A letter from Ireland

IRELAND is the land of talk and talkers. Recently they've even been talking about the land.

The situation arose when the current power-holders (a coalition of conservatives and labourites!) came out with a three-year national plan with the unusual title of "Building on Reality" – unusual in the sense that there was little building and even less reality!

But in this plan was a call for a land tax. For weeks previous, the talkative Irish had been on about such a tax. They had even mentioned the benefits of such a tax, to wit:

● It would yield more revenue (taxes on land were a mere 3.3% of national revenue as compared to over 11% five years before);

● It would increase production (Ireland, according to its foremost but oft-ignored agricultural expert, Raymond Crotty, has by far the world's lowest production per value of acre – the next lowest, India's, being twice Ireland's); and

● Such a tax would be much easier to collect than the income tax.

Income tax for the self-employed in Ireland is a joke. Even the government admits it is years behind in sending out assessment notices and it never brings defaulters to court, not even in the case of those who fail to remit income tax collected from employees or VAT duties collected from the public!

Income tax is taken from the employee before he sees it at the rate of over 45% on a single person's first U.S.$13,000, and 67% on the remainder.

In the U.K., one-tenth of the wage earners pay more than the standard rate of 30%. In Ireland over four-tenths do – and the standard rate is actually 44½%!

But the talk of a land tax turned out to be just that – talk. Despite the fine quip of one of the labour ministers, a Mr. Quinn, who said: "When Mr. Rae (the farmer's leader) talks of taking money from the farmers he calls that socialism; when the government gives money to the farmers he calls that free enterprise!"

THE 'LAND TAX' turned out to be as much of a joke as the self employed's income tax.

First, it was set at the princely annual sum of U.S.$10 per 'adjusted' (a term yet to be defined) acre.

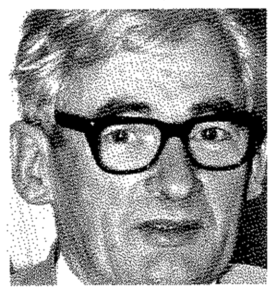
Second, it would not come into

● Gary Nixon

it would take them at least that time to value the land – apparently no one had suggested letting the farmer put a value on his own land).

Thirdly, those with less than 80 adjusted acres were to be exempt from income tax and those with more than 80 acres were to have the tax deducted from their income tax. No one suggested that the PAYE worker should have his income tax reduced by the amount he paid in VAT, however.

Fourthly, the tax would yield less than double the amount now collected from farmers and somewhat less than the old agricultural rates, which the Irish Supreme Court had last year conveniently ruled unconstitutional.



● Raymond Crotty

Fifthly, no mention was made of a tax on residental or urban land. Two years ago the *Irish Times* ran a series of articles on the millions of pounds made by landowners when re-zoning occurred in Dublin. Far from anything being done about this – such as the government taking a share – the law is now interpreted so that the government has to pay damages if it dares to interfere with the developers' plans! (Residential rates, by the by, were abolished in 1977 as a result of the present opposition party's buying its way back into power.)

Sixthly, there was nary a mention of taxing what was *in* the land.

● The mining companies, as well as the farmers, are net recipients of government monies.

● The timber companies are allowed to cut the country's trees pence per tree, so that Ireland, where trees can grow twice as fast as in Canada or Scandinavia, gets virtually nothing in the way of public revenue for its forests.

● The fishing companies pay nothing for their take – the only public outcry is about fishermen from other nations.

● The natural gas from the south coast is sold far below market rates to the State Electricity Board to be converted at a waste factor of 60% to electricity or sold below market cost to a State fertilizer company, thereby putting two viable private companies out of business, or sold again below market price to a private Dublin gas company (over which a minister of the usually pliant Labour persuasion actually resigned in protest; the resignation was noted and the deal went ahead).

● The recently-discovered oil off the south west coast is being held up until the oil companies can make a favourable deal with the government – a deal that must be close to reality, judging by the millions made on Irish Oil stocks over the past few weeks.

THE TALK of the land has now died down and the garrulous Irish have turned to other matters. There was talk of the price of cars coming down at the end of the ten year exemption in 1985. They are currently double Belgium's prices. However, apparently there is to be a special 'tax' to replace the tariff, to keep them double the price of Belgium's cars. And there's great talk of stopping the illegal importers who shop in Northern Ireland (so much for pan-Irish aspirations!) due to the Irish money managers keeping the punt too high.

But all this is beyond the ken of this poor North American who thought that all of western Europe was a free trade zone. Maybe one day there'll be talk of renaming it the 'Uncommon Market'.

And, of course, there's talk of the all-pervasive privilege of the banks, the businesses, the trades unions as well as of the amount of government borrowing – Ireland has the highest *per capita* foreign borrowing in the world and they are now borrowing to pay the interest on the debt, but sure enough, now, that'll be the subject of another letter from Erin.

Gary Nixon

NORTH SEA OIL
A taxation survey Pp5-9

LAND and LIBERTY

JANUARY-FEBRUARY 1985 UK 80p; USA $1.50

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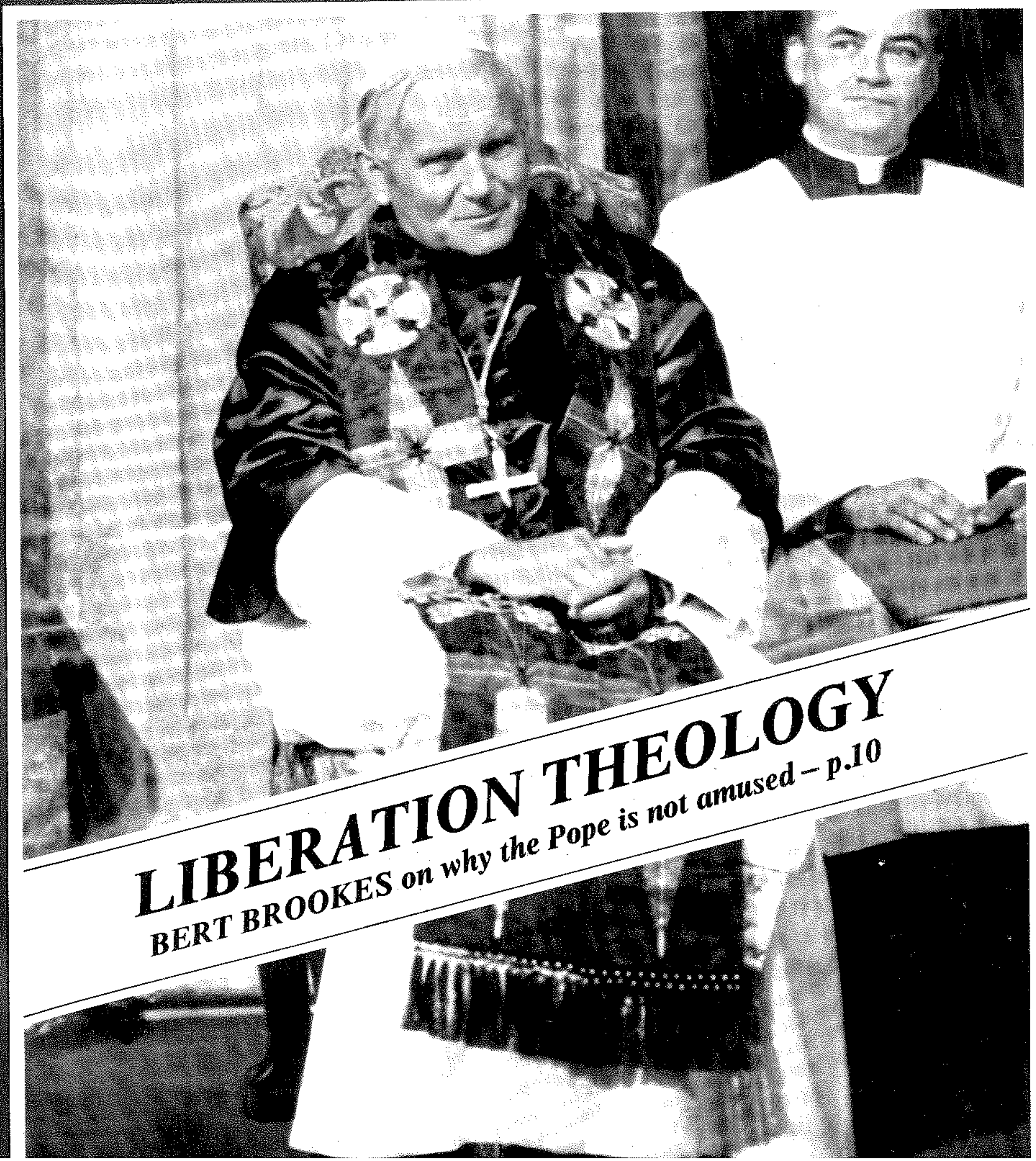

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Oil price rig – it's a perversity

STABILITY is the crafty catch-word among the "experts" who oppose cuts in oil prices.

Price fluctuations are generally held to be bad – even for consumers!

In non-communist countries, which claim to base international trade on free market principles, the last thing that most economists or commentators want is a downward slide in oil prices.

Why? We think the answers lie in perverse economics and political expediencies.

Norway triggered the last round of anxieties when it trimmed a fraction off the price of its North Sea oil.

Britain followed suit, and the Organisation of Petroleum Exporting Countries was forced into an emergency meeting to defend its rigged prices.

OPEC managed to keep the price of crude oil at $29 a barrel, and the world appeared to sigh with relief. Why?

It costs about $1 to extract a barrel of oil in the Middle East. Which means that the producers are reaping oil rents at around $28 a barrel. That revenue is pure surplus over and above the costs of production.

A marked cut in the rate at which oil rent was extracted from consumers would produce profound benefits for doldrum-struck economies.

These are some of the benefits of lower prices:

- Petroleum would be conserved, as high-cost wells were shut down (the free market price of oil is thought to be between $3 and $11 a barrel – below the production costs of many North Sea fields.
- Cheaper energy would reduce industrial costs, and lead to more jobs.
- Oil producing nations that have enjoyed a high old time on oil rent since 1973 would have to think about creating competitive manufacturing and agricultural sectors.
- Third World countries would be less dependent upon "recycled" petro-dollars: instead of sinking further into debt, they could divert more of their national incomes directly into development programmes.

These arguments do not seem to carry weight with politicians who fear a "collapse" in oil prices. And they point out that, if prices on the Amsterdam spot market really undermined the cartel's price, the other producers (including Norway) would throw their weight behind OPEC.

MEXICO, it is pointed out, would suffer if its oil rent was cut back sharply. But why should the world's unemployed masses pay the price of the imprudent borrowing and spending policies in Mexico?

BRITAIN would certainly suffer: North Sea oil rent has helped to protect the value of sterling. But why should four million unemployed people suffer for the sake of a monetary virility symbol?

NIGERIA is already suffering: so incompetent have many of her leaders been that, despite the fortune that has flown into that country, the small cuts in oil prices have caused chaos. Why should the poor peasants care if the scope for corruption is pruned back?

Spot sales of petroleum now account for around 40% of non-communist oil trade, while OPEC's share stands at around 30% of world sales.

This suggests that the market is substantially de-controlled.

The reality, alas, is that the minds of the world's policy-makers have not been de-controlled. And their collective wishes – expressed through both official and unofficial channels – are powerful enough to resist the logic of the marketplace.

FRED HARRISON reviews –

A tax issue economists can no longer side-step

THE ANNUAL rent of land and natural resources in the U.S. was 28% of national income in 1981.

This was enough to replace all taxes on labour and capital, apart from user charges, according to Professor Steven Cord.

His calculations were presented at a conference in Cambridge, England, at which he revealed that the States could realistically switch to a fiscal system based on the Single Tax.[1]

This tax would fall on the unimproved value of land. But U.S. government statistics do not declare the revenue that would be raised by such a tax.

So Prof. Cord, who teaches history at Indiana University of Pennsylvania, undertook a detailed analysis of his own.

Starting with U.S. Census Bureau data,[2] he concluded that the annual rental income was $721bn.

Federal Reserve Board data,[3] however, suggested a lower figure of $590bn.

Prof. Cord decided to settle for a working figure of $658bn, which (because of his conservative assumptions) actually understates the true revenue that could be derived from land values.

GOVERNMENT revenue in 1981 totalled $1,075bn, which included $46bn in revenue from land values and from leases and royalties on minerals.

So the tax on employees and the owners of capital was $1,029bn.

The scope for reducing this burden, if the tax system were reformed, is enormous. The macro-economic benefits of such a reform are significant. As Prof. Cord states, referring to the billions that are not tapped by the government for the benefit of the community:

"If an amount of this dimension is misappropriated, both morally and economically, then it cannot be a matter of small moment and the land value tax can have a major impact on such economy-wide problems as inflation, recession, unemployment

The professor was forced to make some arbitrary assumptions, to enable him to arrive at a figure for land rent.

