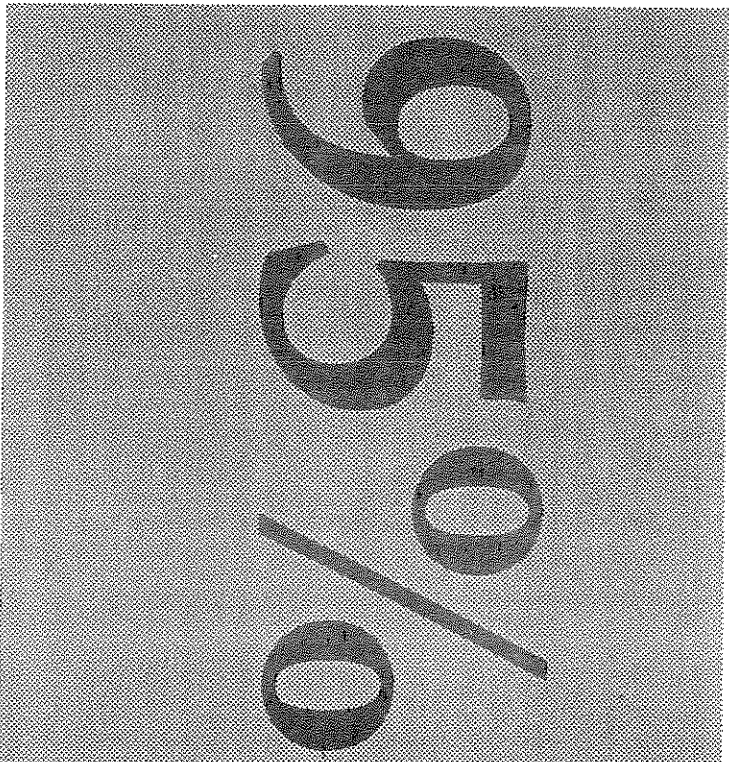

LAND

AND LIBERTY

ECONOMICS • POLITICS • PHILOSOPHY

DOUBLE ISSUE

Nov/Dec 93 • Jan/Feb 94



95%

RUSSIA: TOWARDS THE SINGLE TAX

ESSAY: ECHOES OF 1917

WASHINGTON: CAMELOT FOUNDERS

AFRICA: CRY FREEDOM

LAND AND LIBERTY

Volume 100 No 1166/7

Established 1894

EDITORIAL

CAPITALISM: THE ERA OF DESPAIR

ESSAYS

on Russia - pp 7 & 11
on Africa - p 14

ANALYSIS

on Russia's 95% plan - p3
on Russian tax reform - p 14
on Mexico - p 6

REPORTS

on Corruption - pp 16, 20, 21
on Housing - p 22

NEWS BRIEFS - pp 5, 15

BOOK REVIEW

on Pittsburgh - page 24

APOLOGY

THE EDITOR apologises to readers for the very late arrival of *Land & Liberty*. Among other reasons, staff have been heavily engaged in work in Russia, which contributed to the disruption of the production schedule. We have tried to redeem ourselves: we hope you enjoy this bumper double issue.

Editor: Fred Harrison
Editorial Consultant: V.H. Blundell
Art Editor: Nick Dennis

Editorial Offices:
177 Vauxhall Bridge Road
London SW1V 1EU
Tele: 071 834 4266

121 East 30th Street
New York, N.Y. 10016
Tele: 212 889 8020

ISS No 0023 7574

Annual Subscription:
U.K.: £12, USA \$20, Canada \$25,
Australia \$25

Publisher: Land & Liberty International
at the London editorial offices

PAGE 2

WE HEAR it once again, this time from the voice of the financial and business world. In its Christmas message to the beneficiaries of capitalism, *The Financial Times* of London editorialised on December 24: "No known alternative stands ready for the choosing." Rot!

With the eclipse of the communist ideology, no-one disagrees that the market mechanism is superior to the diktat of bureaucrats whose commands were supposed to produce the best economic results. But the free market is not the capitalist economy. Market economics has a history that predates the Bible. Witness the continental caravan routes that took wares, by horse and camel to the far corners of the world, to be traded in the squares of town and village. Capitalism is a unique combination of institutions, just two centuries old. And this is what it brought us - according to *The Financial Times*:

- "Even the middle classes, who have benefited most from economic growth, are wrestling with unease. Those in jobs fear that they may lose what they have, while those outside note that however rich the super-rich may get, large-scale unemployment persists."
- "The 1980s created losers as well as winners, as can be seen on the pavements of cities across Europe and the US. In many cases the poor have become poorer, relatively in some countries, absolutely in others."
- "About two-thirds of the world's population have gained little or no substantial advantage from rapid economic growth. In the developed world, the lowest quartile of income earners has witnessed trickle-up rather than trickle-down."

The *FT* proposes the need for "new structures that provide accountability, transparency, choice and genuine care for those who cannot manage for themselves" - merging their strictures on the shortcomings of "welfare capitalism" (a contradiction in terms) with a patronising attitude guaranteed to foster dependency for "the poor". Christmas, declared the *FT*, was a time when "those who desire an economic success built upon something other than foundations of much misery and deprivation engage in the search for policies which are both hard-headed and ethical".

