland's future local taxation" says the *Scotsman*.

"Councillors from all parties except the SNP backed the idea to create a fairer property tax based on up-to-date values", according to the paper. "The proposal would draw in elements of the land value tax put forward by the Greens, who played an important role on the city council's working group."

The decision came with publication of a Council report by its Local Taxation Working Group (an initiative trailed in L&L winter 2008/9). The report looks at alternative systems for raising local revenue, and assesses options using the criteria of fairness, efficiency, predictability and local democratic accountability. Scorecards gave land value taxation equal top ranking, with fifteen points out of twenty. The tax was seen to fall down on questions of predictability and local accountability.

It is understood that councillors accepted the report's recommendation of a "long term move to a local property tax / land value tax hybrid tax" and that the Council should "start planning for replacement of council tax with a local property tax, incorporating powers to introduce gradually land value tax elements".

The report also states that simple (ie. non-hybrid) LVT should itself "not be discounted as an option for local taxation reform: it potentially holds many benefits and addresses many existing concerns with the council tax. Whilst there are a number of concerns with LVT, these often arise from the ambiguous and unfamiliar nature of the tax, coupled with the absence of UK empirical evidence and practical understanding."

While the report's view is that "none of the concerns identified with LVT are deemed insurmountable", it warns that "LVT may be difficult to explain to taxpayers so there would have to be effective public liaison and education to ensure support". The authors also believe "the treatment of agricultural land would have to be considered".

The report concludes that: "A series of detailed national pilot studies, with potential localised targeted LVT on derelict land, would be a sensible way forward", and that: "The Glasgow pilot commissioned by the working group has been a valuable exercise in identifying indicative issues for Glasgow and has helped progress the LVT debate."

The report publishes for the first time the findings of that pilot. The study looked at the likely effects of the tax options on the city's East Centre ward. With an assumption of revenue neutrality, the pilot found low-value homes would have their tax bills slashed under the LVT proposal (see illustration).

Looking at non-domestic tax-payers, the pilot report concludes there would be little change in the amount of local tax bills for industrial and retail property. But noting that derelict and vacant land is currently not subject to local taxation, the study estimated that "total possible LVT revenue on... derelict & vacant land" within the subject ward would be £669,539. This would constitute a new stream of funding for local government—possible additional revenue for the whole city of perhaps £14m.

At present Scotland's local authorities do not have the prerogative to determine their own tax base. The *Scotsman* reports, however, that the Council is advocating Scotland's councils "be given the powers to develop taxes which suit their local needs and raise a larger proportion of their own budgets."

It is understood the Council will now make representations to the Scottish Parliament.

Carriers no pigeons

"The byzantine system of managing landing slots needs reform", according to the Financial Times—and "the logical solution would be to auction off slots in the manner of airwave spectrum and other naturally limited resources." L&L and campaigners have been advocating this approach for some time.

Like all of us, airlines are having a hard time in the current crisis. With a view to easing their problems—according to the FT—Antonio Tajani, the European Union transport commissioner, wants to suspend the requirement that airlines use their landing slots at least eighty per cent of the time. Slots are allocated on the basis of 'grandfather rights'. Tajani's proposal would loosen further the duties on airlines to be responsible in their use of scarce public resources.

The FT argues that Tajani's ideas are wrong-headed. What's needed instead, they say, is more competition. "The grandfathered slots hide huge subsidies" the newspaper points out—"evident from trading prices such as the $209m paid by Continental for four Heathrow slots".

Deloitte recently valued BA's Heathrow slots at £2bn. Reformers have calculated that the total value of Heathrow's slots is in the order of value of Scotland's 1.5m acres of prime agricultural land. Until now these air assets have been left off balance sheet—but, in these economic hard times, carriers would love to augment their asset base with their landing slots.

The Commission's Single European Sky (II) package sets out "the future of European aviation". But the plan does not seriously engage with the thorny issue of landing slot allocation—nor even raise the fiscal and asset aspects. Commentators argue that the Commission is failing to get to grips with a practical problem that will only get worse: some—L&L included—argue there is a fundamental point of principle at stake here—as well as a lot of money and public value.

As the FT writes: "A proper overhaul of EU policy would get rid of the old carriers' vestigial privileges altogether".

Belgian overhaul

Bernard Clerfayt, State Secretary to the Minister of Finance, and the mayor of Schaerbeek, is calling for the overhaul of the property tax in the Brussels Region. Cadastral income ('revenu cadastral') is used in Schaerbeek to calculate the property tax. Clerfayt has called for this income to be considered in two parts—an 'RC land' and an 'RC building'—proposing, according to *L'Echo*, a "land value tax". There is no question of increasing the estate tax, he told the newspaper, he simply wanted more tax on the ground value and less on the brick.

The UK housing market

Just as the arrival of the global financial crisis and housing crash found the experts lost in confusion, so, two years later, nothing's changed. Are we seeing the 'green shoots of recovery', or the so-called 'winner's curse'? Are we at a new beginning, with the worst behind us, or in the lull before the storm? The indicators are raising optimism. But the experts' lack of a realistic economic framework within which they can understand what is happening renders their observations unreliable and their advice dubious. So—time to get on the housing carousel and do it all again?—see you at the bottom in 2027? Or time for the experts to learn the key importance of the third dimension—land and natural resources—in the philosophy, science and practice of economics?

Can I look yet? The worst may be over for the UK housing market according to WWW.INTRODUCERUK.COM, the finance industry networking community. They report that average asking prices have risen for the third consecutive month. "The worst of the recession may be past", they think, but still expect "no recovery until spring 2010". The outlook is shared by the CBI: "The UK recession is expected to moderate in the second half of 2009".

Affordability does suggest the worst is over The affordability of housing for first time buyers UK-wide is now nearing historic norms. The Nationwide—the world's largest building society—reports that "significant improving affordability" is helping buyers. The Society publishes a generation's detailed 'First Time Buyer Affordability Indices'. The indices measure initial mortgage payments as a percentage of take-home pay. Still the UK figure masks significant regional variations. So while the big picture may be good news for the national economy, it seems that further clouds—albeit with silver linings—are ahead for some.

Some experts say time to jump back on the ladder Summer has reportedly seen a stream of first time buyers on the housing market, apparently attracted by lower prices and the new availability of mortgage credit. Leading website WWW.LOOK4APROPERTY.COM has seen a 75% surge month on month in new enquiries. "The biggest problem we are now facing is a lack of homes" says founder Aaron Turner: "A lot of people went into the rental market after their homes failed to sell—but we are telling them that now is the time to switch back again." Turner adds that the new frugality sweeping the country since recession hit, means "savings have now accumulated so much that people have deposits they wouldn't have had otherwise—and they are ready to invest in property."

Photo © Joshua Wickerham (flickr/CC)

'Safe as houses'—a caption you see less often, these days

Other experts disagree *MoneyWeek* claims to be "the only financial magazine to warn readers that a house crash was imminent" (L&L did too, of course). This summer it asks: "How much worse can things get? Surely, having fallen so far, there must be good news on the horizon for the property market. Unfortunately the answer is a resounding 'no'." Investors and homeowners are warned: "It looks like things are only going to get worse in the months to come. Property owners (particularly buy-to-let investors) are set for the most painful experience of their lives". To find out how the value of your house has been falling as you sleep try the Nationwide's house price calculator WWW.NATIONWIDE.CO.UK/HPI/

Negative equity Calnea Analytics—authors of the official Land Registry House Price Index—have published their latest "loss estimates for the UK mortgage market". Director Troy Martin said: "Market losses are expected to be significantly higher, compared with regulatory capital, than those experienced by lenders prior to 2007 and represent a similar magnitude to those experienced during the previous mortgage crisis of 1989-93." Meaning? It's official— a decade of negative equity is now built into the system.

The land industry Leading independent financial advisors Colins Stewart have published their latest market analysis of the construction and materials industry. Noting greater signs of market stability, and diminished need for '09 writedowns and financing discounts, their position is generally optimistic. They upgrade their ratings of several industry big players. They note however that "it is clear that companies will need to start replenishing depleted land-banks toward the end of this year, or into H1 2010".

Property tax good news? Kevin Green from the Wealth Intelligence Academy says now is the time to invest in property in the short term. Do it, he says, "before fiscal changes" from the 2009 budget "come into effect…particularly in relation to stamp duty land tax, furnished holiday lettings, income tax…capital gains tax and inheritance tax" all impact negatively on those speculating on property. This suggests Darling's budget was more progressive than reformers at the time gave him credit for.

The Digital Dividend—resource rents & the technology drive

The other digital dividend The UK Government has published its Digital Britain final report. The so-called 'digital dividend' is the range of innovative new services to be provided on the radio spectrum freed up by the switchover from analogue to digital TV. Digital signals take up less spectrum space.

The technical dividend is also likely to give a significant boost to UK government coffers. Whether delivery of this other gain turns out to be a fair fiscal dividend for the UK taxpayer—or a lucky windfall for the winning bidders—will be determined by the provisions of the licence auction system and by the economic events of the coming decade or two.

"About 30% of the traditional TV airwaves will be up for grabs", says the BBC. The new bands are valuable because of their range and the large amounts of information they can carry—"the radio waves are being fiercely fought over by broadcasters and mobile operators."

Spectrum auctions will open shortly, although the government's report has persuaded independent regulator Ofcom to delay some of its immediate plans. According to Ofcom, the licences will be "tradable and flexible to allow users to determine the technology and services they provide and to change the use of the airwaves as new technologies and services emerge". Spectrum will be freed up for new uses in phases, as digital switchover proceeds between now and 2012. Licences will be "of indefinite duration with an initial term lasting until 2026".

The US Federal Communications Commission sold off its equivalent spectrum last year for an initial $19.5bn (£11bn). According to FCC Chairman Kevin J Martin: "This is almost twice as much as what was initially anticipated, more than the government has ever raised in any previous auction." The UK sell-off—when it comes—is likely to be the biggest since 3G was auctioned in 2000—raising £22.47bn and not inconsiderable controversy.

Mobile broadband to reshape economic geography Ofcom has announced proposals to align more of the UK radio spectrum with other European countries. This will be especially significant given the forthcoming spectrum releases under the digital dividend. Ofcom says: "These airwaves are particularly important because the signals they carry travel over long distances and penetrate into buildings well." The plans will allow new wireless and mobile broadband services to be launched across Europe. Fast internet access is an increasing requirement of modern business—and for more and more people it's a red line for life and leisure.