- Official figures under-assess the value of land: so Prof. Cord had to face the technical question of the degree to which these assessments mis-stated current market values.
- Deductions had to be made from his calculated rent. For current values are *above* what they would be in a competitive land market (and the full collection of rental income would reduce rents to market-clearing levels).
- There was also the problem of how to apportion existing taxes among the three factors of production – land, labour and capital – which would occur if the land value tax was treated as a substitute for other forms of taxation.

● Prof. Steven Cord

PROFESSOR Cord's calculations may be open to criticism. For example, reservations have been expressed about the rate of interest that he used (14%) to translate capital values (selling prices) into annual values (rents).

Even so, his exercise is an immensely valuable one. It challenges economists to begin econometric studies of their own, both to test Cord's conclusions and evaluate the dynamic impact on an industrial economy of a reformed tax system.

We need answers to some vital questions.

HOW would levels of investment be affected, if entrepreneurs could retain a larger proportion of their profits for reinvestment?

HOW would foreign trade be affected if total consumption of household goods was increased because less was wasted on conspicuous spending by the rentier class?

HOW would the labour market be affected, if it became easier for people to start up their own businesses in properties that were cheaper to rent?

These are some of the tough questions which economists have been able to side-step, because they have lacked the raw data on which to derive answers.

Instead, they spend most of their time decrying the distortions that are generated by existing taxes.

It is about time they focused on the good news: the *benefits* that would be derived from a switch to land value taxation.

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U.S. land rent, 1981

	$ billions
Census Bureau estimate	379
Census Bureau under-assessment	76
Local property tax	25
Federal offshore revenue	10
Tax-exempt land	91
Federal government land	55
Mineral land	85
	721

An American myth: liberty and justice for all . . .

By JOHN M. KELLY

● *The author served on Governor Shapp's Tax Study Committee. He is an estate agent in Scranton, one of the six Pennsylvania cities that levies a higher tax on land values than on the capital improvements.*

HOW MANY countless times have we been inspired by the imagery of the Pledge of Allegiance to the Flag? ". . . With liberty and justice for all" summons forth all the very best impressions of our history, culture and tradition. These few words encapsulate the essense of America. But what is the reality of justice here and now in Scranton on a very broad-based issue: local taxation?

Let us start with a little fable. Imagine, if you will, three co-workers – Tom, Dick and Harry. Doing similar jobs, they receive similar wages: $20,000 per year.

In Scranton, the city and school district wage taxes are $3\frac{1}{2}$ per cent and Tom, Dick and Harry each pay $700 to that tax. Nothing unequal about that. But would our sense of justice be offended if Tom paid $700, Dick paid $350 and Harry paid $1,050?

In combination their tax contribution would be the same: $2,100; so it really shouldn't matter to the taxing bodies. Yet, one can't help but feel that there would be a great political outcry over such blatant injustice and that is precisely why this bit of whimsy is a fable.

Let us now turn to the real world of local property taxes and the underlying property assessment values which, in concert with the tax millages, determine the amount of tax to be paid on each individual property.

Our new friends, Tom, Dick and Harry, each own homes of similar value; yet the possibility that they pay even roughly equivalent property taxes is quite remote.

That Tom may pay $500 and Dick $1,000 and Harry $1,500 is a very real possibility. This trend promises to get worse with each passing year of inaction on the part of those whose concern should be "liberty and justice of all" through properly determined and properly maintained uniform property assessments.

CONCEPTUALLY the property tax is quite simple. There is constant market activity in real estate. Analyse the sales generated in this market and from them determine the fair market value for all properties. Then tax them according to a standard millage necessary to raise the required municipal revenues.

To ensure fairness, all assessments must be held as close to fair market value as possible. No one really expects that at all times, all properties will be assessed with 100% accuracy, but authorities in the field of appraisal generally agree that a properly hold the margin of error to less than 20%.

Technically the term for this margin-of-error is known as the "coefficient of dispersion," which is a fancy way of saying that the uniformity or variability of the assessment to market value may be expected to be off, plus or minus, a certain per cent.

The smaller the coefficient of dispersion, the greater the uniformity of assessments and the equity of the tax. The larger the coefficient of dispersion, the greater the inaccuracy and the injustice.

In 1979, Gov. Thornburgh appointed the Pennsylvania Tax Commission to review the tax structure in the state and make appropriate recommendations to improve the equity and economic neutrality of the system.

Three years ago, the commission recommended, among other things, that in the counties there be "mandatory reassessment when the coefficient of dispersion in assessment ratio exceeds 20.0."

Sadly, for the citizens of the Commonwealth, neither this recommendation, nor any of the other 12 property tax reform proposals by the commission have been implemented by the governor or the legislature; nor have they signified any intention of bringing about these badly needed reforms.

In the summer of 1982, Dr. A. John Giunta, a professor in the University of Scranton's School of Management, undertook a very comprehensive study of property sales in the City of Scranton.

Dr. Giunta and his student assistants examined documents relating to ing down the list to 1,175 bona-fide, arms-length transactions that occurred over a recent five-year span. They gathered data relating to the actual sales price and the assessment value of the land and the improvement.

Of the 1,175 sales, 123 were for land only, 1,052 were improved properties. Sales prices ranged from $260 to $400,000 with the average being $24,411. Assessments ranged from $105 to $114,205, with the average being $4,689.

In Lackawanna County the claimed assessment to market value ratio is supposed to be 35%. On Dr. Giunta's very substantial sampling, the ratio of assessment to market value ranged from a low of 0.9% to a high of 928%. The median ratio was 18.47%, slightly more than half the alleged level of 35%.

Further analysis of Dr. Giunta's data reveals that the coefficient of dispersion is over 53, a margin of error over $2\frac{1}{2}$ times the maximum of 20 recommended by the Governor's Tax Commission.

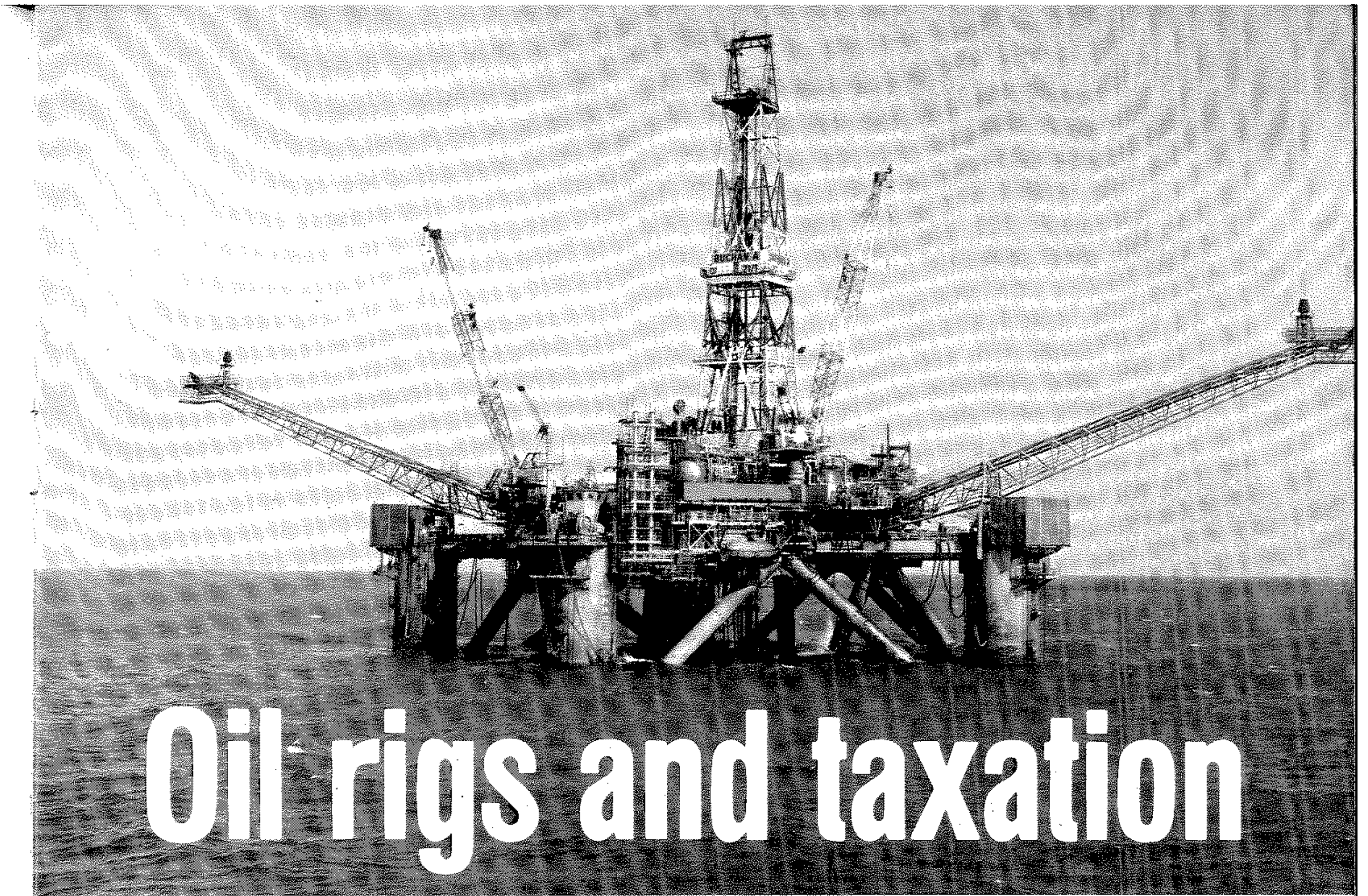
The grevious lack of uniformity is outrageous in this age of aerial mapping, advanced computers and all the other high technology aids at our disposal. Of course all the advanced tools in the world will not correct this injustice so long as we lack the political will to ensure "liberty and justice for all".

Dr. Giunta's study concluded with several important recommendations, the first of which was that countywide reassessment should be undertaken at an early date.

OVER THE years similar suggestions have come from government tax study groups, concerned citizens groups, state and local Chambers of Commerce, the Pennsylvania Economy League, the Commercial Association, downtown business groups and many others.

Newspapers have commented on this unfair system. For example: "There never will be meaningful revival of the downtown without a meaningful reassessment of downtown land values according to current circumstances. To believe otherwise is the height of foolishness." *(Scranton Times,* Dec. 29, 1979.)

An abiding characteristic of candidates and officeholders alike is their outspoken defence of "fair share taxation." They will defend the concept to their last breath, but when it comes to the reality of administering a fair, uniform assessment system, the performance of the last several decades makes it crystal clear that "liberty and justice for all" is but part



Oil rigs and taxation

SOUND principles of taxation policy are vital for the future of North Sea oil extraction.

The first phase of development is almost over: it is probable that all the major oil discoveries have been made on the U.K. continental shelf.

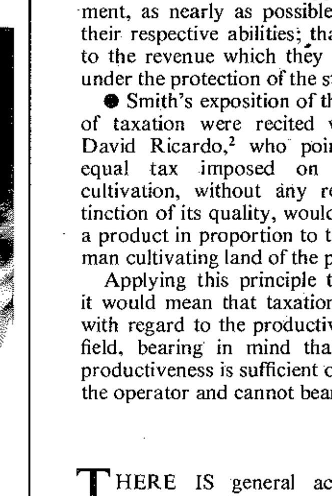
The key to the future will now be the 60 to 90 smaller fields whose development will cost around twice as much as the first phase.

The British government granted the first offshore licences 20 years ago. Since then, £30,000m has been spent in the North Sea. Shell Exploration & Production, as the operator for the Shell-Esso partnership, has accounted for around one-third of this expenditure, and in the last twelve months spent £1,000m on its offshore activities.

1984 has memorable significance as the twentieth anniversary of the year in which, by the Continental Shelf Act, rights in the sea bed were vested in the Crown and thus made the common property of the U.K. From that date the offshore industry has flourished.

Today, there are 24 operating fields, which in 1983 produced nearly 115m tonnes of oil.

By John D. Allen



THERE IS NO landowner, no private ownership in the North Sea. Rights to the sea-bed of the U.K. Continental Shelf are vested in the Crown, as is also property in the petroleum in its natural condition beneath the ocean floor.

For those who wish to appropriate the rent for the public, rather than assign it for private advantage, the legal position offshore could not be bettered. The land belongs to no-one but the Crown, which indeed was the ancient rule before, as Shakespeare put it, this sceptered isle, this earth, this realm, this England, was leased out "like to a tenement or pelting farm". But in the watery realm of Neptune, the Crown retains its ancient rights.

The Crown has a right to the rents arising from oil and gas production in the North Sea. But what is the rent, how can it be measured and how are we going to collect it?