An alternative to capitalism *is* known, and *is* on offer, "ready for the choosing". It is the economic system built on a philosophy of property and public finance that would transform society, which would abolish exploitation and involuntary poverty. The philosophy is most neatly crystallised by Henry George in *Progress and Poverty* (1879), which remains the most eloquent critique of capitalism as well as communism. The principles articulated by George will have to be adopted if there is to be "accountability, transparency, choice and genuine care". Ask the Mexican revolutionaries (see page 6), for whom the slogan remains as valid today, 70 years later, as they were when they originally rallied the peasants around Zapata's cry: "Land and Liberty!"

LAND & LIBERTY

DOUBLE ISSUE

95%: TAX PLAN NOW BEING DRAFTED FOR RUSSIA

PRESIDENT Boris Yeltsin is coming under increasing pressure to consider the adoption of a new strategy for public finance.

Pyot Filippov, head of the President's Analytical Centre for Social and Economic Reform, has pulled together a team of Moscow officials to draft a law which will be submitted to the newly-elected Duma.

That bill will call for the collection of the rent of land, paying the way for a drastic reduction in taxes on wages and profits.

Mr. Filippov, who was chairman of the Privatisation sub-committee of the previous parliament (which the president closed down, with the aid of tanks) is determined to promote the rent policy. But he is also convinced that, to overcome bureaucratic control over land, it is necessary to give "private ownership" rights to the possessors of land.

Aware of the historical problems of "landowners" agreeing to fund the needs of the community out of the rent of land, I asked Filippov: what proportion of the annual rent was he seeking to capture for the public's benefit. He replied without hesitation: "95%!"

The commitment came after a tax-reform conference on December 18, which was co-organised by Filippov's think-tank and the London-based Centre for Incentive Taxation. During his speech, the bearded Mr Filippov said that the most important task facing Russia was reform of taxation and the budget. He attacked the right-wing nationalist leader, Vladimir Zhirinovskiy - whose party, the "Social Democrats", had won more votes than the president's supporters during the October election - as offering no more than slogans. And, he insisted, a pivotal policy for the new Duma was the introduction of rental payments for land.

Mr Filippov told his audience of law-makers and government officials that ideas about the land rent as public revenue were widespread in Russia at the beginning of the century, following the influence of Henry George. "The ideas were not developed and applied properly," he declared, "because there existed a social class that was not interested in implementing

THE LONDON based Centre for Incentive Taxation - backed by The Russian Fund, money voluntarily donated by Georgists worldwide who are determined to enable Russia to explore the rent policy as a serious option - is now assembling a team of experts to work with Russian academicians to prepare a report on tax reform for the Duma (Parliament). Said CIT director Fred Harrison:

"Prime Minister Chernomyrdin has told specialists in the Academy of Sciences that they should ignore western solutions, and come up with a home-grown policy. At present, now that the Chicago monetarists like Yegor Gaidar have thrown in the towel, the Russian government has no coherent reform strategy. The rent strategy is a natural one for Russia, and we will provide all the expertise necessary to deepen understanding of the policy."

See story page 14

the policy. They have their representatives in congresses and parliaments and they are able to influence the decisions and to resist the implementation of the idea. Only some small countries managed to implement the idea, including Hong Kong and Jamaica. Russia has the unique situation," he said, and he emphasised the need to pursue non-traditional approaches to public policy.

Mr. Filippov drew attention to the fact that three Nobel prize-winning economists were among western experts who had recommended rent as public-revenue to Mikhail Gorbachev.

Mr. Filippov reproduced the Gorbachev letter in one of the bulletins published by The President's Analytical Centre.

The rent policy, he said - echoing an analysis contained in one of CIT's Russian pamphlets - could be considered as a strategic move forward for a market-based economy.

A representative from the tax collection authority in Moscow said they opposed a reform of the tax system. He argued that "if we introduce the land tax, we will be bankrupt". Inflation, he insisted, was a more pressing problem. And he stressed the need to use taxes that were easy to collect.

I took the opportunity of pointing out to the audience that they should be talking about a revenue-raising policy that was most convenient for the people who paid, and ought not to be searching for policies that made life easy for the taxman.

TO ADVANCE the rent policy, Mr Filippov has formed a working group to frame a coherent policy and strategy for enlisting the support of both the federal government and the Duma.

His efforts are supported by the deputy minister for economics, who said it was important to discover the link between inflation and tax policy, "because so far there are contradictions between these two things".

Valeri Norkin, a senior consultant to the Moscow City Council, said that the council had been criticised for raising the rents of apartments, but he insisted that "at the same time people would be happy if rents remained with the community".

Of Punters and Politicians

PEOPLE, to politicians, are punters.

Punter is the disparaging colloquial term for customers, who are treated in an offhand, patronising manner, as if they were a nuisance.