Present fixed-line broadband services favour economic development in urban centres: dense use of cable infrastructure gives greater returns for capital outlay. Mobile broadband will make new services available for the first time to currently disadvantaged rural areas. But there are perhaps unexpected losers too in the fixed-line broadband stakes: über-wealthy Henley-on-Thames and Marlow, for instance—home of Robbie Williams and formerly George Harrison—have some of the worst fixed line coverage in the country, according to research conducted by Top 10 Broadband.

The new mobile networks will level-out the broadband playing field. People and business will have greater flexibility in where they locate. The urban-centre/rural-margin dichotomy—already fuzzied by such modern developments as transportation, refrigeration and first generation telecommunications—will be further broken down. Mobile broadband will significantly reshape the economic geography of Europe.

Connecticut: lvt enabling bills and pilot scheme

"Land value taxation's moment may have arrived", says the Center for the Study of Economics: "Two bills—one Assembly, one Senate—have been introduced permitting any city in Connecticut to enact land value taxation." A land value taxation pilot programme for the City of New London—promoted by local urban activists the Re-New London Council—has also been signed off by the governor. "This enabling (not mandatory) legislation allows cities throughout the state, at their discretion, to implement a land value tax whereby land would be taxed proportionately higher than building structures", says the Council. According to an editorial in Connecticut's *The Day*: "Land value taxation gives New London the chance to support, rather than penalise, investors who want to improve their city properties. It must not let the opportunity pass."

HGF report

Advocacy Spring and early summer has seen a period of considerable activity and the Foundation has been represented at a number of national conferences and seminars. In February we supported the annual 'The State of the Economy' conference hosted by the Institute of Economic Affairs, at the Institute of Directors in Pall Mall. In March, as part of the Coalition for Economic Justice, HGF co-sponsored a seminar hosted by Vince Cable MP at the House of Commons, to promote an all-party parliamentary group to consider the scope for taxation of land values. (Several HGF members arranged prior meetings with MPs.) The seminar was very well attended, with standing room only. The keynote address delivered by HGF Executive Chairman David Triggs—and responses to questions from the floor—were well received. However the lack of MP participation and the failure to secure a subsequent meeting with the Chancellor or Treasury officials were both disappointing. In July the Foundation was again at Westminster, this time at a seminar hosted by Lord Tarsem King of West Bromwich, sponsored by 'Global Vision 2000' and 'Universal Peace Federation-UK'. David Triggs took the opportunity of these platforms to advance the cause for principled tax and monetary reform to groups beyond those already familiar with, or sympathetic to, the Foundation's ideas.

Friday Library Group Meetings at Mandeville Place have been especially busy through the first half of the year. A stimulating series of talks have been enjoyed with speakers including Henry Law (Economic Lessons from Scandinavia), Haydon Bradshaw (The Role of Money, Markets and the Storage of Real Wealth) and Joseph Milne (Thomas Aquinas and Natural Law). (see diary, p.21)

Economics courses Following the successful course on 'The Principles of Political Economy', the summer term has provided the opportunity to explore a number of Henry George's public speeches and addresses. For ten weeks students have heard and discussed talks that included: 'Moses: Apostle of Freedom'; 'Justice the Object: Taxation the Means'; 'Thou Shalt Not Steal', and; 'Land and Taxation'.

California visit For HGF's Executive Chairman, a highlight of the year so far has been a spring visit to California, where he was able to get a feel for the times and places that inspired George's writings. During the visit he met with several fellow reformers, including David Geison, Fred Foldvary, Cliff Cobb, Mason Gaffney and Harry Pollard. Look out for Foldvary's Henry George 'Oakland experience' video—posting soon on HGF's website WWW.HENRYGEORGEFOUNDATION.ORG

Continental rail link to raise Kent house prices by up to £30,000

The UK's first high speed railway—connecting London to the Channel Tunnel and continental Europe—is forecast to deliver over £17 billion in economic benefits. With the total cost of the project coming in at £7.3 billion, the new rail link—known as High Speed 1—will generate benefits and impacts of more than double its cost.

The figures are revealed in a report prepared for operators London & Continental Railways. The report recognises that the wider economic benefits of the project will manifest themselves in increased property values. With commuter trains running on the new line from December, Kent's communities served by rail will find their travel times to London slashed and their property values booming.

"We estimate that house prices in the study area could increase by between £950m and £1.6bn, with a central scenario of £1.3bn", the report's authors conclude—the "equivalent to just over a quarter of the cost of delivering the project. This represents a capitalised value of benefits of HS1 to the residents of the study area."

"HS1 will change the geography of Kent" David Joy of L&CR told the Financial Times: "People will experience the benefits even if they never set foot on a train." Although financing has been tortuous, the project has had substantial public funding and now enjoys a government-granted monopoly. The benefits of the project—including Kent house price gains—are being paid for by all UK taxpayers equally, from Land's End to John o'Groats.

data source: Colin Buchanan and Partners Limited. base maps © iStockPhoto/Jason Walton.

Australia's Future Tax System

Australians are in the process of conducting a comprehensive review of their nation's tax system. Announced last year by the Rudd Government, its aim is to reform taxation "to deal with the demographic, social, economic and environmental challenges of the 21st century". As the Business Council of Australia notes, the country sports fifty-six separate taxes, compared with the UK's twenty-two—so there is thought to be great scope for streamlining. A panel headed by Secretary for the Treasury Ken Henry has been holding public meetings across Australia, taking submissions and consulting stakeholder groups, all with a view to presenting a final report to the federal government in December. Speaking to **L&L**, Bryan Kavanagh, director of the Melbourne-based Land Values Research Group, and author of *Unlocking the Riches of Oz*, wondered: "Will AFTS be any more than the usual tax 'reform' – a simple alternation of emphasis, between taxes on labour and capital, and taxes on the products of labour and capital?" The answer to that question remains undecided for the moment. The consultation process closes in November. TAXREVIEW.TREASURY.GOV.AU

£ / Square Mile

Latest July figures show "thirty-two out of the thirty-three London Borough districts continue to show year-on-year price falls", according to Dr Peter Williams of independent consultants Acadametrics. However "the City of London continues to defy gravity, showing an annual increase of 28.9% in the price of flats on a three months basis". But Williams counsels caution—the relative scarcity of dwellings within the financial district's boundaries means prices are volatile as well as prime. Greater London as a whole saw a 13.7% fall in prices in the last twelve months.

Farming off the dole

Scottish farmer **Duncan Pickard** argues the future of European farming is tax and subsidy free

THE 1957 Treaty of Rome stated that the main aims of the Common Agricultural Policy were:

- to increase agricultural productivity;
- to ensure a standard of living for those engaged in agriculture comparable with that of other workers;
- to stabilise markets for agricultural produce; and
- to ensure adequate supplies of produce at reasonable prices to the consumer.

In reality, the CAP has always been a social welfare policy to give income support to small farmers: but because subsidies were directly linked to production, most of the money has gone to the twenty per cent of farmers who produce eighty per cent of the output. Even the income support given to those with small farms has had little or no relationship to the need of the recipients for such support. At least one third of farmers or their spouses in the original fifteen member countries of the European Union are known to have sources of income other than that derived from farming. In comparison with other sectors of the population that exist on low incomes, farmers are treated very generously.

Whether the money paid in income support improves the standard of living of most of its recipients is debatable. Most of the money can be accounted for in the increased price of agricultural land and in the rent paid by tenant farmers. The CAP is an indirect means of increasing the wealth of landowners; agricultural land prices would be lower if the CAP was abolished. Many of those who actually work on the land would not see a reduction in their expendable incomes. Those who would like to become farmers but who are unable to gain access to land because it is currently too expensive would see a big increase in the chances of achieving their aims.

Over the last six years the CAP has changed from a policy where payments were directly linked to production to the payment of subsidy according to the area available to be farmed. The Single Farm Payment system means that farmers have no obligation to produce anything in order to receive the area payment. In Scotland large areas of the hills and uplands now have no sheep or cattle and some arable land is fallow. If a farmer can obtain sufficient income from the SFP without keeping livestock or growing crops, it is natural for him to do so. It is a fundamental feature of human behaviour for people not to work when they can satisfy their needs whilst not working.

There has been a decline in the production of meat as a result of the decrease in livestock numbers. Government ministers and the leaders of the farmers' unions are trying to find ways to reverse this trend. An obvious way to ensure that livestock return to the hills would be to abolish the CAP. Without the SFP, landowners would either have to keep sheep or cattle to make a living or make way for someone else to do so. This option is not on the current agenda, because most farmers have become so accustomed to subsidised farming that they believe that survival without subsidies would be impossible. However, it is not true to say that farming cannot be profitable without them. When subsidies were stopped in New Zealand twenty-five years ago, many said that farming would collapse. No one currently farming in New Zealand would want subsidies to be reintroduced. Adaptation was painful for some, especially those who had bought land at high prices which could only be justified by the receipt of subsidies.

Those of us farming under the CAP would also adapt to change if subsidies were scrapped. It is not unlikely that, after 2013, we shall have to cope with much smaller payments than we receive at present. The European Commission is seeking to unify the area payments throughout the twenty-seven EU countries. This will mean that the farmers in the twelve most recent countries to join the EU will receive higher payments than at present and those in the other fifteen countries will receive less. Scottish arable payments will probably fall from about £200 per hectare to half that amount. There is little prospect of the EU budget increasing to maintain income support at its current level. The economic recession throughout the EU is not going to end for several more years and the whole subject of subsidised agriculture will be questioned. Any objective assessment of the CAP would find it strange that such large amounts of money are spent in adding to the wealth of landowners when the budgets of all the member countries of the EU are showing massive deficits. The OECD has estimated that the total cost of the CAP is about a hundred billion euros per year, about half from taxes and half from higher food prices.

For anyone who studies the current economic recession and the prospects for bringing the public finances under control, the CAP is an obvious target for cost-cutting. It is difficult to justify continuing to boost the price of agricultural land and make it more attractive to speculators. The recession has its roots in property speculation, not only by banks but also by home owners, encouraged by a tax system which made investment in property so attractive. Property is taxed much more lightly than employment and productive enterprise. It seems that most politicians and economists, who insist that 'land' is 'capital', have learned nothing from the current mess and are trying to reflate the property bubble as soon as possible. They appear to accept without question the view that high and ever-increasing property prices are essential for the economy to function successfully. Farming would benefit from lower land prices.