The law of rent applies in the North Sea oilfields, and an understanding of its application helps us towards a more efficient basis of production and taxation. The Government is, of course, presently extracting a great deal of revenue from the North Sea but the system of taxation can hardly be considered a success.

The Institute of Fiscal Studies has observed that not only did the government fail to extract as much revenue as it would have structure the system in a way which penalised marginal fields and inhibited new development.

This is due in part to the fact that modern economics has abandoned the basic guidance on taxation given by the classical economists.

● Adam Smith set out the simple principle contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state."[1]

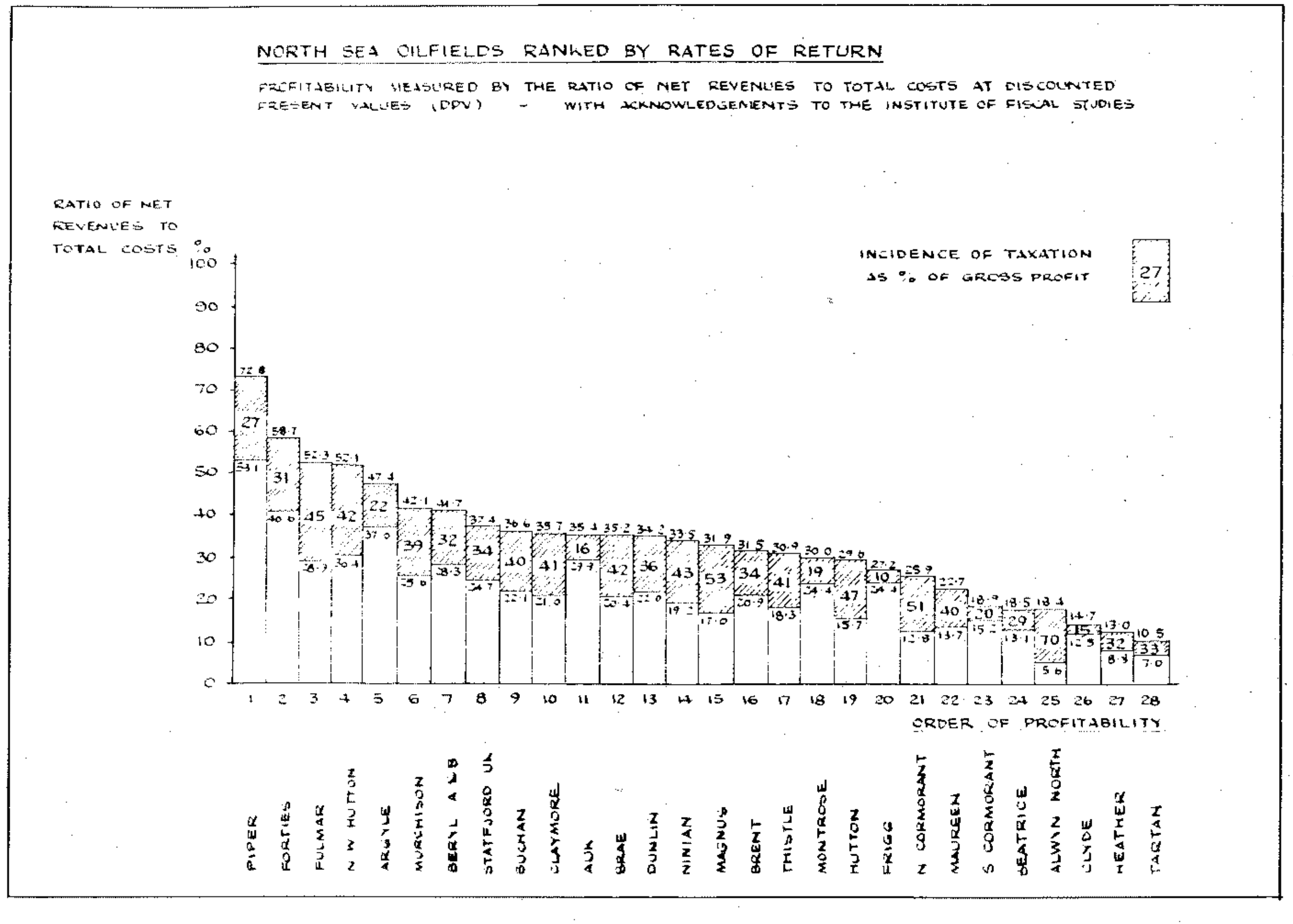
● Smith's exposition of the guiding maxims of taxation were recited with approval by David Ricardo,[2] who pointed out that an equal tax imposed on all land under cultivation, without any regard to the distinction of its quality, would raise the price of a product in proportion to the tax paid by the man cultivating land of the poorest quality.

Applying this principle to the North Sea, it would mean that taxation should be levied with regard to the productiveness of each oil-field, bearing in mind that, at the margin, productiveness is sufficient only to recompense the operator and cannot bear taxation.

THERE IS general acceptance of the principle that the rental values of North Sea oil and gas should be recovered for the nation.

Ministers and economists usually refer to this resource as the "economic rent".

The nation is doing extremely well on the proceeds: around £9,000m was paid into the



total will exceed £11,000m. But the means by which this revenue is raised are unsatisfactory.

Alexander G. Kemp and David Rose of Aberdeen University prefaced their 1982 paper on the reform of petroleum taxation by observing that, although some low cost fields continued to earn handsome post-tax returns, in a series of computerised financial studies the system then obtaining was found to bear harshly on high-cost fields, enough to cause disincentives to development.

They wrote: "Using standard investment criteria employed in the oil industry, the North Sea tax system pushes down post-tax returns on some fields below generally acceptable levels."

The truth of these statements is illustrated by the oilfield economics chart. Kemp and Rose's observation were given prior to the reform measures introduced in the 1983 Budget by the Chancellor of the day, Sir Geoffrey Howe, but they are still broadly correct and demonstrate how small has been the effect of the tax changes on fields already in production.

The Institute of Fiscal Studies has noted that there is a consensus that the tax system should be as neutral as possible in its effects on exploration, development and extraction; and that tax revenue should be as stable as possible.

But in fact, the present taxation system offends against every one of the canons of taxation.

This is what the House of Commons Select Committee on Energy said about taxation in the North Sea:

> The structure of the system is now extremely complex and cumbersome. When a field is paying tax at the full marginal rate of 90.28% the share of total liability contributed by taxes based on gross revenues becomes 36%. Taxes based on gross revenues are quite likely to bring distortions as they do not take are placed on the companies. The PRT (petroleum revenue tax) provisions are now extremely complex and produce unwelcome anomalies.
>
> "Thus, an incremental investment can sometimes obtain tax reliefs exceeding 100% of the capital investment while, at a later stage in the life of the field, reliefs are very much less. Ideally, a tax regime should not discriminate in this way. Similarly we find it undesirable and anomalous that the tax take could increase late in the life of a field when its profitability is at a low level because of the reduced output.
>
> "We support the view that a thorough overhaul of the tax system is necessary."[3]

At the time, the United Kingdom Offshore Operators Association described the tax regime as injurious to future investment by depleting cash flows, discouraging exploration and the development of new fields, causing the premature abandonment of existing fields, discouraging development of satellites (within existing fields) and adversely affecting employment onshore.[4]

SOME of the worst features of this regime have now been eliminated. But what remains still bears heavily on production, is complex and cumbersome (and therefore expensive to administer), is by no means certain in its incidence, and does not bear equally upon all oilfields.

Indeed, this unequal incidence is the main complaint about the tax system as it has been reshaped after the protests of 1981 and 1982.

The PRT provisions remain complex and still produce many unwelcome anomalies. Some developments attract royalty and others do not.

The Institute of Fiscal Studies examined the started out from the proposition that the tax system should extract the major proportion of the economic rent being earned. "It is desirable that the extraction of economic rent should be greater than for non-extractive onshore activities," said the IFS, "because in this case companies derive their main benefit from a nationally-owned resource."

Whereas the classical proposition was that rent should be the basis of taxation, the modern view, as expressed by the Institute, is that part of the "economic rent" should be left in the hands of the oil companies if they are to undertake exploration and development.

There is certainly broad agreement that the incidence of taxation on North Sea oilfields should take into account differences in profitability, and this is the underlying principle of PRT. But no one has defined exactly what is meant by the economic rent.

To do this, one has to go back to first principles.

Rent, according to David Ricardo, is the payment made to the landowner for the use of the original and indestructible powers of the soil.[6] From time immemorial, it has been recognised that whoever controls the land (or in this case the sea bed) has the right to demand compensation from the user. That compensation is properly called rent.

Rent is that payment or assessment which Henry George, among others, perceived as the natural basis of taxation. The oil companies extract the wealth from the ground and their operation gives rise not to rent but to profit.

The economic law governing these operations is that at the margin of production no rent is due to the owner or controller of the soil. For at the margin of production, the whole of the revenue left in the hands of the operator after his production costs have been paid will be profit or return on capital; and since that return includes no element of rent, taxation according to Henry George and the classical economists.

THE POWER to extract rent has been vested in the owner of the soil. But the sea-bed from which the oil is extracted is not in private ownership.

How, then, may the rental element be determined and distinguished from the revenues arising from production?

The rewards of enterprise such as return on capital arise from production, from the use of natural resources which generate a product, in this case oil and gas. The producer is fully entitled to this product.

But if the fact of production gives exclusive possession to the producer, he cannot at the same time demand exclusive possession of what he has not produced. He cannot demand – and in fact does not demand – possession of the oilfields. What he demands is possession of the oil once it is produced.

The connecting principle here is the law of rent, which should enable us to reduce a complex and arbitrary scheme of taxation to something simpler, sufficient "to bind together all the discordant phenomena that occur in a whole species of things." In this case royalty, petroleum revenue tax and corporation tax are the discordant phenomena.

The chart (left) illustrates the possible relationship between rental values and gross revenues in the North Sea. One needs first a method of comparing rates of return and I have adopted the one proposed by the Institute of Fiscal Studies.

Since this uses some complex accounting techniques, I have simplified it to a comparison of rates of return, as indicated by the ratio of net revenues to total costs.

For example, the gross rate of return on the Alwyn North field is 18.4%, compared with the net 5.6%. The difference in rates of return is taxation, what the IFS writers called the tax wedge. In the case of Alwyn North, the tax charge is 70% of the gross rate of return, compared with only 27% for the highly profitable Piper Field. Using this kind of computation, one may observe great variations in the incidence of taxation.

One may see, for example, how much taxable capacity is untapped in the more profitable fields and how heavily the marginal fields are penalised. This is not taxation which bears equally upon all. Nor does it bear as lightly as possible on production, except where production is most lucrative.

How then could one set about rectifying this imbalance? The key lies in clearly distinguishing between that part of the product due to the producer and that part due to the Crown.

What is due to the producer will tend towards a common rate of return in line with the law of profits. As the classical economists put it, there cannot be two rates of profit. But the part due to the owner or controller will vary according to the quality of the oilfield. In that case, a key principle of oilfield taxation should be to safeguard the rightful returns to the producer.

This idea of a "safeguard" is already present in the existing structure of North Sea taxation. In the Oil Taxation Act of 1975, provision was made so that petroleum revenue tax should not be levied if profit fell below a certain level (30% of historic capital costs). Later on, however, the application of the safeguarding provisions was limited to one-and-a-half times the period from start of production to payback of capital expenditure. The effect of this has been to remove the protection of the safeguard provision from the declining period of a field's life.

Once the safeguard is in place, so that an adequate return is assured to the operator,

● Turn to p.8

The case for a tax reform

THE UK Offshore Operators Association said in 1978 that to maintain production at or near self-sufficiency until the end of this century, the exploration effort would need to be considerably higher than the current level.

They said: "For near self-sufficiency in the mid-1990s, it is suggested that, over the next decade, some 60-95 exploration wells should be drilled each year on the U.K. Continental Shelf.

"This level of exploration drilling must be accompanied by the appraisal and development effort necessary to provide at that time an additional two million barrels per day from the development of 18-32 new fields.

"This activity on new discoveries would be over and above the continued appraisal and development of discoveries already made and will mean a mammoth effort which, of necessity, will call for the extensive involvement of the international oil industry."

One of the essential elements in realising this ambitious programme would be a stable fiscal environment.

The government of the day, and the one that succeeded it, ignored this plea.

From then on, any stability in the fiscal regime was completely upset by a stream of decisions from the Treasury that shocked the industry. These were the rapid sequence of changes from 1979 to 1981 that knocked the offshore industries sideways.

As the UK Offshore Operators Association was to tell the House of Commons Select Committee on Energy in 1982, the rate of petroleum revenue tax was raised from the 45% rate in 1978, to 60% in 1979 and 70% in 1980. The Finance Act 1981 introduced a supplementary petroleum duty (SPD) and limited the protection given by previous legislation in the declining period of a field's life.