The unpalatable truth is that these factors make up the Achilles heel of the form of capitalism seen in most countries. That heel now lies fatally exposed by the current crisis. The only way capitalism can function properly is by governments collecting resource rents to pay for essential public spending, and removing the tax burden from employment and enterprise.

The future of European farming must be tax and subsidy free. L&L

Dr Duncan Pickard lectured at the University of Leeds before turning to farming. He now runs a 1,100-acre arable and livestock holding in Fife as a family business. He is the author of Lie of the Land.

Photo © iStockPhoto/ kodachrome25

Landowner subsidy

Smiths Gore, the UK's leading firm of land agents and rural surveyors, says Britain's 2009 budget is a pro-landowner instrument: "The budget contained two significant measures for owners and investors in agricultural land"; a "much smoother" route for agricultural rent reviews has been put in place after a recent VAT test case, and; Agricultural Property Relief, "which is a key tax relief for farming families and landowners, has been extended to cover land owned elsewhere in the European Economic Area." Smiths Gore call this "a valuable concession", allowing landowners to pass on high-value land assets to the next generation. The relief will act to raise the value of agricultural land in Eastern Europe beyond the means of local farmers. It will further the development of a Western Europe-based corporate agricultural landed class—one that augments meagre rental income with significant subsidy income and balance sheet capital gains—courtesy of the public purse. Gerald Fitzgerald of Smiths Gore's property investment and management team said: "This is a major concession and will be a significant attraction to people wanting to invest in or enjoy rural property elsewhere in Europe. It now allows them to do this and use efficient tax planning to reduce their Inheritance Tax liabilities."

"In comparison with other sectors of the population that exist on low incomes, farmers are very generously treated"

CAP and the developing world

"Criticism of the CAP has united some supporters of globalisation with the anti-globalisation movement in that it is argued that these subsidies, like those of the USA and other Western states, add to the problem of what is sometimes called Fortress Europe; the West spends large amounts on agricultural subsidies every year, which amounts to unfair competition. The Organisation for Economic Co-operation and Development countries' total agricultural subsidies amount to more than the official development assistance from OECD countries to developing countries. Support to farmers in OECD countries totals $280 billion annually. By contrast, official development assistance amounted to $80 billion in 2004. OECD analysts estimate that cutting agricultural tariffs and subsidies by 50% would add an extra $26 billion to annual world income, equivalent to just over four dollars a year for every person on the globe." *Wikipedia*

Zimbabwe: new policies for a new century

Eddie Cross reviews the context of a new approach to land reform in Zimbabwe

THE PHRASE 'an Englishman's home is his castle' is more than just an expression picked up through the centuries. It describes the changes that ushered in the industrial revolution and made possible the dominance of Britain in the 18th and 19th centuries. It marked the adoption of the Enclosure Acts and the evolution of freehold title rights on both agricultural and urban land.

What many do not realise is that the circumstances of these changes signalled the demise of feudalism in England and the emergence of a modern, democratic state. It took many years to achieve both, but once the decision had been taken to enclose land for agricultural purposes and to allow urban dwellers to own their own homes, the process was established and could never be reversed.

Feudalism had kept ordinary working class Englishmen in serfdom, obligated to a small class of 'landed gentry' who were wealthy by any standard. The relics of that era are still visible all over England.

Africa is coming out of a similar era—not as extreme but just as damaging. In fact, given that the natural environment of Africa is much more fragile, its abiding effects in ecological terms might be much more serious. That era saw traditional tribal structures within indigenous socioeconomic systems—meaning political power concentrated in a small group who worked through the chief, who was their appointee. All ordinary members of the tribe, and in many cases *all* women, were denied any form of security. They could be evicted from the tribe for any misdemeanour, and that might lead to expulsion and death—so discipline was pretty tough.

Under the African system, there is more democracy than prevailed in feudal Europe. But the effects of insecurity over economic assets (land) and housing has meant that progress has been very limited and is often stifled by the social forces at play in the society. Individualism is not allowed and initiative frowned upon and these characteristics restrict progress. These same features also allow the excessive exploitation of natural resources, giving rise to land degradation, erosion and desertification.

In Zimbabwe, a highly productive and self-sustaining commercial system of farming, founded on freehold tenure, is being destroyed by the regime that has been in power since independence in 1980. This has had dramatic effects on agricultural output and led directly to the collapse of the economy. In consequence Zimbabweans are now confronted with pressure to review land policies and to confront the problems that currently exist.

It is clear that the present policy of destroying land tenure rights is not going to succeed. Holders of title have strong legal rights and despite every effort, it is now clear that existing landowners are entitled either to have their land rights returned to them or to full compensation in the currency of their choice. The spectre of thousands of claims is concentrating minds in Harare and is expected to start the process of review very shortly.

> **"Secure communities will become free communities with the capacity to confront and control those in charge of the state"**

What is also clear is that the communal/tribal land system that prevails over half the country is not sustainable. These areas are highly degraded, and reform of land rights is urgently needed. This has been studied extensively in the past (the Rukuni Commission in 1993) and proposals exist for the gradual introduction of some form of security of tenure in these areas. It is also clear that once a revised land reform system has been agreed for the commercial farm sector this too will have to be implemented and enforced.

What is agreed is that security of tenure rights over both urban and rural land is critical to progress: but what is overlooked is that such reforms will also reinforce the democratic rights of the people of Zimbabwe and help entrench democratic values and norms. Secure communities will become free communities with the capacity to confront and control those in charge of the State at different levels.

This role that tenure rights play in strengthening democratic values and practices is not given enough emphasis in studies of the system. They also underplay the environmental implications of security of tenure and in Africa, with its fragile ecosystems, this is a crucial factor. L&L

Eddie Cross is a member of the Zimbabwean parliament and a founder member of the Movement for Democratic Change. He is currently the party's Policy Coordinator General. He was nominated as a minister in the national unity government, but deselected as President Mugabe formed his cabinet.

MDC land and agriculture policy 2008

Land involves social, legal and economic relationships. That being the case, there should never be any ambiguity about land as a legal expression. Any future democratic constitution must thus recognise property rights (private and state) and must recognise land and its ownership as a basic ground norm, which will be consistent with international conventions such as the *Universal Declaration of Human Rights* and the *African Charter on Human and People's Rights*. These basic rights and norms in respect to title rights in agriculture have been consistently and violently violated over the past eight years.

If land is a constitutionally protected human right, then its acquisition and distribution must also be a constitutional issue. This means that the distribution of land for the public good must be totally de-politicised and must not be subject to the whims of an executive driven by political concerns. The task of redistribution and acquisition must be entrusted to the Land Commission, duly set up by an act of Parliament, whose majority members must be experts of integrity with guaranteed security of tenure....

The immediate priority will be to establish and empower the Land Commission. The following cross-cutting land policy issues are spelt out in particular: settlement models.... co-development.... land tax.... [and] land market....

Rural District Councils already impose a land levy, which is based on the unit area of a farm and therefore constitutes a form of land tax. To encourage the full utilisation of land, [an] MDC government will introduce a more sophisticated, progressive land tax designed to release underutilised land through subdivisions and to remove incentives for speculation in agricultural land. A properly constituted land tax has the added advantage of raising revenues without distorting commodity prices. It is intended that the proceeds of the land tax will accrue to Rural District Councils for improvements in public services and infrastructure in the area in which the farm is situated.

'From ready to govern to preparing to govern' Movement for Democratic Change, 8th August 2008

Photo © iStockPhoto/HNR Martin

The new generation will not tolerate the old policies

david triggs' long view

Whilst all human actions require a measure of consciousness, there is a marked difference between those that flow from mere appetite, and those which follow the mental process of discrimination. In the individual we see the need for discrimination to check the excesses that appetite might prompt. Likewise at the level of society there is a balance that has to be struck between those actions to be left to individual choice, through the operation of the market, and those which require conscious intervention by government to protect the common good.

The level of intervention needed seems to reflect both the quality and complexity of the society. Where goodness and neighbourly love prevail or the society is simple and division of labour rudimentary, little intervention may be called for. Where an economy is characterised by specialisation, acute interdependence and a reliance upon services provided by monopoly, more government intervention may be appropriate.

Likewise, what a person needs to prosper varies with time, place and circumstance. With economic development, services that were once exceptional and rare, may in time, become commonplace, normal, or even essential. This, I believe, poses an important challenge to governments (and students of political economy) similar to that which attends the unchanging need for people to have free access to land at the margins of habitation and production.

An example with which I am professionally familiar is that of public water supplies, particularly in developing countries, where effective demand exceeds the available supply. People in urban communities are normally obliged to obtain the water they need via a piped supply and it acquires what Henry George called a 'value from obligation'. Water (like land), is essential to human life, but (like land) may also acquire a value that reflects use for discretionary purposes. Water for amenity, industrial or agricultural purposes may be so highly valued by some within a community that they are happy to pay a high price for it. Where 'market price' (through a metered tariff) is deemed to be the appropriate means by which this scarce resource can be most efficiently allocated, the wealthy are able to afford to purchase the whole available supply—leaving others to suffer the hazards and expense associated with non-piped supplies. In fact, this reliance upon market forces and 'metering' actually ensures the piped supply is also contaminated—for everyone. Where demand exceeds supply, supply is rendered intermittent—and pipes empty: since all piped systems leak, and empty pipes leak inwards, the supply is contaminated every day! My challenge was to develop an uncontaminated water supply system so every household received the minimum quantity for public health purposes before any received more than that basic amount. On achieving this I found that the surplus could be marketed to reflect its value to the whole community and the revenue could be maximised.

If my 'safe water for all' (SWaFA) system is the application of an established principle, ie. that couples 'the optimisation of land use and the collection of the resulting rent for the community', could this principle see wider application? Could it be applied to other situations where 'value from obligation' arises as a consequence of development and public policy? Where services, supplied by public or private monopolists or near monopolists, that might once have been discretionary, have become virtually essential to economic participation?