The combined effect of royalty on gross revenues, supplementary petroleum duty, petroleum revenue tax, and corporation tax was – according to UKOOA – to give the Government an average 85.7% share of the profits over the life of existing fields, and increase the marginal tax take on an incremental barrel of oil from 87.3% to 90.3%.

The increased taxes would also cut company cash flows by over one-third. Using a familiar medical analogy, this is equivalent to bleeding the patient, not a remedy for a weak economy. It seems at that time as though the Treasury, heedless of the damaging effects of this taxation, was out to suck the industry dry. Not surprisingly, from that time onward, development work in the North Sea (though not exploration) came to a halt. It has only recently revived due to changes in the tax structure designed to encourage new fields to come into production. These changes have been useful but they still leave many anomalies. The changes were nowhere near radical enough to meet the demands of the classical economists for sound fiscal policy.

THE MAIN taxation on new oilfields will now be in the form of petroleum revenue tax levied on a field-by-field basis, and corporation tax which is chargeable on all profits generated from offshore oil production.

This charge is isolated from onshore operations so that losses incurred onshore cannot be used to offset offshore taxation, the so-called "ring fence".

Because corporation tax (CT) is charged on companies' total operations within the UK Continental Shelf and not on a field-by-field basis, capital expenditure on a new field can be offset against any corporation tax liability for an existing field. Here we have two forms of taxation, PRT and CT, both assessed on a totally different basis. It leads once again to all kinds of difficulties. The decision to abolish royalties after April 1982 created more problems, due to differences of opinion between the operators and the Department of Energy as to whether or not a new field was regarded as an incremental development or defined as a separate operation.

As a general rule, incremental developments within existing fields attract royalty; new fields do not.

For example, recently, Amoco held back on development of the Arbroath field because the Department of Energy insisted it was part of the Montrose field. That being so, Amoco would have lost the royalties relief since Montrose was developed before April 1982. Not only that, the oil allowance on the petroleum revenue tax would be doubled in a new "free-standing" field, an important measure of relief.

This demonstrates the effect of the former tax regime in keeping resources out of use, for the Arbroath field is a small one, holding approximately 40m to 50m barrels of recoverable oil. Under the old regime this was unworkable; under the new one (post-1983 Budget) it might work, provided it could obtain the relief granted in the recent legislation.

PLAINLY the whole tax set-up needs to be regularised and made uniform.

A reformed tax system would take into account the differing capacities of each oilfield, allow operators to recover their capital expenditure, and provide a recognised rate of profit commensurate with the huge risks.

Such a task could be modelled on the petroleum revenue tax as this takes into account differences of profitability.

The revised tax should eliminate all revenues from charge which represent repayment of capital ("payback") and also safeguard a reasonable rate of return throughout the field's life. For when that rate of return falls below acceptable levels, the operators will shut the field down and "leave the bloody stuff in the ground".

This could represent a sizeable reduction in the U.K.'s offshore oil reserves

what will remain is a differential quantity of taxable capacity. This differential capacity is analagous to the rent.

Taking account of differing rates of productiveness is a much fairer basis for taxation. For did not Adam Smith say that, in effect, each operator ought to contribute to Government revenues in proportion to his respective abilities: that is, in proportion to the revenue he enjoys under the protection of the State? The protection of the State is embodied in the licence granted under the Petroleum Production Acts: the taxation acts refer to tax charged in respect of profits won under the authority of a licence, but of course do not distinguish between that part of the revenue due to the operator and that part due to the Exchequer. In other words, they do not distinguish between rent and profit but regard it all as profit.

The principle of current oilfield taxation is rather to establish the revenue received by the operator after meeting his operating costs and then to impose an arbitrary charge on the lot, subject only to the safeguard provisions.

This works after a fashion because the tax charge does have some relationship to profitability. But the incidence of this taxation is uneven, as the chart demonstrates. Taxation of this kind impedes production by bearing heavily at the margin and fails to recover revenue where more revenue could be obtained.

Having established an acceptable rate of return by use of the safeguard principle, the next step would be to extract more revenue from those locations which are earning well in excess of the minimum rate of return. For example, subject to safeguard, the rate of petroleum revenue tax could be raised as high as 90% and the better-placed operators would still have 10% in hand, together with an acceptable rate of return.

THE NATURAL advantages of one field as compared with another are demonstrated, and are measurable, in the higher rate of return.

Oil companies customarily measure the productiveness and profitability of oilfields by the rate of return over the whole life of the field (the so-called IRR, internal rate of return). So it is not difficult to spot those fields where the element of rent in the return is low and those where it is higher. This is one clue as to how taxable capacity might be measured.

"Economic rent" is not a satisfactory concept unless it is well defined and quantifiable. The rent and profit generated by particular oilfields are apt to be confused because, as David Ricardo pointed out, the true rent paid for the use of the original powers of the soil is usually confounded with the interest and profit of capital.

In popular language, the term rent is applied to whatever the tenant pays to the owner of the land. But it is evident that a portion of the money only would be given for the original powers of the soil; the other portion (profit) is attributable to the capital employed. That, together with the labour, is the means of extracting the oil from the sea bed and the profit arises from the value of the oil which is recovered after meeting operating costs.

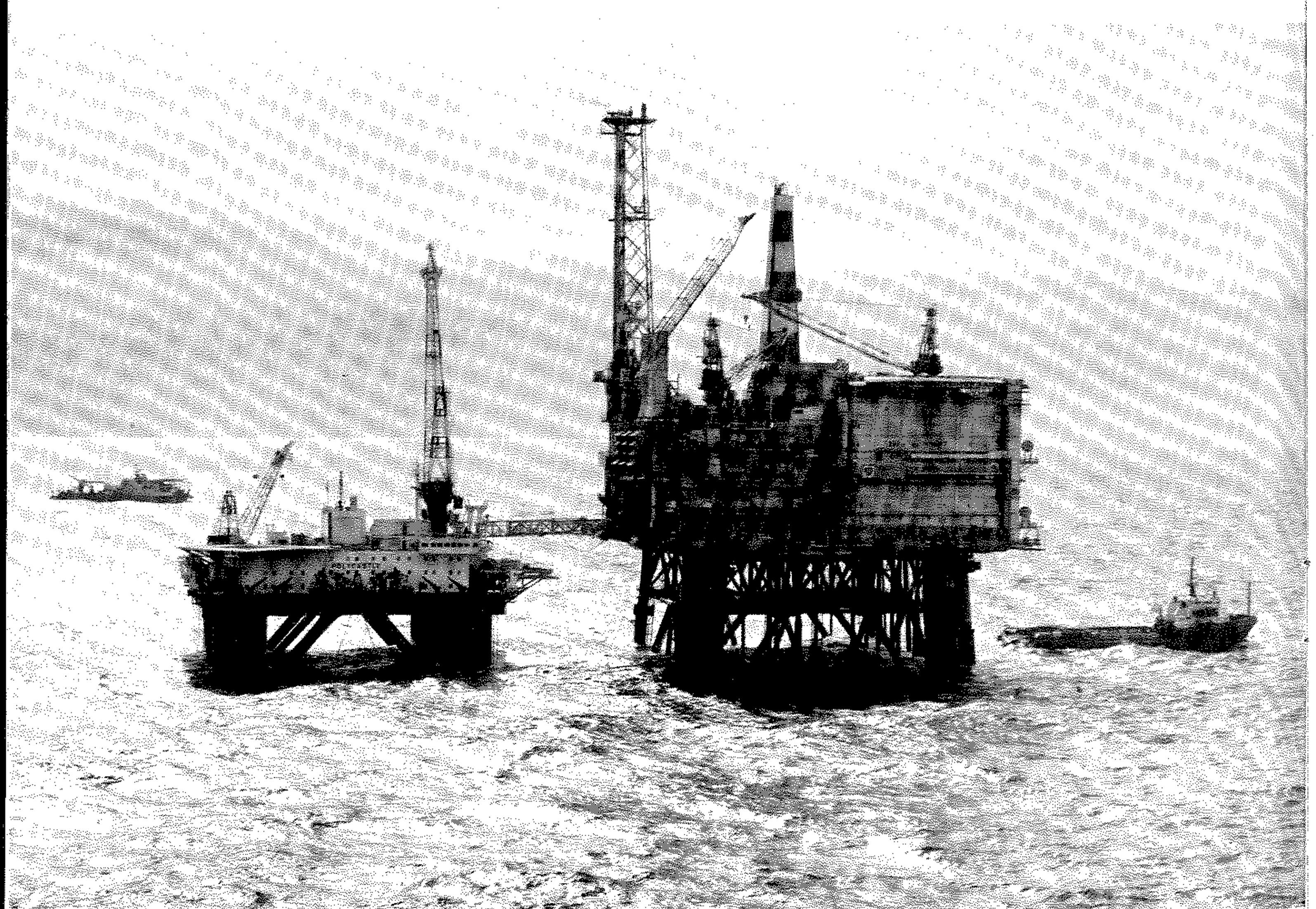
This distinction between rent and profit is, as Ricardo said, one of the greatest importance in economics. In the North Sea, such a distinction is fundamental to the correct perception of taxable capacity.

While citing Ricardo, we can quote his perceptive comments on the rent of mines. "Mines, as well as land, generally pay a rent to their owner; and this rent as well as the rent of land, is the effect, and never the cause, of the high value of their produce." He goes on to say that the return for capital from the poorest mine paying no rent would regulate the rent of all the other more productive mines. This is exactly the principle I am developing to measure the quantity of rent from oilfields.

The Crown derives its power to impose royalties through its right to grant exploration and production licences.

This charge is appropriately named "royalty" for it expresses the interest of the Crown. The name is derived from traditional practice in the minerals industry where royalty is "the payment made to the landowner by the lessee of a mine in return for the privilege of working it" (Oxford English Dictionary, 1839).

The North Sea operators are the licensees of huge blocks of the Continental Shelf. The older definition of royalty demonstrates that this should mean the rent paid for access to mineral deposits.



● A reformed tax would ease the burden on some oilfields and increase it on others

Royalty is fixed when production licences are awarded. Initially, the rate was 12½% on the well-head value of production (i.e. allowing for the cost of treatment and transport), but later this was altered to fall on the landed value. Under the recent Petroleum Royalties (Relief) Act, fields outside the Southern Basin will no longer have to pay royalty in return for a production licence.

Royalty payments are allowable against other North Sea taxes, so whether a field's production is subject to royalties or not has a significant bearing on the incidence of taxation. It tends to make it more uneven between fields which pay royalty and those which do not. The profitable fields are able to carry this charge. For the less profitable, however, royalties can be burdensome, for they must be paid whether the field is profitable or not. Such charges are levied on gross revenues unrelated to profitability, whereas the true royalty should be a charge on net revenues related to profitability.

The whole concept of royalty has thus been turned completely upside down. It is small wonder that the Government has had to lift it from new developments in an effort to get more fields into production. The concept is basically correct but its application is wrong.

IT IS POSSIBLE to see in the royalty concept a completely new approach to the recovery of revenues for the Crown.

Professor Peter Odell put forward the sensible proposition that exploitation of the North Sea should become a joint venture system between the Government and the oil companies, based on the principle of production sharing.

As he argued before the Select Committee: "The State's essential interest will lie in the share of oil and/or gas it retains from the development and the disposal of which could be via a State corporation or on a sale-back basis to the companies involved."

This principle has been successfully applied in Norway, where Statoil, the State oil corporation, may take a participation interest in Norwegian oilfields. The outstanding example is the Statfjord field, where the State has a 50-55% share with the possibility of raising this to 66-75%. In return Statoil takes its due share of responsibility for financing development.

Statoil has the right to purchase from the government royalty oil arising from the grant of production licences. Last year, the Statoil Group sold more than 8.5m tonnes of crude oil and refined about 2.5m tonnes of products. Its total turnover was close to £2,500m and over £1,000m of this was profit. Payments to the Norwegian Ministry of Petroleum and Energy, for royalty oil, represents a growing contribution to national revenues. In other words, Norway is tapping the rent in a practical way.

Prof. Odell said in 1979 that most of the history of the U.K. oil industry is yet to come. There is more than enough just cause, he said, and certainly enough time, to change the fundamentals of the system so that it becomes a partnership between the oil companies and the State.

Such a partnership, he holds, is essential for the comprehensive and economic exploitation of Britain's oil resources to be put on a footing in which neither party suffers from the frustrations and uncertainties of the system developed to date.

Needless to say, this sage viewpoint has been politely ignored. The obstacles in the way of realising this proposition vividly demonstrate the block to progress represented by dogmatic insistence on eliminating public participation and handing it all over to private enterprise.

Petroleum revenue tax is levied on a quite different basis, field by field. Royalty where paid, operating costs (other than interest) and capital expenditures are all deducted for the purpose of assessing this tax (PRT). This method relates it more nearly to profitability, and also gives the operator an oil allowance, that is, a portion of his production free of tax.

This is somewhat analgous to the personal allowances given in the onshore PAYE system. Indeed, one might say that PRT is the PAYE system of the North Sea oil industry. The rate is 75% and it cuts very deeply into net revenues at the margin of production. PRT absorbs a very high percentage of earnings after all allowances have been used up, just as income tax does, but at much higher marginal rates.

ONE OF the reasons for diminishing activity in the North Sea is the higher production costs in the smaller fields now ready for development. Whereas the profitable monsters contain 400m to 500m barrels and probably more, future fields will average around 100m.

The first obvious point is that these smaller fields cannot support the same scale of capital expenditure as the big ones, and will depend on access to existing platforms already installed and pipelines already in place under the sea.

This access will have to be provided at economic rates if they are to stand a chance of viability.

The one factor in the situation that *can* be changed by Government action is the incidence of taxation. U.K. operators have revealed that a total of 31 fields are presently regarded as non-commercial. Containing a total of 2.2bn barrels of recoverable oil, they range in size from 25m to 150m barrels. The majority are in water depths ranging from 200 to 600 ft, requiring heavy investment to tap into the oil reservoirs below.

Four representative fields examined by a team of engineers from nine oil companies were shown to be uneconomic after tax, or at any rate were regarded as uneconomic by the operators.

As the Minister of State for Energy explained recently, because royalty payments are allowable against PRT, abolition of royalty will reduce the marginal or top rate of tax on the North Sea oilfields from 89.5% to 88%. As the government has admitted, many oilfields surveyed in the recent review of prospects for development on the U.K. Continental Shelf would have been profitable before tax but not after, under the fiscal regime then in force.

If petroleum revenue tax is supposed to relate to profitability, the chart shows that it is not efficient in taking up the available taxable capacity. Plainly, the burden of taxation strikes more heavily as profitability diminishes. The current tax system confers undue advantage on operators at the best locations. This needs to be corrected in the interests of equity.

LASTLY, there is corporation tax (CT). This is charged on a company's total operations in the U.K. Continental Shelf and not on a field-by-field basis. This means that capital expenditures on new developments can be offset against CT liabilities on an existing field by the same company.

The combined effect of PRT and CT is to make the actual incidence of taxation difficult to measure. It may vary widely from one field to another, an observation fully borne out by the chart (see p.6).

It also means that where operators are enjoying high post-tax revenues, they can apply the internally generated funds to new developments in a way denied to operators in less profitable locations.

This cash is interest free. In other words, the North Sea tax regime exhibits all the classical deficiencies noted by the classical economists.

In any case, the incidence of taxation in the North Sea has grown much more complex due to the increasing practice of sharing assets between operators (for example, the common use of pipelines).

Trevor Skeet, the Conservative MP and industrial consultant, has noted that petroleum revenue tax – intended primarily as a tax on earnings from recovery of oil and gas – has developed into a tax on non-oil receipts such as pipeline tariffs and hire charges. As it has developed, PRT offends deeply against the principle that taxation should be simple to administer.

New fields being explored and existing ones being expanded all indicate the presence of abundant taxable capacity.

Supposing North Sea revenues at present values could be raised to £20 billion: if wisely apportioned, this would allow the Government to stop borrowing (a project dear to the heart of Prime Minister Margaret Thatcher). For an increase of that kind would yield an additional £11bn revenue – about enough to meet the government's deficit on tax revenue.

Cessation of borrowing or even its reduction would mean an enormous saving in interest charges and thus in current Government expenditure, now running at around £7,500m net.

Just to underline the significance of these revenues, Jeff Rooker, Labour's spokesman on Energy, has pointed out that the existing £9bn revenue is more than sufficient to pay all the wages and salaries of those employed in that National Health Service in England and Wales, as well as the wages and salaries of all those engaged in provision of personal social services. There would be a valuable contribution to the upkeep of the Welfare State as long as the revenue was not wasted on useless expenditures.

On the other hand, the extra revenue would give the Government room to manoeuvre on employment taxation, allowing the Prime Minister to attain her ambition of cutting income tax.

All these things would be possible and more, but not without amending the incidence of taxation. Tax policy must, in short, take heed of the law of rent and tailor the tax burden to the capacity of oilfields.

For some, this would mean immediate relief, for others, a much bigger charge. The movement must be in the direction of a more equal incidence, which would eliminate the obstacles created by repressive taxation and fresh opportunities for employment.

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Liberation Theology: an answer to prayers

By Bert Brookes

ROMAN CATHOLIC priests in Central and South America are living dangerously.

Declining to bind themselves merely to the spiritual uplift of their flocks, they have progressively, and belligerently, taken up the cause of the down-trodden poor. They are supporting, and sometimes leading, the struggle for liberation from appalling living conditions and from the cruelty and oppression of tyrannical dictatorships.

Driven to desperation by their inability to improve, by persuasion and pleading, the sub-human condition of their peoples, many are throwing in their lot with revolutionary groups – usually Marxist – and openly opposing the governments in power.

In Latin America today, such action invites reprisal and many priests have paid with long jail sentences, and even death.

The growing incursion by men of the church into the front line of political action is inspired by the tenets of "Liberation Theology", a movement which has taken firm root in Latin America – especially in Brazil, Chile and Nicaragua – and in the Philippines. It seems to have reached an advanced stage in Nicaragua where four priests, having been active in the overthrow of the dictator Somoza, are now holding office in the Marxist Santanista government.

But the Pope is not amused.

To John Paul II – left – whilst the living conditions of his Third World congregation are accepted as a matter of legitimate concern to the Catholic clergy, the purity of the Catholic faith must not be compromised. The involvement of priests in the "class struggle", for example, has to be avoided at all costs. And above all, the embracing by priests of fundamentally atheist concepts such as Marxism is flirting with the Devil himself.

TO ITS CRITICS, the role of the Church in social affairs has often seemed vague and equivocal. Whenever it has not been openly hostile to the interests of the common people, the Church has frequently appeared detached and complacent to the harsh realities of life.

- Where there has been cruelty, tyranny and inhumanity, the Church commonly counsels patience, passivity and submission to the forces that oppress.
- Where there has been injustice and enslavement, the Church has offered platitudes about forbearance, goodwill and the sanctity of private property.

The Church claims to seek revolution – but only of the spirit.

Its conviction is, apparently, that the world will not change until there is a spiritual miracle in the minds of men. Until that day dawns, the unfortunate underdog must accept his lot with stoicism and understanding.

In short, the pathetic victims of social and economic injustice must accept the *status quo* in this world and hope for salvation in the next.

The wonder is not that so many priests, knee-deep in the suffering of their flocks, are rebelling against this desolate teaching, but that they ever

accepted it in the first place. The Church's reluctance to embroil itself in matters of detailed politics is understandable; no one expects the Church to mount its soap-box over nationalisation or privatisation, the levels of taxation or the scope of the Welfare State.

Its congregations would be split down the middle if it did.

But should not the voice of the Church ring out loud and clear when, on an immense scale, the basic dignities of mankind are violated? Should not the Church stand up and be counted when, through a widespread denial of natural justice, human beings are forced to live in conditions that are a blot on the face of civilisation?

TO THE NEW generation of involved priests, among whom Father Leonardo Boff of Brazil is emerging as a leading spokesman, a faith that offers only sympathy to those who desperately need its active and physical support, stands to be condemned as a humbug. Certainly, the Theology of Liberation has finally brought to the surface that yearning for earthly social justice and that

enslave the common people that have, for so long, been swamped by the comfortless creed of Catholic Rome.

In the eyes of Father Boff and his sympathisers – among whom are many bishops, nuns and lay church-workers – liberation theology means the end of charity and patronising the poor and the start of organising them for action. They look to Marxism, not because of any deep ideological affection for it but because, unlike the Pope's theology, Marxism offers a light at the end of the tunnel.

Boff knows – and if he did not, the Polish Pope would have enlightened him – that the jackboots of Marxism are, in the end, just as likely to trample on the rights of the individual as those of the tyrants he abhors.

But what is the alternative? The only effective answer to total repression is surely total revolution? Yet there is evidence that a pendulum-swing from dictatorship by right-wing land-owning elites to that of Marxist proletariats does not have universal acclaim.

The bishop of a large community in Brazil recently set out the principal aims of the "grass-roots church" as "land reform, better income distribution and free elections."* The clergy, according to that bishop, rejected communism, but they also rejected capitalism. Some, he said, talk of a third way – a sort of idealistic socialism.

That bishop is feeling his way in the right general direction, and we must hope that he is aware that, of his three principal aims, the first – land reform – is the key to all the others.

- Without land reform, no improvement in income distribution (which presumably means the removal of the colossal difference between the incomes of rich and poor) can be meaningful and long-lasting.
- Without land reform, no elections, however politically free, can provide governments capable of improving, to any significant extent, the social conditions of the masses.

But it must be the right kind of land reform; a kind that will not only pro-

Father Boff: man of action

Father Leonardo Boff, 46-year-old Brazilian professor and Franciscan friar, is emerging as a leading exponent of liberation theology. With the publication of his book, *Church, Charisma and Power,* he has incurred the strong displeasure of the Vatican.

Last September, he flew to Rome to face interrogation by Cardinal Joseph Ratzinger, head of the Vatican's Sacred Congregation for the Doctrine of the Faith. The Cardinal's task was to determine whether Boff's activities as a liberation theologian had involved him in "doctrinal error".

Boff emerged from the questioning in confident mood, but no official word about the exchanges has been issued. It is certain, however, that he faced a "third degree" about his leanings towards Marxism which the Pope condemns as an atheist doctrine, liable to undermine and poison the teaching of the church.

In addition, Boff's writings are seen by the Vatican as subversive and directly questioning the Pope's authority as head of the Roman Catholic Church.

Boff's view is that the authorities in Rome are out of touch with the realities of life in Latin America. He believes that the local clergy must concern itself directly with the problems of the poor, especially where their basic human rights are threatened, and give active support to any movement – even if Marxist-inspired – which opposes evil, repressive regimes.

In his own country, Brazil, during the ten years 1968-78, over 120 bishops, priests and nuns were thrown into jail for opposing the government over its treatment of the poor, especially in connection with disputes over land rights.

● From p.11

landless labourer but one that will recognise the right of the whole population to share in the bounty of their country's natural resources.

The take-over of all land by the State – with all forms of capital, as well, if Marxism wins the reins of power – would not be the right kind. It would boot out the private land-owner but it would also strangle personal freedom, personal choice and personal enterprise. And the acceptance of absolute rule by a small communist clique, who would dictate the use of all land and capital, regulate all wages and fix all prices, would be a heavy penalty to pay for flinging off the yoke of the landlords.

Nor is the general distribution of land among the population a feasible alternative. While the allotment of farming land to peasants might bring a new era to the countryside, there is no equivalent benefaction for the tattered dweller of the shanty-town. In this late twentieth century, with growing cities and advancing technology, the fragmentation of land is a non-starter.

THE ONLY WAY to obtain the best of all worlds – and the tragic poor of the Third World surely deserve it most – is to adopt a system of land reform that does *not* involve a physical re-distribution, will *not* restrict the freedom of the individual, will *not* involve the State in usurping the daily decisions of the ordinary people and will *not* throttle the natural enterprise of man.

The key is to nationalise, not the land but its *economic rent;* to take into the public treasury the value that is acquired by land whenever it will yield to the possessor a larger return than would be due to any labour and capital employed on it; the value that flows from increasing population and social and technological progress.

Such a measure, by making the holding of land unprofitable to anyone but the user, would destroy the iron hold that, in the Third World, the land-owning upper classes exert over the landless millions. No one would be able to live in affluence and luxury merely by owning land. No land would be the playground of the rich while the poor starved for want of a modest cornfield.

The theologians of liberation, before they cross the Marxist Rubicon, owe it to their communities to explore the merits of this most practicable method of land reform, a method which, in its supreme equity, surely accords with the principles of Christianity and social justice on which their philosophy is based.

Such a reform, in the tormented countries of the Third World, would give new hope to the millions for whom life at present is nothing but an endless struggle to stay alive.

*Reported in BBC's International Assignment programme, 14 Sept. '84.

Defiant priests say: we fight for justice

POPE John Paul II's guidance to Roman Catholic priests on their attitude to liberation theology brings to mind an instruction by an earlier Pope – Leo XIII – who, in 1891, issued an Encyclical Letter on the subject of *The Condition of Labour.* In this, the Pope sought to instruct the clergy on the "relative rights and mutual duties of the wealthy and of the poor, of capital and labour."