With banks continuing to squeeze customer lending, the publication of **Mason Gaffney**'s 'How to thaw credit, now and permanently' has raised controversy. Here for L&L the author presents his thoughts on opening up the credit markets

THE FOUR VAMPIRES
(main picture) Public Debt
(Inserts left to right)
Land Values, Housing and
Land Values Conjoined,
and The Corporation

The four vampires of capital

Employers are laying off workers for want of working capital. What happened to all that capital? Think of it as the coursing bloodstream of economic life, a metaphor used by Francois Quesnay, 18th century physician and land-tax champion who also pioneered an early macro-economics. Four vampires are sucking on those vital economic veins.

Vampire Number One is public debt. Each Federal deficit draws more blood from the private sector, adding to the national debt. The Republicans, traditional foes of public debt, have become its champions. The debt was $900 billion when Reagan and Bush took office in 1981. When Bush *père* left office in 1993 the debt was $4,000 billion, a number so high we started counting it in trillions.

From 1993-2001 the pendulum swung back as President Clinton even ran a small surplus, pumping capital back into private business—they call it 'reverse crowding-out'. However, President Bush *fils* ran the debt up to $10 trillion or more, depending on who's spinning the numbers. This debt is a big fraction of the nation's capital—our economic blood. This helps make us vulnerable to the housing crash and cardiac arrest of today.

Reagan and Bush said they were rejecting Keynes and his 'demand-side economics', replacing them with their new 'supply-side economics'. How did they persuade themselves to turn their anti-Keynesian posture into our present gargantuan public debt? There were two leading charlatans: Arthur Laffer Jr and Robert Barro. Laffer drew his famous curve on Dick Cheney's cocktail napkin in 1974 and changed the course of history. Said Laffer, taxes suppress incentives so much that Washington can actually collect more money by lowering tax rates. He stressed how taxes "suppress" incentives to work and to invest.

Anyone who has read Henry George will relate to how taxes suppress and twist incentives. Laffer, indeed, quoted George often. Tragically, though, he got less than half of George's idea, the part he could peddle to rich men's banquets for high lecture fees. Laffer never specified *which* taxes suppress and twist incentives: damn them all, he said. Worse, in California he campaigned for Proposition 13 of 1978, which cut property tax rates by two-thirds, while opening the door to huge hikes in sales, income, payroll, and various business taxes. George, of course, would maintain revenues by raising pro-incentive taxes on land values and rents, while sunsetting other taxes.

The voters fondly believed they could have lower tax rates cum higher military spending, and Reagan won. Within a few years it was clear that Laffer's tax cuts actually lowered revenues, and he lost favour. Yet he lives on in the highest circles of government. Professor Jeffrey Franken of Harvard has published a series of Laffer-like quotes from Bush *fils* and supportive Congressmen—see *Tax-cut Snake Oil* from the Economic Policy Institute. Our 'new' President Obama has not radically changed the tenor of his economic advisors. Dick Cheney the person has been relegated to Darth Vader emeritus, but the malady lingers on.

The other new charlatan was Professor Robert Barro. The same Dick Cheney tersely summed up Barro's message: "Deficits don't matter". Barro calls that 'The Ricardian Equivalence Theorem', probably unfairly. Barro's point is that deficits today must mean higher taxes tomorrow. Present taxpayers and savers fully realise that, says Barro, so they will save more today to prepare for that burden of tomorrow. This higher private saving offsets government's dissaving.

It was not just Barro. Iconic Milton Friedman, the very paragon of anti-Keynesian-ism, chimed in with 'Why twin deficits are a blessing'. (The other deficit was our national import balance.) Friedman had risen to fame by refuting Keynes and giving us his 'monetar-ism' instead. Once in favour, however, with Keynes reduced to a memory, Friedman turned around and endorsed Barro's new rationale for deficit finance.

Meantime, as Bush *fils* more than doubled the national debt to $10 trillion or so, private savings dropped toward zero. This would seem to demolish Barro's hypothesis by the simplest observation of fact. However, this was the new age of Faith over Fact. Bush partisans instead blamed low saving on various taxes on the rich, especially the estate tax and the capital gains tax, even though both had fallen sharply from earlier years.

This Barro-Friedman rationale has a seductive element of truth, but more error. The primary effect of deficit finance is that government bonds, to their owners, are an asset, a 'store of value', a substitute for real capital. George and others labelled bonds as 'fictitious capital'—they are nothing but a lien on future taxpayers, yet they swell their owners' portfolios just as though they were real social capital. In this respect they resemble

Photos © Dreamstime/Ksenia Kozlovskaya; iStockPhoto/leviticus and YT; and dreamglow (flickr/CC) slaves in the Old South, who were a 'store of value' to slave owners, without their having created any real capital. If half the people of a nation were suddenly to enslave the other half, it would be obvious that this did not create any capital. It would create a culture of extravagance, as happened in the Old South.

It is true that some bond proceeds are used to create real social capital; and some of that capital is worth as much as it costs. To the extent that beneficiaries are the ones taxed to pay off the debt, the bonds represent real social capital. To the extent that others are taxed instead, the beneficiaries are free riders who see their gains (usually in rising land values) as current income they can and mostly do spend for pleasure, consuming capital. Thus voters in several counties around San Francisco Bay forty years ago rejected a plan to pay the capital costs of the monumental Bay Area Rapid Transit System (BART) by taxing the benefited landowners. They chose (or were duped into) a sales tax instead. That made the bonds just fictitious capital, a lien on future taxpayers—the capital has been spirited away, by swelling the consumable income of landowners.

Professor Martin Feldstein sees this point about fictitious capital, but only with a class bias that leads him to obvious cherrypicking. Ignoring bondholders, he singles out social security payees as owners of fictitious capital. He blames them and the whole idea of social insurance for the shortfall of private saving. It would take another article to detail the faults in his case; we spare you here, and move on.

Vampire Number Two is land value. This is invisible to most economists; their neoclassical training blinds them. Land values, like public bonds, serve as 'fictitious capital' to their owners, a store of private value that is not real social capital. They satisfy the need to hold assets without there having been any corresponding real social saving by owners collectively, present or past. Individuals may save to buy land, but the seller dissaves in the same sale. Most home buyers, in fact, finance their purchase from selling a previous home. Mere ownership turnover of a fixed quantity is not net social saving.

More, land values on the rise promote dissaving. Notoriously, we have just been through another eighteen-year cycle of homeowners heeding the siren songs of bankers to 'unlock the equity in your home' to pay for high living. Rising land values seem to the owners like current income that they can spend on current consumption. Banks have been ready to lend on them. That is the dynamic side of it. Then, after the values have risen, they stand in for wealth to some owner or lender, muting via the wealth effect their urge to save.

In the case of US bonds there may be a reverse or compensating Barro Effect, a vague feeling, weak as it is, that future taxes may rise. There is no corresponding Barro Effect with rising land values, they rise up spontaneously, on their own. They are a free gift from human fecundity and progress, economic and social. They result from our having travelled a few more years through time, into the infinite future. Infinity remains infinite. It has simply grown more highly rentable, in the rosy visions of optimists, the ones who dominate the market. Land as one's asset is not, *per se*, a debt that anyone else must retire.

Vampire Number Two: Land Values

It is true that prospective buyers are now poorer, in that they must pay more for land. This might stimulate them to save more. However they, too, share the vision of higher future rents, so they are paying more simply because they think they are getting more. Sometimes they actually are. If the price to rent ratio rises it is because of the promise of higher future rents or resale values, whether or not the promise comes true.

I pass over common stock here because a good deal of its value represents corporate ownership of real estate; because its total value has dropped below that of dwellings; because the media overstate its role in the economic scheme; and because space and time limit us: what's uppermost here and now is the housing collapse.

Vampire Number Three is housing and land values conjoined. Ever since 1913 in the USA the money invested in owner-occupied housing, and the land used for it, have enjoyed virtual exemption from the tax levied on other forms of income. Untaxed housing income comes in two forms: imputed income, and unearned increment. 'Imputed income' is the service flow that an owner enjoys from her own house. If you own six or seven houses (who's counting?—not John McKean), a horse farm, a duck blind, a ski chalet, a lakeside cottage, a wild forty for hunting or riding, a golf club membership, a beachfront, etc, all that imputed income is exempt too.

The service flow of an owner's house as a building *per se* is not all net income. The owner must insure against fire, operate and clean the house, rewire, replumb, repaint, reroof, remit utility bills, replace the furnace and air, repel pests and termites, remodel and redecorate now and then, and still face a day of total obsolescence and depreciation. The site of the house, ie the space and location, needs none of those expenses, and generally appreciates besides—not this year, obviously, but more years than not.

Unearned increments (aka 'capital gains') are not taxed until time of sale, if that ever comes, although owners may take out cash, tax-free, any time, by using a line of credit or other form of mortgage, whose interest is deductible. If one does sell for a gain the tax is deferred so long as you buy another home of equal or greater value within a two-year window. Most homeowners continue this chain of deferral until death, at which time all the accrued gains are exempted forever—the so-called 'Angel of Death' provision. The current crash is steep, but this writer's $30,000 house and site bought in 1972, through a chain of moves and sales and purchases and a little luck, was priced at about $1,100,000 in 2006, and now after the crash is still worth about $700,000.

In the 1920s, the first peaceful decade in the USA under the new income tax, popular music manifested the ethos spawned by the exemption of homes from the tax: 'My Blue Heaven'; 'Robins and Roses'; 'Tea for Two'. These were to be followed by the more tentative 'Just Around the Corner There's a Rainbow in the Sky'; and then, all too soon, by 'Brother, Can You Spare a Dime?'.

Fast forward to 2001. Other kinds of consumer interest, as on credit cards and autos, were no longer deductible. Accelerated depreciation had been decelerated. The ENRON collapse taught investors to beware of overpaid CEOs and opaque corporate accounting. The dot.com collapse taught us to be leery of rosy promises unsecured by hard assets. All the investment gurus told us to buy a home or two, it's the last and greatest tax shelter. And so we did, from ticky-tacky little houses on the hillside to McMansions to palaces and compounds for the super-rich, and bankruptcy-safe havens in Florida and a few other states, even Kansas, that protect residences from bankruptcy proceedings. The arrangement has been and is bipartisan. Call something 'housing' and it becomes sacred, a fetish, unassailable, even if it is Hearst's Castle, San Simeon, with its 82,000 (sic) attached acres and seventeen miles of coastline; even if it is the fifteen beach lots Hearst assembled in Santa Monica for his spare wife. The result has been a massive over-allocation of the nation's capital stock and land to housing. We are 'overhoused America'. There's not 'too much housing' in an absolute sense. Many folks at the bottom are underhoused. Thousands are homeless, including many children. That's a matter of unequal distribution, but it's also at the core of modern politics. The former rabble have become the rationale for exempting mansions, playgrounds of the rich, and little castles of the middle class from taxation.