The present Pope is disturbed at the prospect of Catholic theology being tainted by Marxism. For his predecessor in 1891, the taint was socialism and those who "working on the poor man's envy of the rich, endeavour to destroy private property and maintain that individual possessions should become the common property of all . . ."

It is clear from his text that Leo XIII bracketed with socialists those reformers such as Henry George who were campaigning against one specific social injustice – the private monopoly of land.

"It is surely undeniable", wrote the Pope, "that when a man engages in remunerative labour, the very reason . . . is to obtain property and hold it as his own private possession." Thus, he went on, if the man invests his savings in land, "the land in such a case is only his wages in another form . . ."

He argued in similar vein when referring to man's work in bringing land into cultivation, having "lavished upon it his care and skill".

"Now, when man thus spends the industry of his mind and the strength of his body in procuring the fruits of nature, by that act he makes his own that portion of nature's field which he cultivates – that portion on which he leaves, as it were, the impress of his own personality".

To Pope Leo XIII, "the inviolability of private property" was "our first and most fundamental principle."

HAVING exonerated private land ownership from any blame for the "misery and wretchedness which press so heavily on the large majority of the very poor", Leo XIII was forced to look for scapegoats. He cited the passing of the ancient Workmen's Guilds, the callousness of employers, the greed of unrestrained competition, rapacious Usury (as "still practised by avaricious and grasping men") and the custom of working by contract.

To Pope Leo XIII, the social order in the world was fixed and immutable ("let it be laid down, in the first place, that humanity must remain as it is") which, to him, meant that society was permanently divided into classes – the rich and the poor, capital and labour.

Since there are innumerable differences between individual human beings, it was inevitable, in his eyes, that some should be rich and some poor: "unequal fortune is a necessary result of inequality of condition". The poor – those "who do not possess the gifts of fortune" – "are by far the majority".

But he reassured them that "poverty is no disgrace" and called on the rich to support the poor with alms and Christian charity.

It did not occur to His Holiness, apparently, to question why, in "the bounteous world provided by the Creator, there should be any "poor class" at all, especially when, by his own recognition, "poor" was synonymous with "poverty" and embraced the majority of the human race.

IN HIS book *The Condition of Labour,*[1] Henry George gave his reply to the Pope, attacking strongly the assertion that the private ownership of land was "according to nature's law".

If, he argued, anything that a man buys with his rightful wages becomes his rightful property, then the purchase and holding of slaves would once again acquire moral sanction.

The fact was, he pointed out, that purchase or sale cannot give rightful ownership where such ownership did not exist before. Property-owning that had no moral sanction before, does not acquire it by passing that property from seller to buyer.

The Pope's proposition that man legitimately acquires ownership of land by working on it was demolished by several separate arguments, including one related to the seas and oceans.

If a man takes fish from the ocean, wrote Henry George, he acquires a right of property in that fish, which exclusive right he may transfer by sale or gift. But he cannot acquire a similar right of property in the ocean so that he may sell *it* or give *it* or forbid others to use *it.*

Similarly, he reasoned, if a man should cultivate grain, he acquires a right of property in the grain his labour brings forth. But he cannot acquire a similar right of property in the sun which ripened it or in the soil in which it grew.

"For these things are of the continuing gift of God to all generations of men, which all may use but none may claim as his own."

Finally, Henry George discussed the process which the Pope regarded as a practical measure for improving the condition of labour – charity. Charity, wrote George, is indeed a noble virtue, but it must be built on justice. It cannot supercede justice.

Why, he asked, should working men be content with frugal fare when the world is so rich? Why should they be satisfied with a life-time of toil when the world is so beautiful? Why should they not also desire to gratify the higher instincts, the finer tastes? Why should they be forever content to travel in the steerage when others find the cabin more enjoyable?

When it comes to justice, it seems that the world changes very little. Throughout history, the poor and deprived have demanded it. Henry George devoted most of his adult life to campaigning for it. But 100 years later, the priests of liberation theology have decided that the only way to get it is to fight for it.

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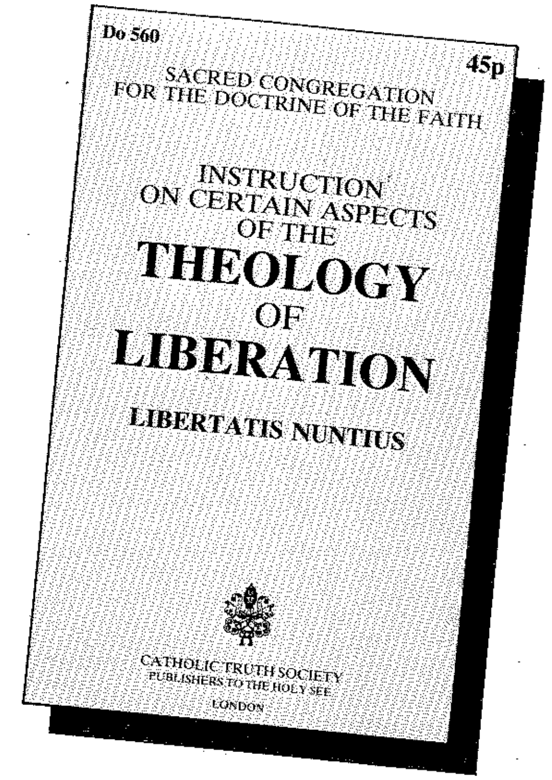
Poverty, despair and the Vatican

By Bert Brookes



THE VATICAN'S instruction on Liberation Theology, issued last September by Cardinal Ratzinger, head of the Sacred Congregation for the Doctrine of the Faith, carried a clear warning to the Roman Catholic clergy: liberation theology is tainted with Marxism; it should be avoided as if it came from Satan himself.

The Roman Catholic Church, claimed the Cardinal in his 35-page pamphlet, heard the cry of the poor for justice and "intends to respond to it with all her might". Indeed, the Church "intends to condemn abuses, injustices and attacks against freedom, wherever they occur and whoever commits them".

But, declared the instruction, there is a difference between the poor as seen by the Church and the proletariat as envisaged by Marx. Marxism, an atheist doctrine, is "not compatible with the Christian conception of humanity and society", and priests who try to adopt even just part of its teaching will end up ensnared by the entire ideology".

To the Vatican, Marxism epitomises the "class struggle" which the Church condemns as foreign to all Christian teaching. Liberation theology, by accepting the ultimate possibility of the use of force – albeit against powerful, entrenched evil – puts itself beyond the pale of the Church.

It is not difficult to see, in this statement of the Vatican's creed, how the liberation theologians are losing patience with their overlords in Rome.

Beyond a few words disclaiming any approval of "those who keep the poor in misery", there is little in it to indicate that the Vatican is alive to the sub-human conditions in which the poor of the Third World are forced to exist.

Where liberation theologians see cruel and oppressive governments stamping on the human face of the defenceless masses, Cardinal Ratzinger sees only political "structures" which are evil "and which we must have the courage to change". But structures, he insists, are the results of man's actions and so are "consequences more than causes". The root of the evil, as Rome sees it, "lies in free and responsible persons who have to be converted by the grace of Jesus Christ in order to live and act as new creatures in the love of neighbour and in the effective search for justice, self-control and the exercise of virtue".

THAT THE plight of the Third World's underdogs should continue in never-ending despair while a complacent Church awaits a miraculous conversion in the hearts and minds of their oppressors is clearly not acceptable to those priests in the front line of

The forces that oppress are not all-influenced by meek reminders of the universality of love and Christian brotherhood. As the liberation theologians see it, the only way to improve the lot of the oppressed poor is to change the political set-up; to get rid of what they see as uncaring capitalism and to introduce a form of government that will recognise the wretched victims of the present regime as human beings with a right to live.

It is plain from the Vatican's statement that the basic injustice from which the poor of the Third World suffer – the denial of the right to any share in their country's natural resources, which have been commandeered by a powerful elite – is not recognised by the Church.

To the Church, the poor are the poor and the rich are the rich, and each is set in aspic in its traditional class. There is no question of removing the unjust foundation on which the privileged class has built its domination of the rest of society. All that the Church demands is that there should be brotherly love between the classes and no "class struggle". The rich may stay rich; may retain the unjust privilege which sustains their superior status – provided they do not oppress the poor. So long as they treat the poor with kindness and Christian charity, then no one in Catholic Rome will question the source of their power and affluence.

The maintenance of an unjust status quo, made palatable to the victims by a suitable ration of charity, may satisfy the Vatican, but it does not satisfy the theologians of liberation. Nor will it satisfy those who believe that, in the Third World especially, it is the retention of an immoral privilege by a powerful few that condemns the unprivileged majority to lives of

From soup kitchen to a fight for land rights

THE radicalisation of Father Ted Kennedy began in his soup kitchen. That was the first link in a chain of pastoral care that led him to join a street demonstration on land rights, *writes Paul Knight.*

Father Kennedy's concern is with the rootless aborigines of Australia.

He began to work among them, in the Sydney suburb of Redfern, 11 years ago. And it dawned on him that his political stand on their behalf was consistent with the teachings of the gospel.

His critics do not see it that way: they think that he has strayed from the correct role of a Catholic priest.

His welfare work among the aboriginals – ministering to both their souls and their social needs (housing, food, and so on) – is accepted.

But when he walks out into the street to campaign for the return of land rights to the original colonisers of the continent, the priest, it seems, is stepping beyond the pale.

FATHER Kennedy's work among the blacks has led him to a deep understanding of their attitudes and alienation.

Aboriginals are not lazy – the white man's perception of thousands of people who live seemingly listless lives, many of them seeking solace out of bottles of methylated spirits.

Rather, they have adopted "intuitive dissent", explains Father Kennedy on a BBC-TV documentary.*

They have seen the white man's world, and they do not like it: so they refuse to be assimilated.

Getting drunk, explain the aboriginals, is a means of "getting away from the stupidity of reality . . . of European society".

Receiving unemployment and sickness benefits is not evidence of "sponging" off white men: rather, it is the government paying its dues to the indigenous peoples whose land was confiscated by the white settlers.

Father Kennedy, working among the dispossessed who wander the streets of Sydney, has evolved his own "theology of liberation".

He feels that the white man has betrayed his covenant with God.

"The invasion should never have occurred," says the priest. Rather, the white man should have come to Australia to discover the presence of Jesus among the local tribes.

"We are the ones who are more de-tribalised, de-cultured," says Father Kennedy.

WITH THE help of people like the priest, articulate aboriginals are working to develop a new consciousness of identity.

They see their plight as intimately

LIBERATION THEOLOGY

Says Maureen Watson, who lectures to school children: "When we have land rights, it means we are recognised as people who have been here for 50,000 years and who have been wrongfully treated."

With that recognition, she claims, there would be a dramatic drop in alcoholism and other social problems, "because we would be people who are recognised. If you are treated as somebody, you start to put your head up."

The white man, she explains to children, have had "the power of definition" for 200 years since Captain Cook dropped anchor and staked a claim for Britain.

> That power has defined the nature and role of the blacks, and ensured the supremacy of the whites. And the white man's church played a role in this process of colonisation.

There was no real contest in the conflict between stone age culture and Christianity.

Father Kennedy points out the truth in the saying that "when the white man came, he had the Bible and we had the land; now we have the Bible and they have the land."

THAT IS a piece of historical analysis that applies to many of the European colonies, but in Father Kennedy's view, the results are inconsistent with the Gospels.

At the heart of his theology is the code that declares: "Let there be no poor among you."

He soon learned – as he witnessed the official treatment of the aboriginals – that "the God of the Christian is the God of the oppressed", a view that required more than an artificial altruism towards the poor.

Says Father Kennedy: "My liberation is bound up with theirs, and the liberation of the rest of Australian society is bound up intimately with their liberation."

Which is why he is taking a political stand on the right of aboriginals to enjoy a direct access to land – a stand which, in the white man's eyes, must be subversive.

For the history of Australia has been the appropriation of natural resources from the indigenous users, and the exploitation of those resources by the new settlers.

> There has been no equal division of resources among everyone on the continent, as one would have expected from a Christian society that was intent on practising what it preached.

That is why Father Kennedy stands exposed to execration from the white his ground:

"I am willing to be cut off from Christ, as Paul said, rather than be cut off from these, my brothers and sisters in the flesh."

THE ABORIGINALS know what went wrong with their tribal societies: the white men "came and stole our country, raped our country, mutilated it."

They also know what needs to be done: "They owe us the whole country."

Liberation from oppression is what they want – liberation as *they* would define it, not as the white man wants it.

Will the gospels be used to help them? Yes, if Father Ted Kennedy has his way.

*Everyman profile, BBC1, London 23 September, 1984.

FARMLAND values have started to weaken in Britain, now that Common Market dairy subsidies are being cut back.

Britain has been the odd man out in recent years. Farmland values in France have fallen by a third over the past three years.

The same thing has been happening in the United States, and in other countries where agricultural subsidies have not been able to offset countervailing influences, such as high interest rates, on the economic recession.

In April, a new milk quota system was announced: and that was when land prices had reached the peak of over £5,000 (US$6,500) a hectare. By September, the price had dropped to just over £4,400.

The explanation: EEC subsidies do not produce higher wages or better returns on the capital invested by farmers on the land – they are converted into higher rents and land prices.

So the cut-back in subsidies guaranteed a weakening in land prices.

PETER WONG, president of Hong Kong's Association of Accountants, says that many companies have failed to write down the value of their property portfolios. They are still quoting figures from the 1979-82 property boom – which collapsed when China decided to stake its claim on the colony. Companies that have failed to write down their valuations, says Mr. Wong, are "plucking figures out of the air".

REAL ESTATE Investment Trusts are back in business.

They were the favourite vehicle in the United States for get-rich-quick speculators in the early 1970s – until the bottom fell out of the market in 1974.

But now they are returning to favour, with an extra $1bn flowing into REITs since the end of 1983, taking the total assets to $8.5bn.

But because many investors lost fortunes in the crash of '74, the REITs are now moving cautiously, avoiding high-risk new developments, and showing a preference for equity in existing commercial property companies.

DENMARK has two property taxes. One, which falls on the value of land alone, raises 85% of property tax revenue. But, says Anders Mullers of the Inland Revenue Directorate in Copenhagen, it was possible that the base of the property tax would be changed from land values to one that combined the values of both land and buildings.

NEW ZEALAND'S new Finance Minister, Roger Douglas, has announced plans to reform the tax system. And one of his proposals for 1985 is to remove land and farm subsidies, to stop the artificial increase in land prices.

TACTICAL errors by Ireland's farmers forced the government to include a land tax in its three-year economic plan.

The Irish Farmers' Association planned to draw up a blacklist of Fine Gael members of parliament who refused to fight a land tax.

The blacklist threat was leaked a week before Prime Minister Garret FitzGerald finalised his plans, which were published as *Building on Reality 1985-87*.

Until the coalition government started to talk about a land tax, the farmers – who pay only 10% in income tax – were considering ways in which they could pay more to the exchequer.

A number of options were being considered: the elimination of tax "breaks", or a levy of 1% or 2% on the sale of agricultural produce.

But the one thing that Ireland's 140,000 farmers did NOT want was a tax on their 12m arable acres!

So battle-lines were drawn up, aimed at undermining the electoral base of any member of parliament who did not oppose the tax.

The Farmers' Association circulated its branches, urging members to obtain public commitments from the MPs that they opposed the tax.

Unless they gave such an undertaking, they were to be subjected to "a continuous public campaign" in national and local newspapers.

MPs were required to give "an absolute and unambiguous commitment" to oppose a land tax.

It was this threat which clinched the plans for Mr. FitzGerald. The land tax was elevated to a point of democratic principle by the farmers.

The Cabinet had not agreed on the principle of a land tax until hours before the plan was published.

But as Geraldine Kennedy wrote in *The Sunday Press* in Dublin on Sept. 23:

"The mood of Fine Gael Ministers going in to the final decision-making session on the National Plan was that the Government had no option but to bring in a tax called a 'land tax', if it was to be seen to govern."

● The IFA estimates that the imposition of a land tax, based roughly on the same methods that were used in the poor law valuation system, will involve the re-grading of land, acre by acre – a task that will take five years to complete.

QUOTE from the report by Bishops Maurice Taylor and James O'Brien, of Britain, who investigated human rights issues in Guatemala:

"There's no sign that the army of Guatemala intends to relinquish its total control of power or to implement serious reforms – such as the desperately needed agrarian reform. Without such fundamental structural changes, there appears no hope that the situation of gross injustice and fear will come to an end in the near future."

IN CANADA, Ontario's mayors want a government-backed study of the effects of site value taxation.

At the annual convention of the Ontario Municipal Association, membership of which includes all the mayors and councillors in the state, a resolution was passed which stated:

"The Association of Municipalities of Ontario petition the Minister of Revenue to conduct a pilot study on the effects of site value assessment in Ontario."

Peterborough, with a population of over 60,000, volunteered to be the city where the pilot study could take place.

This means that the majority of the 1,800 delegates at the convention now want to give site value taxation a chance.

TWO MILLION Mexican peasants died fighting behind Emiliano Zapata's banner of land and liberty in 1910.

The civil war has since been celebrated as "revolutionary" by Mexico's ruling Institutional Revolutionary Party, which has governed without interruption for over 50 years.

Now Zapata's son, 77-year-old Mateo Zapata, says that there are more landless peasants than ever in Mexico. And that there has been no improvement in the land worker's condition.

Large amounts of land and money, he says, are owned by "alleged revolutionaries" who control the ruling party.

Agrarian reform has collapsed and the government is failing to satisfy the demand for land and liberty.

LAND PRICES have gone wild since the U.S. housing sector recovered from recession in 1982.

Prices doubled, trebled and quadrupled over a three-year period in seven southern markets: Austin, Dallas – Fort Worth, Norfolk, Orlando, Tampa – St. Petersburg and Washington D.C.

These are the findings of a new report on U.S. housing markets by Lomas & Nettleton, a Dallas-based mortgage banker.

The report states that heavy speculation added to the runaway cost in most of the markets.

Land prices rose faster than any other major component of the construction industry.

In only two markets – Houston and Las Vegas – did land prices fall, with some panic sales made at discounts of 30-40%.

The study reveals two effects:

● House prices were pushed beyond the limits that many families could afford; and

● Builders were having to cram more units onto smaller plots of land, in a bid to make the homes affordable.

Land now makes up a bigger proportion of the house price. In Texas and Central Florida, land now represents 20-25% of a single-family house price. Five years ago it was 15-20%.

The UK, EFTA and EEC

By OLIVER SMEDLEY
Hon. Secretary
Free Trade League

ON THE SAME day that Britain's adherence to the Treaty of Rome came into effect, on 1st January, 1973, the Free Trade Agreements between the EFTA countries and the EEC came into force, providing for the dismantling of all tariffs between the two groups of countries by July 1977.

Thus, if the U.K. had stayed with its EFTA friends, which is where it indubitably belonged, it would have had all the conceivable advantages of free trade with the EEC countries and none of the monstrous disadvantages, such as the Common Agricultural Policy and the total relinquishment of our legal sovereignty, which have ruined our economy and have gone a long way to undermining our national pride, resolution and sense of identity.

The EFTA countries, namely Austria, Finland, Iceland, Norway, Portugal, Sweden and Switzerland, are independent, sovereign states, each with a recognisably different constitution and legal system. They agree not to interfere with the freedom of their respective businessmen to trade with one another. They are a modern embodiment, as it were, of the British 19th Century invention of the unconditional most-favoured-nation Clause.

The U.K., in the meantime, has become a province of an increasingly protectionist and encroachingly autocratic sovereign state called the European Community.

ON 26 MARCH, 1975 Roy Jenkins, the former Home Secretary and Chancellor in a Labour Government, said: "Not to have gone into Europe would have been a misfortune. But to come out would be an altogether greater scale of self-inflicted injury. It would be a catastrophe. It would leave us weak and unregarded, both economically and politically".

Let us look at the degree of "catastrophe" that has befallen our former allies in EFTA since we decided to leave them.

1. EFTA, with 41.6m inhabitants or about 1% of the world's population, contributed 5.5% of world trade and received 6% of world imports in 1982.

2. Per head of population, international trade is more important for EFTA countries than for any other major trading area in the world. In 1982, the merchandise imports per inhabitant in current U.S. dollars were: EFTA 2,765; EEC 2,255; USA 1,051. As the largest importer of merchandise *per capita* in the world, the U.K. belongs with EFTA.

3. In 1982, the *per capita* gross domestic products (again, in current U.S. dollars), were: EFTA 9,415; EEC 8,656; USA 13,037; Japan 8,968. The EFTA countries therefore came second after the U.S.A. It is difficult to believe that the population of the U.K. would not have been more prosperous than they are today if we had stayed in EFTA.

4. Unlike EFTA, the EEC is its own largest client. Rather more than half of the EC countries' combined exports go to their EC partners. In other words, it is an inward-looking group of industrialised countries desperately trying to be as self sufficient as they can manage to be, so that never again will they be forced to fight each other for their own survival. The U.K. does not belong and has never belonged in such company and cannot thrive in so narrow a mercantilist cage.

5. EFTA countries run regular deficits in visible trade and surpluses in invisible trade. No country in the world has ever needed more urgently a surplus on its invisible trade to make good its perennial deficit on visible trade than the U.K. The U.K. belongs, by nature, with its EFTA cousins.

6. Between 1972 and 1982, the volume of world trade increased by 3% per annum. EFTA's trade increased by 3.9% (imports) and 4.6% (exports). The average annual growth in the volume of the U.K.'s trade was well below such figures. The U.K. would have had the opportunity of expanding its trade far more rapidly if it had stayed with EFTA.

7. Since the second oil price shock, EFTA exports and imports have expanded relatively fast. From 1979 to 1983 the EFTA countries' combined exports grew at an annual average of 2¾% while world trade rose by only 1¾% per annum. The growth of EFTA imports was somewhat slower than that of exports but was still close to 2% per annum. EEC imports rose during the same period at less than one half of 1% per annum while OECD imports stagnated.

The U.K. would have done better if it had been a member of EFTA.

FROM THE data on EFTA and EEC economic indicators, the following facts can be extracted:–

- Only Switzerland had a lower annual rate of increase of GDP than the U.K. between 1972 and 1982.
- On the other hand, in 1982, Switzerland had easily the highest rate of GDP of all the countries in the EEC and EFTA, whereas the U.K. already had the lowest with the exception only of Italy, Ireland, Greece and Portugal.
- With the exception only of Denmark, the U.K. had by far the lowest rate of fixed capital formation as a percentage of GDP (1981).
- With the exception only of Sweden, Belgium and Denmark, the U.K. had the lowest savings as a percentage of GDP in 1981.
- At 11.5%, Britain had the highest rate of unemployment of all countries in both EFTA and the EEC, with the exception only of Belgium, Ireland and the Netherlands, and against an average for EFTA countries of only 4.9%.

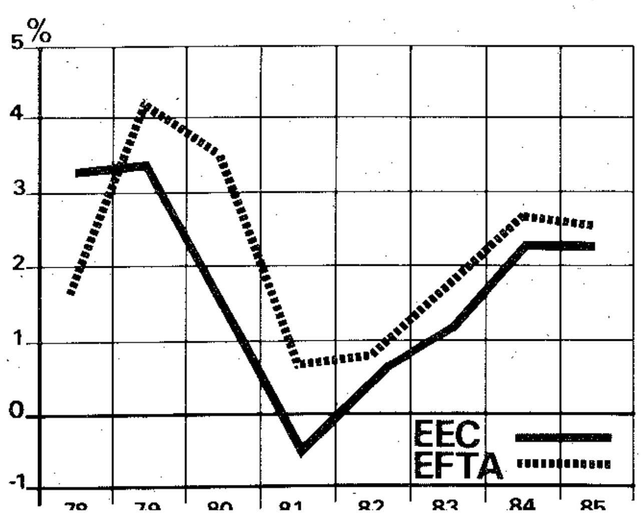
Since joining the EEC, the performance of the U.K. economy has been demonstrably pathetic. Not a single indicator can be adduced in its defence.

It would need an apologist of far greater calibre than the puny mini-megalomaniacs who took us into the European Community to explain why the British people should now understand that there is no connection at all between the fact of our membership and the disastrous and steadily worsening state of our economy.

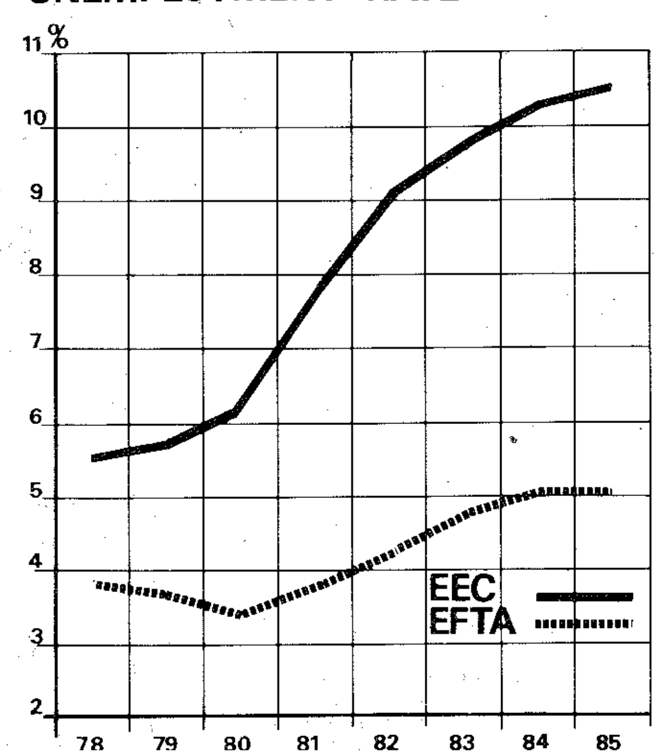
Roy Jenkins, one of those relatively few individuals who has done conspicuously well for himself out of our membership – he became President of the European Commission – was wrong. It was not *coming out* that would have been a catastrophe. It was *staying in* that has been so detri-

- SOURCES: EFTA Secretariat calculations, and forecasts for 1984-85 based on OECD and national sources.