All that housing and land for the mansioneers take capital and land away from other uses, and sequester it in unrecoverable form. Housing pays out slowly at best, and a corresponding thirty-year mortgage ties up the lender's money. A bank can't make new loans much faster than it recovers principal from the old ones. So we reach a point, as now, where new loans are hard to come by—to meet payrolls, buy materials, and produce the daily needs of life.

That's 'at best'. At worst, builders glut the market, values drop, and the capital is not even recovered slowly, it's down the drain forever. Thus this housing capital is thrice frozen. First, its 'net service flow' above expenses goes mostly not to recover capital, but to pay interest (imputed or cash) and imputed rent on the resources, capital and land, tied up in it. Second an oversupply gluts the market so the owner cannot sell without a big loss. Third, bank loans secured by mortgages on this housing go bad, leading to a financial meltdown.

This is not just a domestic matter. Wall Street has been peddling these mortgages all over the world, and the international bills are coming due. We need to export more, but we can't export the surplus houses, and we can't recover the capital. That's where we are today.

As to rental housing the renter cannot deduct the rent, but the owner's rents are generally untaxed because the owner can often tax-depreciate the building much faster than it really depreciates economically, wiping the rental income off his tax return. When owner A has depreciated a building down to zero he sells to owner B, who does it all over again, and so do C, D, E... etc until the building dies. When A sells to B the excess depreciation is nominally 'recaptured' by taxing the nominal gain, but it is called a 'capital gain', subject to a lower tax rate, at a later date, a higher price level, and a new tax structure lowered from when A took the original depreciation.

This same package of benefits goes to owners of commercial and industrial (C&I) real estate. About fifty per cent of the market value of real estate in Los Angeles County, as in most major cities, is C&I, so this, too, is a major item. When B tax-depreciates the building, he normally depreciates a good deal of land value, too, even though the land is appreciating. Michael Hudson and Kris Feder have shown how all this lowers the taxable income from all the income property in the USA to an aggregate of zero—Repeat, *zero*!

Vampire Number Three:
Housing and Land Values Conjoined

Little people get a cut of the action, too, enough to nail down their votes, but it's the big people who own several mansions apiece in the choicest locations. Ever since labour got the vote in the mid-19th century, politicians have fostered *la petite propriété* as a bulwark to protect *la grande propriété* from *la canaille*, the dogpack, the rabble. In his 1899 *Memoirs of a Revolutionist*, Peter Kropotkin noted how well this system worked west of Russia. In a new revolution "the workers would have against them, not the rotten generation of aristocrats (of 1789)... but the middle classes, which are far more powerful, intellectually and physically, [plus] the machinery of the modern state". Only Russia failed to foster its middle class, with the result we know.

Vampire Number Four is the corporation. Corporations save a lot of their income, instead of passing it out as dividends. It's called internalising profits. When we read of Americans' low savings rate, that refers to personal saving, but stockholders let corporations do their saving for them. It's a way of avoiding taxes by converting 'ordinary' income (dividends) into capital gains (stock values), taxed at a much lower rate. FDR once had the insight and boldness to propose a surtax on "undistributed profits", but no modern politician would dare; no modern economist even thinks of it.

This would seem to create capital, but it doesn't, it merely redirects it from individual stockholders to corporate managers. It flows into managerial control without passing any competitive test. Some managers become glutted with more capital than they can manage effectively. They waste some on uses of low productivity; they use some to buy up other firms and lessen competition; they buy up assets of deferred yields and glue up markets for industrial sites for future expansion, leaseholds for future hydrocarbons, aquifers for future water needs, and so on; they inflate their own salaries in the outrageous ways that evoke so much resentment (but so little effective reform). Worst of all they invest offshore. They export not just their new savings, but recovery of old capital, too, from their Capital Consumption Allowances.

As a side-effect they become independent of commercial banks, both as depositors and borrowers, forcing banks out of their proper commercial loan business whence they go into real estate, our Vampires Number Two and Three, discussed above.

So what are Congress and Treasury and Ben Bernanke proposing along with the bailout? More of the same, more 'stimulus', raising the debt some more, to save the housing-land market and the banks that have inflated it. Supply-siders, faced with crisis, convert quickly into demand-siders; free-market doctrinaires into *dirigistes*. On 23rd October 2008, Alan Greenspan himself admitted to Congress that deregulation had failed. Even some kind of Federal regulation is now acceptable to prop up a failed system, but why?—so we can repeat the same cycle that is crashing around us today. Our leaders' thoughts go no deeper than that.

Thus, traditional Keynesian macroeconomic thinking, supposedly buried by monetarism, never really died; no silver stake was driven through its vampire heart. Today it has risen again to high circles in Washington. The idea that public borrowing 'crowds out' private borrowing, dominant in the thriftier 1990s, is seldom heard today. Now the leading physicians picture clogged Wall Street as a case of cardiac arrest, to be cured by what FDR, in a more rural and less medicated age, called 'pump-priming', and modern motorists call 'jump-starting'.

Tragically, this year's Nobel Laureate Paul Krugman, like other influential liberals, is reverting to the same old demand-side panaceas: "...right now, increased government spending is just what the doctor ordered, and concerns about the budget deficit should be put on hold", he wrote in the *New York Times* on 16th October 2008. At least Krugman's spending proposals are more egalitarian than those of Wall Street's Henry Paulson. Larry Summers and Alan Blinder, nominal 'liberals' (I have my doubts), join the chorus for deficit finance. Like Paulson, they see this as a paper shortage, to be cured with more paper. This does not bode well.

Ben Bernanke has staked his reputation and our economy on his belief that we can depend indefinitely on a glut of savings in foreign lands. This claim seems dreamy and even arrogant now that the glory days of American hegemony are fading fast away. Wall Street has already sullied its credibility by dumping bad paper on the world. The US Treasury is not far behind.

What we should be doing instead? We need to tap two huge sources of capital that the vampires have created, one public and one private. A national government can create great 'banks' of lifeblood capital and quickly transfuse it into private arteries. The principle is simple: pay down the national debt. It's called 'reverse crowding-out'. Governments can save, too, even as you and I, by earning more and spending less. The question would arise, in what shall the government invest without interfering in private markets? Thanks to our past prodigality the answer stares us in the face: invest in paying the debt. Turn the vampire into a source of fresh blood, bringing new life and vitality to the once-hale, now pale and failing private sector.

The principle may be easy but the practice is hard: we must tax more and spend less. However the present plan is to spend more anyway, selectively bailing out prodigals and debtors and the very culprits who led us into this morass. Better to invest in the nation's own credit, while pumping new capital back into the private sector. We have to do it soon anyway, and now is the time before interest eats us alive, our creditors lose faith and withdraw, the dollar collapses, and we become history's biggest fallen braggart, bully, pariah, and moral object lesson to illustrate *Proverbs* 16:18: "pride goeth before destruction, and a haughty spirit before a fall".

But how, one naturally asks, can government tax more without suppressing and bleeding the very private economy we aim to revive? This leads us back to the greater Vampires defined earlier: land value, and land value cum housing. It leads us back to the part of Henry George that Art Laffer dodged talking about.

Vampire Number Four: The Corporation

Land value, we have seen, is fictitious capital, an asset and store of value for individuals that has no real social capital behind it. By taxing it and lowering its value we do not destroy any capital. On the contrary, we raise the owners' propensity to save and create real capital to restore the missing store of value. We also raise revenues without suppressing or twisting the incentives of free markets, as generations of economists have shown and agreed.

As for how, this writer has published a catalogue of no less than sixteen ways to tax land and resource values at every level of government, using income taxes and severance taxes and even certain kinds of user charges, along with the obvious and traditional property tax. For some examples—as I wrote in the last issue of L&L—we can and should levy Netzer's "family of user charges" for preempting space on, over, and under city streets. People, cities, water districts, power companies, and others should be charged for withdrawing water from surface and underground sources, and for harnessing power drops. We should tax unearned increments to land values (miscalled "capital gains") in the Haig-Simons-Pechman manner as they accrue. We should let each building be tax-depreciated only once, by the original builder, and land never. We should rent out, rather than auction off, the radio spectrum, adjusting values quickly and often as the market rises. We should tax polluters, rather than paying them not to pollute. For the rest of the long story see my paper 'The Hidden Taxable Capacity of Land', published in the *International Journal of Social Economics*.

Retiring public debts is not enough. US President Andrew Jackson did it, 1829-37, and kicked off the greatest land boom and bust of the 19th century. US Treasury Secretary and Virtual President Andrew Mellon did it, 1921-32, and repeated the experience in the greatest debacle of the 20th century. Where did they go wrong? It's of no benefit to pay off the national debt if the greater Vampire, land speculation, drains off all the blood. In both decades land values swelled and working capital ran short. From 1798 to 1929 the eighteen-year cycle of land booms and crashes was broken only once, in 1911, eighteen years after the crash of 1893. What went right then? That was the only time, before or after, when the nation's treasuries depended mainly on the property tax, and there was no big run-up of land values.

What about banks and our money supply? Federal bonds and real estate have become their major assets. The pressure is on to issue more bonds, and support land values, to save the banks and the virtual-money they have created. Must we? Do the banks and mortgagees have us over a barrel? They would like us to think so. But not if we open new investment and job opportunities by *un*taxing work, commerce, capital, production and commerce.

The changes I propose are massive and radical, I know; but we have been massively, radically wrong, and the times call for massive, radical reforms. People will resist, will object, will twist and turn and contort in dozens of ways, as Washington now does, to protect banks and landowners and the current power structure, resisting the unwelcome inevitable. They have eaten, drunk and been merry on low taxes, cheap credit, foreign loans and rising land values. Meet The Great Reckoning: it is time to foot the bill. We can do it and turn America healthy in one stroke by taxing land values and rents to retire public debts. L&L

Mason Gaffney is Professor of Economics at University of California Riverside. He has been a Director of the Robert Schalkenbach Foundation since 1988, and is the author of many books, including (with Fred Harrison) The Corruption of Economics.

edward j dodson's cooperative individualist view

On a number of philosophical questions I find myself holding a minority opinion; sometimes I constitute a minority of one. This seems to be the case where the term 'natural law' is used as an expression of 'just' law, or moral law. Most who embrace this meaning look no deeper than their faith in a conscious creator. They say: if only we would live according to the creator's system of natural law, all would be well in the world.