GDP GROWTH



UNEMPLOYMENT RATE



ETHIOPIA

Food shortage – only land reform is lasting solution

By Peter Poole

ETHIOPIA is a country in search of a life-saving plan.

With over 5m people at risk because of drought and civil war, the country's political leaders need to launch a rescue operation that must start from scratch.

The food aid flown in over the last two months can buy a little time: it will not solve the underlying problem.

At the heart of Ethiopia's difficulties is the way it uses its land. There is no national land use policy or laws, which is not surprising – because there is precious little information on the country's population and natural resources.

- The Central Statistics Office says that only 60,000 sq km is under crops: satellite studies suggest a figure of 160,000 sq km.
- The size of the population is put officially at 32m, but U.N. officials assume there to be at least 40m.*

Little wonder, then, that the struggling peasants receive little back-up support from government. That may explain why, although 69% of the country is classified as agricultural land, only about 15% is being used.

A major problem facing land users is the desperately poor road network. Until this can be improved, there is little prospect of economic development.

Without decent roads, the task of reclaiming badly eroded fields – and of gaining access to fresh water – is daunting.

So the Ethiopian government's first priority ought to be a cadastral survey, to classify the land according to soil fertility and economic value.

This would provide the raw data that is needed before an appropriate land use policy can be implemented.

With roads, however, there is the danger that peasants would be exploited for the latent rental values that could be realised.

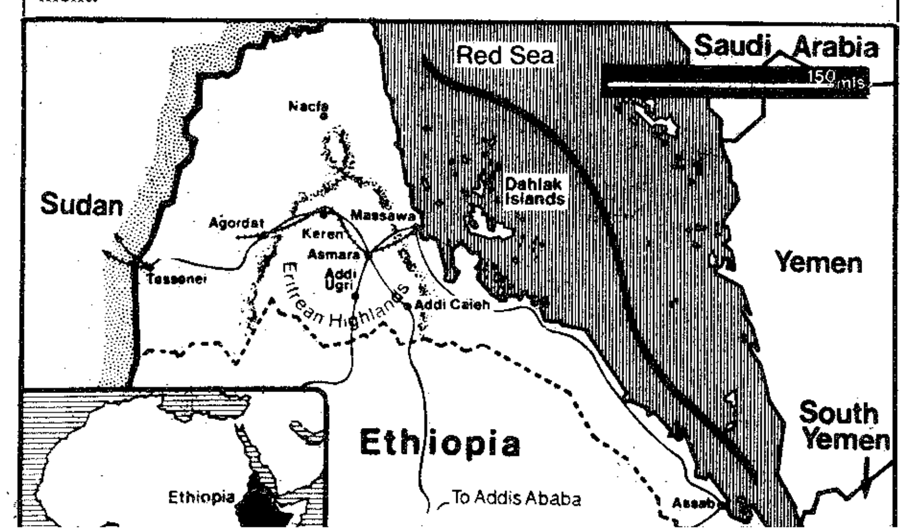
And that's where the current socialist government in Addis Ababa may have an advantage.

By socialising the rental value of land, the government would be able to tap a source of revenue that would increase as a direct result of economic development.

That money could be ploughed back into reafforestation and the hillside terracing that is urgently needed to halt soil erosion.

Backed by such a programme, it would not take long for the peasants to once again become self-sufficient in food.

*Lloyd Timberlake, 'Unlocking the potential of Ethiopia', *People*, London, Vol. II, No. 4 (1984).



NICARAGUA

Dilemmas in land reform

By E. Robert Scrofani

THE REVOLUTION that toppled the dictatorship of Somoza, once strongly supported by the American government, still goes on. It is a revolution in a nation of 2.5 million people whose gross national product is only $2.2 billion – less than the cost of an MX missile.

Due to the hostility of the Reagan administration towards the new governing junta, the average American knows about Nicaragua only in bipolar political terms.

The impact of the Sandinista revolutionaries, on the economic life of this poor central American country, has been largely ignored.

How do you transform a society in which the richest 21% of landowners own half the farmland? How do you transform a society in which 60% of the children went hungry while foreign aid went mostly to the family and pockets of Dictator Somoza?

While the government talks to Nicaragua only in Cold War terms, and cancels needed loans and credits, a San Francisco institute, headed by Frances Moore Lappé and Joseph Collins, has detailed the mixed results of the Sandinista revolution in agrarian reform.

Lappé and Collins of Food First/Institute for Food and Development Policy, ask us to view Nicaragua as a "school" and through "food glasses".

As a school, because the mostly new and young ministers of the government must balance the peasant demand for land against the need to keep up the production of export crops. For a substantial drop in export crops would hurt the entire economy and, primarily, the poor themselves.

As a school, because the Junta must decide between those who have much land, little land and no land. If all the landless were to be given land, would they harvest the export crops during the season?

As a school, because the Junta experiment with various mechanisms to assure the feeding of the poor while relying heavily on the market process.

The authors focus on food and farming because Third World countries like Nicaragua are overwhelmingly agricultural and "we've learned that a society's food and farming policies are powerful lens through which to evaluate the priorities, sympathies, values and effectiveness of any country's leadership."

In many economic and health areas, the new government – despite many mistakes – has improved the lives of its people.

- Some 40,000 landless rural families have received access to land on which to grow food for the first time.
- Production of basic food crops – corn, beans, rice, sorghum – is up.
- Export crop production is up 10% for coffee and 20% for sugar.
- Consumption of basic foods has soared since July 1979 – corn, bean and rice by 30-40% compared to 1977-78.
- Infant death (an important international criterion) has been reduced. Over 1 million citizens have been vaccinated against polio, measles and tetanus.
- Illiteracy has been dramatically reduced.

Joseph Collins, who served as one of the "experts" invited to Nicaragua, says after many meetings with Junta leaders: "They do not tend to be doctrinaire. They do not attempt to plug in rigid preconceived, ideological formulas. They continue to adapt their policies in light of their experiences." Even the multinational corporation magazine *Business Latin America* called government ministers "pragmatic".

ONE KEY area where the new revolutionary (some say Marxist) government of this small Central American country decided to be pragmatic was in the handling of the estates of the large landowners.

"Land to whoever works it" was the slogan which assured peasant support for the revolution. Immediately after the people's victory, two million acres or 20% of the agricultural land of the country that had belonged to the Somoza family and its associates, were confiscated, leaving two-thirds of the land in the hands of those landowners large enough to hire labour, rent out their lands, or both.

Collins summarises the dilemma of the Junta thus: "Agrarian reform is a drama that unfolds in response to multiple, often conflicting pressures on the government, and the Sandinistas understand this well. So while *'Land to whoever works it'* might have been an effective rallying cry during the war of liberation, it got quietly buried once the victorious leadership had to confront the urgent need to get the capitalist farmers and ranches controlling most of the country's exports back into production".

The balancing act of the Sandinistas was also impelled by the hostility of the U.S. government and fear of destabilisation pressures which had been used in Chile. Support from all social classes would be needed to resist these pressures.

The big owners – while hearing the rhetoric of the new government – feared peasant invasion of their farms and ranches. Others feared that limits would be placed on the amount of land they could own.

According to Collins, the philosophy of the reform here is not anti-private property. "Rather the Sandinistata believe that productive private property carries with it the obligation to use the property for the benefit of society." Private property rights are guaranteed by the government only if the owner is using the resource; idle land is subject to expropriation.

The new government gave title to tenants and share croppers and, like the land reform in Taiwan, set a level for rent that would encourage food production.

"We do not want to socialise all means of production but, instead, to socialise the surplus that the private sector produces", says Jamie Wheelock, the Minister responsible for agricultural development. "We can tap this surplus with means used in other capitalist societies: control over credit, export sales, foreign exchange, land use, labour relations, prices and marketing and taxation."

THE NEW government's attempt to permit a "mixed economy" in the new Nicaragua is detailed in the chapter entitled "The Failed Partnership: Big Growers and the State."

These growers control over two-thirds of the agricultural land. They account for 72% of cotton production, 53% of coffee, 58% of cattle and 51% of sugarcane. The government wanted these men to maintain and, indeed, increase their production.

Joseph Collins and Frances Moore Lappé

While appealing to their patriotism, the new government also used a substantial amount of the old-fashioned carrot. The growers were offered:

- Substantial credit below inflation rates to cover all working costs.
- Guaranteed prices for export crops to ensure a profit.
- Buffers against any drop in international commodity prices. The government promised to share gains and absorb losses.
- Rent decreases – 40% of cotton growers rent their land from absentee landlords. And finally,
- Lower taxes on personal income and company profits.

This 'sweet deal' was intended to stimulate output, especially in export crops, to produce hard currency. In 1982, 52% of every one of these export dollars went to pay interest on foreign debt.

But did it work? Collins says it did not. "A high official told me they (the big landowners) have blown an historic opportunity. The private sector not only did not revive production, but may be draining the rural economy."

But the big owners saw the deal differently. Under Somoza, the landowners had an unlimited source of cheap labour. But the *campesino* now had cheap rent, government credit, and employment opportunities on State farms. Many did not want to work on plantations where owners had abused them in the past.

The new peasant associations not only demanded medical benefits but also minimum wages. The government mandated improvements in living and working conditions and offered the rural poor basic goods at fixed prices lower than those at "company stores".

But Collins says that the large landholders could still have made a profit. What they feared was the future. "It was *la Revolucion* that threatened them. And in Nicaragua, the fears of the rich affect their behaviour so that their fears were self-fulfilling."

THE GROWERS' "fear" led to a process called "decapitalization", a range of economic sabotage that included:

- Cutting back on cultivated acres.
- Selling off machinery and livestock (often to buyers in Costa Rica and Honduras).
- Paying excessive salaries to themselves and their family members.
- Getting government loans and then converting some of them to foreign currency and sending it to foreign banks, and
- Faking or inflating fees and commissions to foreign firms or individuals.

Thus the vicious circle began. The more the owners acted to decapitalize, the more they were denounced by the peasants and the less secure they felt.

In part, the new government still hoped for a pragmatic solution. But the actions of the large landholders outraged the peasants and land seizure increased. The government could not ignore the issue.

A new law proposed that in the event of an accusation by farmworkers, that an owner was decapitalizing by selling his machinery, for instance, the farm or ranch would immediately be confiscated. If investigation proved the owner innocent the farm would be returned.

There are a number of "patriotic" landowners who continue to invest and improve their land. But under Somoza, 80% of the investment came from the private sector. Today, the figure is only 10%. With capital still fleeing, investment must come from the impoverished public sector.

"What has made the elite so angry, we were told by many Nicaraguans, is not that the new government has taken their wealth. It hasn't. What enrages so many of the wealthy is that they have lost their power to determine the nation's priorities," says Collins. As a result of the capital flight and decapitalization, the country's efforts to rebuild after the civil war has been seriously damaged.

The book examines in some detail other dilemmas of land reform in Nicaragua: the effect of massive credit in rural Nicaragua; the ability of the State Farm to not only increase production, but also to build a sense of community, particularly in isolated areas; the fever for land versus the need for export crops; the impact of land seizures; and the ability of the market to feed the poor.

Collins and his colleagues are asking the key questions in this field that should be a primer for many other countries.

While the Nicaraguans and the members of the Food First staff have ignored the potential benefits of applying a land value tax and an unearned increment tax to achieve some desirable results, we must realise that they have a strong sense of justice, as does the agricultural ministry in the Junta.

Even though pragmatic in economic terms, the Junta has not learned the lessons of Taiwan in stimulating "land to the tiller" through the use of land tax mechanisms. And there is a feeling that the Food First people would rather look elsewhere for possible solutions.

Yet, as proved in Taiwan, Jamaica and, now, Nicaragua, transforming a Third World society is a complicated process. It is a process well documented in *"What a Difference Could a Revolution Make",* a succinct book which should be required reading for those who want an inside look at the issue of agrarian reform.