To a degree, this belief was held by Henry George who wrote: "the evils arising from the unjust and unequal distribution of wealth...are not imposed by natural laws.... they spring solely from social maladjustments which ignore natural laws."

But I believe we should treat natural law as descriptive—as distinct from moral law, which asks the 'ought' questions, as prescriptive. In so doing we would avoid confusions inherited from past philosophical discourse. Some years ago, Mortimer Adler acknowledged the problem in 'The Nature of Natural Law':

"Most people are confused by the use of the term 'natural law'. They understand what the laws of nature are: we learn these when we study the natural sciences. But some writers use the term 'natural law' in the singular as if it had something to do with matters of right and wrong, almost as if it were the voice of conscience. It is hard for most to understand how a natural law has anything to do with moral matters.

"Let us first be clear that by 'natural law' we mean principles of human conduct, not the laws of nature discovered by the physical sciences. Many thinkers who espouse natural law see it at work in both the human and nonhuman realms, but their main interest is in its special application to man. According to these thinkers, the natural law as applied to physical things or animals is inviolable; stars and atoms never disobey the laws of their nature. But man often violates the moral rules which constitute the law of his specifically human nature."

We are complex creatures, and our behavior is as often destructive and violent as it is cooperative and peaceful. As Locke would say, we act beyond the limits of true liberty when we exercise license—in other words knowingly behave in ways counter to how we ought to behave if guided by our moral sense of right and wrong. There may be a few exceptions, but I feel quite comfortable making the generalisation that our moral sense is imperfectly inherited, imperfectly nurtured and imperfectly applied in our decision-making and our behavior. Perhaps the problem could be lessened if our moral philosophers had reached consensus. However, as Adler reminds us, even the ancients were limited in their thinking by moral relativism: "Neither Aquinas nor Aristotle thinks that particular rules of laws should be the same in different times, places, and conditions."

This argument opened the door for a positivist theory of the state, as described by Adler, to mean: "No action is right or wrong unless a particular community, through its positive laws or customs, decrees that it is right or wrong. Then it is right or wrong in that particular place and time—not universally."

Our modern world everyday challenges the idea that each group of people is sovereign and has the right to form the laws of its society, independent of responsibilities as global citizens. This is both a practical observation and a moral assertion. That we each have an equal birthright to the earth and what nature provides is integral to the moral law, and for those who embrace justice as an objective, working toward it as a moral imperative ought to become a commitment of the deepest order.

opinion

Piggybacking the crisis

The global crisis opens up tremendous opportunities for significant social change, **Karl Fitzgerald** tells reformers—those opportunities just need to be acknowledged and acted upon

Japan

A poor Japanese taxation system oversaw the world's biggest property bubble in the late eighties. Holding-charges on land had been less than one third of one percent since the seventies. When the bubble burst and the economy collapsed, Japan's efforts at pump-priming were counter-productive. Short term employment was provided, but value-adding pressure was applied to neighbouring locations. This halted the correction required in the land market. As a result, people paid more in rent and had less for food and fun, savings and investment. The tug of war between neo-Keynesian beautification programs and market sentiments wishing for lower land prices stalled Japan's economy for a record sixteen-year period.

How is the Western World being conned into mimicking late-twentieth century Japan—proponent of the world's least effective economic policies in the last fifty years? From 'trickle down' to print pressing, policy makers are snookering themselves. Michael Hudson argues that policies like the Bernanke Doctrine (printing money to reflate the economy—and perhaps undermining US debt via high inflation) is motivating countries like Russia, China and Iran to de-dollarise. This will have a profound effect on the US economy. With inflationary pressures to refloat the housing bubble, and lower demand for the US dollar giving its exporters a chance, the tax system will have to shift in support of productive activities. There is no other way the US will pay off it's multi-generational debt. This opens up tremendous opportunities for land reformers.

For policy makers some fresh thinking clearly is imperative. A recent interview on the Renegade Economists podcast with Nicholas Francis MBE, author of *The End of Charity*, summed up what we need. "The market system is amoral. The tax system must guide the pricing system to reflect the values we as a society respect." A number of key contemporary issues are pointing to this policy in an increasingly urgent manner. Neo-Keynesianism will be sent packing in due time. The debt trap is sitting pride of place as a reform amongst many left-of-centre gold bugs, but, of course, debt is primarily used to finance the purchase of land or licensed monopolies. To make use of the emerging opportunities, reformers also need to rethink their approach.

With Western debt at never-before levels, and infrastructure deficits abounding, value capture for public infrastructure will be looked at more seriously by policy makers. Climate change is also playing into land reformer's hands—forcing people to adjust their behaviour in a more localised manner. Land value capture can assist by providing cheaper land and housing at a higher density, and also better public transport; and from this, allow more headroom for sustainable infrastructure like micro power generation.

The next generation will expect reformers to have piggybacked the crisis—not allowed policymakers to ride it out

Photo © iStockPhoto/Becky Rockwood

Climate change will also increase the amount of marginal land, especially here in drought stricken Australia. An article in *Inside Story* on 16th May 2009 pointed out that the Goyder Line (defining marginal land in South Australia) is going to move a hundred and twenty kilometres south, wiping out some of the most productive vineyards in the country. Less arable land per worker will both push up land rents and drive down worker's wages.

The process of globalisation sees Chinese firms buying up strategic Aussie locations gifted with iron ore. This has aroused controversy in political circles. But as Bryan Kavanagh wisely notes: "It doesn't matter who owns the land, it's who pays the rent!" Land rental payments can help harmonise the conflicting interests of foreign ownership and sovereignty that rear their ugly head during times of desperation. This is another debate towards which reformers can contribute.

How can land rent policies be positioned to be taken seriously? With recent examples of zero-impact activism (Geldof) and critiques of 'dead-aid' (Dambisa Moyo) abounding, we must find ways to build up practical examples of our ideals. The community land trust model, for instance, seems an appropriate vehicle for reformers' efforts (see p.20 overleaf). Such policy angles could give us both a local and global perspective.

Internal operational reforms are needed as well if reform efforts are to benefit from this unique point in time. With many land rent reformers in the twilight of their careers, their unique experiences and wisdom must be recorded and secured for the benefit of future generations.

It is imperative to put in place operational processes that work, and make careful note on why others fail. For us in Australia this could mean developing an operational manual on who our most likely supporters will be (engineers, lawyers, greens?), what our most advantageous policy perspective is (land value capture for infrastructure financing?) and how we have in the past been successful at building relationships with certain kinds of organisations. Prosper Australia is entering into a strategic review of the work ahead: it will no doubt plan out some of this, assign target markets and prioritise our projects based on our most likely supporters. A manual developed from this process would be useful for all the one-person offices run by reformers around the world.

Reformers also need to develop campaigns that both build the public's knowledge base and simultaneously mobilise public opinion. A present example is how ethical investment firms include land banking in their portfolio as if it was an ethical practice. We need to move on from letter-writing—towards campaigning: so a dedicated web page might be set up with a short text outlining the unethical nature of land speculation, with perhaps a cartoon to back it up, and a petition; emails could be collected and a database created. Stall-holders worldwide could find such a resource useful.

The general public will see a practical application of land value capture ideas. Once the advantage of lower taxes leads to export competitiveness, globalisation terminology can be used to turn business leaders towards reform. Reformers need to lobby genuine capitalists—those willing to take risks to create productive products and services. They will be the first to see the importance of capturing nature's bounty in favour of the public interest.

Another key area is the formal lobbying of politicians. How many activists know how to call up a politician and present them with a recent report? Try taking a print out of Gavin Putland's latest report on 'From the subprime to the terrigenous: Recession begins at home' (www.lvrg.org.au), which depicts how it is national property tax policies rather than a sub-prime flu that is to blame for the global financial crisis. MP's must meet their local constituents and will appreciate our policy perspective for the sheer synergy it creates amongst the traditional 'silo' policy problems.

For the land reform movement to be well positioned at the end of this downturn, it must make the most of the navel gazing going on in conventional economics. Articles must be written and published in the mainstream media. The orthodox economic knowledge base has been shot to pieces (though it is always surprising to hear how many more decision-makers know about rent for revenue principles than let on). It is encouraging to see the increasing number of YouTube clips that are appearing.

A coordination of global research projects is needed to align the media with reformers' views via a constant barrage of key reports. As a matter of priority, reformers need better training in media communication, such as drafting press releases. Some land reformers have modernised their public appearance: www.renegadeeconomist.com has taken over from www.prosper.org.au and South Korea's land.kimc.net as the world's most professional looking land reform website. To be taken seriously and for their efforts to be successful, reformers need to think strategically and push their work farther in these directions. L&L

Karl Fitzgerald is based in Melbourne and is Project Coordinator for Earthsharing Australia and Prosper Australia.

(See overleaf for Karl Fitzgerald's reflections on the community land trust model as a vehicle for reformers' efforts.)

Community land trusts

Karl Fitzgerald reflects on the CLT model as a suitable vehicle for reformers' efforts

A community land trust is a communally owned property trust which has the purpose of benefiting the surrounding community by ensuring long-term availability of affordable housing, or—though mainly now an urban phenomenon—access to farmland and security to work it.

The underlying concept and principles have evolved in part from the experience of pioneering alternative landholding initiatives and were strongly influenced by thinkers such as Henry George, Ralph Borsodi and EF Schumacher. The Fairhope land trust was an early example (1894 in fact—the year *Land&Liberty* was launched—*Ed.*) inspired by George's thinking. The first modern CLT was established on an experimental basis in Albany, Georgia in 1967.

In later years the defining features of community land trusts have become enshrined in legislation in countries across the world—both developing nations and Western countries such as the US, the UK and Australia. The battles in the UK between the political parties over who has the best CLT policy are of great interest. Most of the models currently on the table are too primitive. Some land reformers are enthused by land trust proposals where yearly land rents are paid to a trust, with the aim of expanding an affordable housing base.

A subtlety must be introduced to the typical CLT model that bases its affordability on a 'resale' formula. A yearly land rent payment must be the mainstay to any land trust system. This would remove the need to borrow the seventy to eighty percent of typical mortgage cost (in Australia) associated with a property's land component. Those land trusts based on resale formulas presently include the land component, thus incurring higher borrowing costs. When compared to a typical mortgagee, a CLT with land rent payments has overall savings of 47.4% (over the average seven-year period of home ownership). The trust can be in the black within five years under this model that encourages land to be used for housing, rather than hoarding. The trick is in the timing of the land value shake out.

Could the CLT model return the heart of the land to the citizens?

If a number of such CLT's were up and running with profitable bank balances, this could in effect provide the evidence for an expansion of this policy to the wider market. With this hope in mind, the Canberra Land Rent initiative is a new government proposal that Prosper Australia is assisting. The dangers exposed by the Fairhope community—where the grandchildren of the founders watered down land rental payments so they could capitalise the land rents—must be avoided through a tough constitution. International bodies, at arms length from local politics, could be utilised to vote on any change to a CLT's constitution.

Other policy angles could be to focus on smaller countries that have recently experienced an enclosure of their commons, such as some Pacific nations. When my partner and I recently visited Vanuatu, on a Prosper Australia fact-finding mission, we discovered a depth of knowledge by the local ni-Van (indigenous) people about the dangers of fencing off exclusive locations for private profit. Many readers will be aware that indigenous cultures are usually associated with a deeper understanding of the importance of land. We must make the most of speaking the 'same language'.

My experience finds many sympathetic people, but the overwhelming enormity of a fundamental reform daunts many. The CLT development is beautifully poised with the price of land plummeting in so many Northern countries. A successful national reform in a place like Vanuatu, or another of the Pacific countries enduring enclosures right now, could provide the strategic evidence for reform that other countries are looking for. L&L

(On pages 18-19 Karl Fitzgerald places the CLT model into a more strategic perspective.)

Photo © iStockPhoto/Spiffyj

Illicit encounters

cont. from back cover

"Someone who's put ten or fifteen years into a relationship—they've tried counselling, everything, they're going to want to just walk away from it"—and that, otherwise, would be the end of it, says Freeman-Jones: "That's where we come in: that's what we're genuinely intended for".

"The financial crisis has had a huge impact on Illicit Encounters", Freeman-Jones told L&L: "It's unprecedented, and to be perfectly honest, unexpected. We're not free—but it's interesting what people decide to spend their money on when things gets tight. Then for a lot of people—and this is the other thing—when any market gets difficult, they do try and look for escapism, in its various forms. I do think Illicit Encounters is one of those forms: people choose to join us because it's exciting or exotic: they don't want to have to deal with the problems they're having at home; and they don't want to have to deal with finding a new house and possibly moving out into somewhere smaller."

Thus the moral dilemma of perhaps millions of us—courtesy of bad public policy. L&L

Research?

Within organisations many or all of whose members favour land value taxation I encounter sceptics, pragmatists and fundamentalists; and waverers in-between.

Pragmatists generally accept the concept of a welfare state seeing LVT as a means of facilitating access to land, reducing under-use and dereliction, and generally enhancing economic justice and reducing economic injustice. Examples of implementation and the beneficial effects of LVT may be found in the United States, Australia and Denmark. Replacing the Uniform Business Rate in the United Kingdom (46% of rental values of property used for business purposes, with some alleviations) by LVT on such land is now Liberal Democrat Party policy.

Fundamentalists, many 'single-taxers', favour LVT being the only source of public revenue and dismantling much or all of the welfare state.

For there to be a prospect of serious progress with LVT in the United Kingdom—pragmatic and/or fundamental—there need to be plans for implementation by Government backed by credible economic research. Such research could be funded, in whole or in part, from legacies received recently by the Henry George Foundation.

Replacing locally determined business rates by UBR in the 1980s resulted in a significant shift of tax burden, from poorer local authority areas where rates had tended to be higher, to richer areas where rates had tended to be lower.

Replacing UBR by LVT on land where UBR is payable, on a revenue neutral basis, would similarly reduce property-based tax on lower valued land (to nil on the margin) with compensating increases on higher valued land.

John Pincham
Stoke D'Abernon, England

Taxation bad energy

Certain ideas have arisen in the Georgist movement over the last twenty years that cannot continue to be hidden from debate. We must in the end ask whether they are really Georgist at all.

In his review of *Hell and High Water* (L&L winter 2008/9) Fred Harrison agrees with the case for "shifting the base of taxation away from people's labour and profit and on to energy..."

Such a view should trouble a Georgist. This is because it is denied by Henry George. He denies that any element or force of nature is subject to taxation. (See for example *A Perplexed Philosopher*, book I, chapter V). He argues that the value of land itself comes from the labour of production.

Thus, if George is right, a tax on energy is in fact a tax on labour. It is then wrong to say that a tax on energy shifts taxation away from labour. It shifts taxes onto labour.

Mr Harrison put this same view in Ronald Banks' *Costing the Earth* (1989). Each resource is to be valued and its users forced to act responsibly "by paying for the privilege of using it" (p. 3). But Henry George's fundamental principle is "The right of each to the use of land, is still a direct, original right which he holds of himself, and not by the gift or consent of the others" (*APP*, p. 28).

Richard Giles
Ulladulla, New South Wales

In a separate communication to L&L, Mr Giles further disputes the assertions and conclusions of Dr Hudson in his recent writing in this publication. L&L is grateful for the engagement shown by the parties: however it is appropriate that any correspondence on this matter is now conducted privately between the individuals concerned.

Danger and opportunity

You ask what readers think of the proposition that Henry George was his—or our—own worst enemy (L&L winter 2008/9).

There's something we need to know before we can answer the question. On what platform or with what manifesto did George run for Mayor of New York? I've been trying to find that out. What can the historians among L&L's readers tell us about that? It's my impression, however, that he did not stress—and perhaps did not even mention—land reform in his campaign. Rather, he attacked municipal corruption and (apparently) advocated more use of the city's parks as a way of achieving what would now be called a better work-life balance. Pretty anodyne, really.

How I hope that I'm wrong! How I hope that someone out there will set me straight! Though the answer might be in the early files of L&L itself, which after all began publication in 1894, three years before Henry George died.

In any case, however, the question of how George presented himself and his programme to the electorate is, I think, of great importance—especially now, when we are living through an economic crisis that may induce people to take our ideas more seriously. Having checked with my colleagues at the School of Oriental and African Studies at London University, I can add that the Chinese term for "crisis" actually does (more or less) comprise two parts: one meaning 'danger'; the other, 'opportunity'.

Robert Ilson
London, England

Handsome and meaty

Thank you for keeping up production of L&L. It has been a wonderful source and support to me for—shall I say it?—more than fifty years. I have just received issue 1223 and it is handsome and meaty.

Mary Rawson
Vancouver, British Columbia

We welcome reader's letters. Letters may be edited for space or clarity. If you do not wish your letter to be published please clearly mark it "not for publication". Send letters to the address opposite the contents page or email them to letters@LandandLiberty.net

DIARY

5th–9th August 2009, Cleveland, Ohio
29th Conference of the CGO
WWW.PROGRESS.ORG/CGO

15th–16th October 2009, Poland
UN-HABITAT Regional Conference
The conference will focus on innovative tools for land and property taxation
WWW.GLTN.NET/EN/WARSAW-2009.HTML

21st October 2009, Copenhagen
Danish Justice Party 90th birthday
WWW.RETSFORBUNDET.DK

26th–30th April 2010, London
26th IU International Conference—the African Future
WWW.THEIU.ORG

Tues, Wed, Thurs eve, Sat am, London
course **Economics with Justice**
WWW.SCHOOLECONOMICSCIENCE.ORG

Fridays 2.30pm–4.30pm, London *(all welcome)*
HGF Library Group meetings and lunch
11 Mandeville Place (lunch 1pm at Pizza Express)
WWW.HENRYGEORGEFOUNDATION.ORG

The cat out of the bag

The Secret Life of Real Estate
by Phillip J Anderson
Shepheard-Walwyn, 2008, 464pp
h/c, ISBN 978-0-85683-263-5, £26.95

Every eighteen years we have a real estate price boom and slump. The current depression will hit bottom around 2010. Why is the cycle 18 years and why are there these rises and falls in property prices?

Phillip Anderson looks at Fred Harrison's book, *Boom Bust: House Prices, Banking and the Depression of 2010*, for some of the answers. Cheap land and low interest rates encourage businesses to expand production and people to buy houses. Demand for land and property pushes up prices which rise until they become unsustainable. Buyers think that house prices will go on rising, and as long as they believe this and their borrowing remains within their ability to repay, they do. When prices get beyond their ability to repay, and particularly beyond that of first-time buyers to get a foot on the property ladder, then the market will decline. If property prices get beyond their capacity to get an adequate rental return the same thing happens.

Why eighteen years? There are complex reasons which Phillip Anderson examines in detail.

> **"Yet, the 'secret life' of real estate is not really so secret. What's secret is why this *open* secret is *closed* to our most prominent macro-economists. Ada Louise Huxtable said "the institutions that teach US elites to think about the modern world are unconcerned with teaching them to look at it".**
>
> **Prof. Mason Gaffney**

Clearly if land is not owned by anyone there can be no booms or busts. He points out that land in Canberra, Australia's pleasant and spacious capital city, is not bought or sold: instead citizens pay the economic rent to the commonwealth for it. This is land value taxation. The rent is about five percent of its unimproved value and is reassessed every ten years. There is no way to capitalise the rent into soaring property prices, because the value of the site is zero. All that is needed to end the cycle of boom bust is to introduce land-value taxation for every piece of land and this will have the same effect as it has had in Canberra.

Read this book and learn about Phillip Anderson's 'real estate clock'. This plots the progress of the cycle, tells you where we are now, and where we're going.

Geoffrey Lee

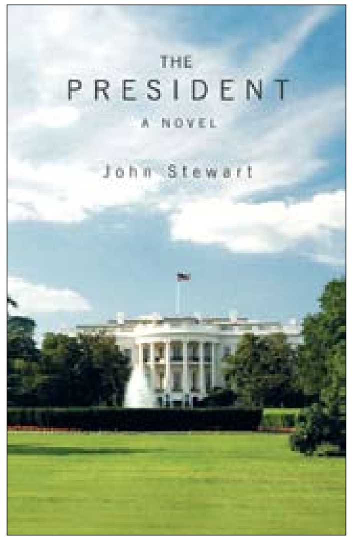
21st century leader?

The President: A Novel
by John Stewart
Shepheard-Walwyn, 2008, 188pp
p/b, ISBN: 978-0856832611, £7.95

The story follows a fictional US President who, after a Damascene moment, uniquely follows through with real action on his discovery of what is at the root of injustice: the unrequited obligation from location value.

Under the pressures of re-election, he refuses to give in to special interests and employs advisers from all walks, including those who you would expect to block reform due to perceived loss of power and wealth. Importantly, for anyone who feels they would lose by rent for revenue reform, it's written credibly to show that they too can be winners—and through more than material success.

The story line is evocative in that it asks questions more than it provides solutions. What is location value? Who creates it? Who does it belong to? The approach is excellent because it asks people to think hard about what is really going to produce the



US readers can read *The President* on their Kindle. The book is available from Amazon.com for the Kindle price of $9.56 including wireless delivery via Amazon Whispernet.

most wealth for all. Given how we are dealing with the current crisis, surely this is an approach to be heeded.

The message is clear for the already informed. For the rest of us, greater benefit might have been had by repeating the message more often, emphasising links to current fiscal policy failures.

Many short chapters made it easy to read. I trust a copy has been sent to the White House.

Robin Smith

John Stewart's recent fictional work elicits strongly contrasting responses from readers. Reviewing The President *on* AMAZON.CO.UK*, Steve Bond declares the book "breathtakingly bad…I was half way down the first page of the first chapter when it struck me that something was wrong.... John Stewart is a terrible, terrible writer. His characters speak unlike anyone in real life—not in a good way, not in a 'pushing the boundaries of dialogue' way, just in a 'I can't write dialogue' way."*

Such aesthetic critical responses, in themselves, might be disregarded, given the book's educative intention. However Bond isn't finished in his criticism. He continues: "…All this makes the book pretty much unreadable, but don't worry, you're not missing much in the way of plot either. The central political idea is that certain plots of land gain enormous value by virtue of the community that surrounds them, and that this value is not earned by the owner of the land but by the community itself.… It does not strike me as a particularly earth-shattering observation, but to the President of this book it's Das Kapital *in one paragraph."*

Hmm. Regarding the communication of his message, Bond says: "John Stewart doesn't want you to miss anything. That must be the reason he spells out everything so didactically, so there's no chance of ambiguity or, God forbid, subtlety."

So we need to ask, is Stewart's book successful because it has brought land value capture ideas to Bond's attention: or is it a failure because it has presented him with the ideas but failed to persuade him of their importance? Then again, is a subjective 'literary quality' itself simply a 'deal-breaker' for would-be readers?

Why not read the book and let L&L *know what you think.*

a quick note ...

Islamic Land Tax: From the Islamic Conquests to the Abbasid Period
by Ghaida Khazna Katbi, h/c $95 / £52.50 (released 27th October 2009)

A comprehensive survey of the institution of *al-kharaj*—the Islamic land tax—"providing a comprehensive and minutely detailed history of a practice which evolved from an exigency of conquest into an essential pillar of the early Islamic state."

Unlocking Land Values to Finance Urban Infrastructure (Trends and Policy Options)
by George E Peterson, p/b £18.95

Asking—"why is it so difficult to finance urban infrastructure investment, when land values typically increase by more than the cost of investment?"—this practical guide "is designed to help expand the role of land-based financing in urban capital budgets".

The Silver Bullet NEW EDITION
by Fred Harrison, 2nd ed, p/b £10

The IU's first monograph in its global crisis series—looking at poverty—goes to a second edition. The book is receiving plaudits far and wide. Award winning actress and campaigner Vanessa Redgrave has said: "I admire Stiglitz, and now I admire Fred Harrison too. My promise—you will be glad you have read this book".

The Duke
by Lincoln City, ANYOLDFUN.COM

Alan Reid's *Tax the Land* song has been 'reimagined' and recorded as *The Duke* by folk-esque rock band Lincoln City. We're told the song will be available for download on iTunes later in the summer.

The Silver Bullet DVD
by the IU, £6

The IU's new two-part documentary film gets to the truth about poverty and human rights. With an introduction by Fernando Scornik Gerstein, the 23 minute film sees Fred Harrison travelling through southern Africa to understand why the good political intention, aid money and rhetoric are failing to make poverty history.

An Exposition Of The Land Tax: Its Assessment And Collection (1870) by Mark A. Bourdin
h/c £25.95, p/b £15.95 / $20.95

Property Rights and Natural Resources by Richard Barnes
h/c £60 / $110

Considerations Upon a Reduction of the Land-Tax
by Robert Nugent Nugent
h/c £23.99, p/b £16.99 / $13.99

lars rindsig's view from the right

It is a truth universally acknowledged, that a single man in search of a good fortune was responsible for the destruction of British railway culture. That man was Dr Beeching, who axed some six thousand miles of track and two thousand stations, on railway routes that were inefficient, costly, underused and did not make a profit—yet were each important in the lives of the people who travelled on them.

The Government at the time could simply have butted out; deregulated and privatised, letting entrepreneurs once again run lines for profit, and communities run lines for their community, *Titfield Thunderbolt* style. But they didn't learn from history and instead bought into the Soviet style of running a business.

While the UK's railways were semi-privatised in the eighties they had little to show for Beeching's attentions—and with the current economic crisis, nationalisation of railways is now back in vogue: the Government is to put its cold, clammy hands on the National Express Inverness-King's Cross service on the East Coast Main Line.

Why is the UK's rail service in such a sorry state today? Great Britain had pioneered the new railway technology in the 19th Century, and by Edwardian times the entire island was covered by a fine-masked net of large and small lines, connecting the capital with the remotest hamlet. This development had not been centrally managed—it grew organically: entrepreneurs saw that there was money to be made by satisfying a demand for transportation of goods and people. Since competition was fierce, in order that business wasn't lost, comfort was increased and transport times minimised. Times, profits and services were good.

But the government introduced restrictions on how the railways priced their services, directed where they run their lines, and generally made their life difficult. The result was dwindling market shares to the railways.

Then rolled round 1947. And with it came draconian regulations and all sorts of nationalisations, left, right and centre: from the Bank of England, to mines, to railways. Showing a complete lack of business savvy, Mr Atlee invested a staggering billion pounds (in 1948 money) into turning a host of individual, nimble companies into a gigantic, inefficient mess. Bad investments in poor quality rolling stock and the lack of an ability to adapt to changing demands by customers meant that by the time Dr Beeching appeared on the stage, British Rail was £112bn in the red, making Beeching's £24,000 otherwise eye-popping annual salary a mere tear in the sea.

Today, as in 1947, instead of nationalisations there is one move the government could make for a positive impact on rail transport in the UK. One move would allow enterprise to flourish while at the same time making money for the public purse: copying the Danish railway levies that were introduced in 1908 when Denmark's railway network was rapidly expanding. Under this legislation owners of land paid an annual tax that was directly proportional to the increase in the value of their land caused by the new railways.

This sort of scheme would allow transport of goods and people to remain on rails rather than shift to asphalt, to the benefit of the environment and of everybody who's ever been stuck in a motorway queue during rush hour. If the state could shy away from interfering with the running of the railroads, tomorrow we might even have trains running on time.

Illicit encounters

Moral dilemma linked to bad fiscal policy

HOUSE PRICE boom-bust caused by bad taxation policy is directly linked to sexual affairs that can result in family breakup and divorce, according to the experience of one on-line business. ILLICITENCOUNTERS.COM, the UK's largest extra-marital dating site, believes there is a direct connection between house prices and the number of men and women seeking affairs.

Illicit Encounters aims "to create a safe and non-judgmental environment, where married men and women can meet each other." In the six years since it was set up, the dating site with a difference has seen a steady take-up of its services. But by far the biggest membership jump, it says, has been in the last twelve months—from 180,000, up to 310,000 profiles. The company puts it down to the financial crisis and housing crash. The question for the academics will be whether the phenomenon is linked indeed to house price blues, or instead perhaps to some other aspect of the global economic malaise—like debt difficulty, investments fears, or job loss.

Ro Freeman-Jones, spokeswoman for Illicit Encounters talked exclusively to **L&L** about the site's experience. She said that recently they've had an influx of people registering on their site who specifically say that they're not divorced and not married but are still living together. She thinks that's odd.

"What this suggests to me is that there are quite a lot of people who, in previous circumstances, may have just decided to break up with their long-term partner, and go and find somewhere else to live on their own", says Freeman-Jones—"but, in the current financial situation that most people are living in, they can't afford to do that. So they're forced to look for new alternatives."

"WARNING Not everyone is suited to having an affair. They are not an alternative to working on or ending a marriage. Not all affairs have a positive effect on a marriage—some can be very damaging. Always consider other people and if you are going to have an affair, please select your partner wisely." **Illicit Encounters**

Worries over an uncertain housing market may be conditioning people to stay-put, and not up-sticks and leave.

"The current housing situation means that a lot of these people previously might have found it easier to find a flat somewhere, and now can't. They're in a very cushy financial situation with their partner, where their rent's cheaper because they're living together—and the prospect of moving out is something they wouldn't dare think about at the moment."

Instead of calling time on failing relationships, it seems people are propping up the facade of them, and then going out and having affairs. "I do think people tend towards services like ours if they find it particularly difficult to get out of relationships", says Freeman-Jones. She stresses that this is not what Illicit Encounters is built for: it's not a website for people aiming to break up their marriages.

cont. inside on p.20

Photo © iStockPhoto/Katya Monakhova

Playing house, or playing FTSE?
What aspect of the economic malaise is to blame?

24 >
9 770023 757007
GBP 2.50 / EUR 3 / DKK 25
USD 5 / CAD 5 / AUD 5.50

NEXT ISSUE

out september 2009

virtual treasure trove
fishing for Africa's resources
in for a euro, in for a pound
economics of Piccadilly Circus
the Russian oligarchs

L&L 1224 published 26/07/09