Politicians, of course, evince great concern for the welfare of people. Publicly. But by their actions, they disclose an attitude that betrays their true feelings; we may be a democracy, but people are a damn'd nuisance! Why can't people just leave the professionals to get on with the job?

Ordinary folk are the customers to be served by those who manage to grab the reins of power. Politicians will use any device to hoodwink people into voting for them, and thereby legitimising their exercise of that power. That is the essence which people in a democracy have to bear in mind, when seeking to reshape society.

AM I being unduly hard on the poor old politician? I do not think so. Take the way in which the British economy is managed, for example.

Politicians think they know best. They display a fine arrogance on television, to persuade us that they are in control of events, and can direct the nation to a better future. If only, of course, we would stop interfering and allow them to get on with the job.

Britain has at least 3 million people out of work, at present, which is a national disgrace. Do the politicians apologise? Why should they?

Well, yes they ought to apologise. For they claim to be "managing the economy". They use monetary and fiscal policies to fine tune the events; in the past 10 years they introduced new laws to restructure the labour and capital markets; they have enjoyed complete power in a sovereign Parliament to do whatever was necessary to fulfil their obligations to the people who elected them. And still there are three million people without work. Who is responsible?

The economy went into a nosedive under two Chancellors of the Exchequer: Nigel Lawson and Norman Lamont. Those two men exercised enormous power over our society, and they claimed to be men fit to not only direct the economy; they even claimed to be fit to inaugurate reforms that would improve the capacity of the nation to produce wealth.

The net result is that the nation (on an annualised basis) is generating £40 billion worth of wealth less than it is capable of producing! Do Messrs Lawson and Lamont apologise? You must be joking! Instead, they blame some immutable law for the fate of Britain - a law so powerful that they could not presume to do anything to prevent it from working. That law, apparently, drives the business cycle.

WHAT OF the Treasury? It claims (or at least, used to claim: they have now brought in "Wise men" from the outside, to give them the benefit of their wisdom) to be the fount of financial wisdom. Its mandarins presume to advise Chancellors, and to oversee the management of the government's finances. Do they know what they are doing? Some critics say "No!". Not, alas, their erstwhile chief, Mr Norman Lamont.

In discussing the lamentable record of the Treasury, Mr Lamont said: "And the fact is you do have recessions, you do have trade cycles, and no amount of sophisticated twiddling knobs can avoid that; and it may be very tempting to blame a building [the Treasury] and a number of people in it for the fact that the sun rises or the sun sets, but actually it is inherent in the world in which we live."

The Treasury, and the Chancellor of the Exchequer, claims that it is qualified to "manage" the economy. The people give them power to do just that - and yet, the smirk concealed behind hand, Lamont the politician says it is not his fault; the sun sets, and there is nothing that the Treasury can do about that!

So why do we pay them to "manage" the economy, if manage it they confess they can't? And when are the people to assert their theoretical rights and insist on the changes that would make the politicians accountable for their misdeeds? Not until people can confidently visualise an alternative political philosophy. Only then will they be able to face up to the slick-talking politicians with confidence. Only then will the statesmen be separated from the common

HENRY WINSTON LAMONT

Round the world

WESTMINSTER Property tax

MARGARET Thatcher's poll tax was so unpopular, that the politicians could not wait to get rid of it. And in the rush to reintroduce a property tax - called the Council Tax - Britain's home-owners fell foul of a crude assessment procedure.

Now the National Audit Office - parliament's financial watchdog - reports that there were two million errors in the placing of properties into valuation bands. About 900,000 homeowners are paying too much tax, while 1.1 million - about 5% - are not paying enough.

Auditors report that nearly all the 914,000 appeals against assessments are asking to pay less, but a small minority want to pay more so that their homes can be sold at a higher price! Half the work of valuing properties was contracted out to private estate agents and surveyors. Many of the complaints stem from the fact that 90% of the valuations were carried out by people who never left their office.

Even so, concludes the Valuation Office, this means that over 19 million properties were placed in the correct band. But this is in large measure the result of good luck: the bands are so wide, that it would be very difficult to have turned in a worse result. For example, Band G embraces properties ranging in value from £160,000 to £320,000. The top band, H, is for all properties over £320,000.

* **Tax dodgers:** Britain's black economy is running at between £36 - £48 billion, according to calculations by the Inland Revenue. The tax man has a special team of inspectors who go round the

streets, peering over fences and examining the quality of cars parked in drives, to figure out if assets owned by owners are consistent with their declared taxable income.

MOSCOW Landlords

A PROPERTY speculator in Moscow is planning to buy 400 cheaply-priced homes on Britain's southern coast to let at premium rents. He represents a consortium of Russian landlords who have identified cheap properties in the seaside towns of Kent as a profitable investment opportunity. He plans to pay with US dollars.

* US federal prosecutors report that KGB spy Aldrich Ames had been provided with land in Russia. Ames, 52, had photographs of the property on which he planned to build a retirement dacha. He and his wife Maria, a co-defendant, have been refused bail. They are not expected to take up residence in Russia for some while.

HONG KONG Housing crisis

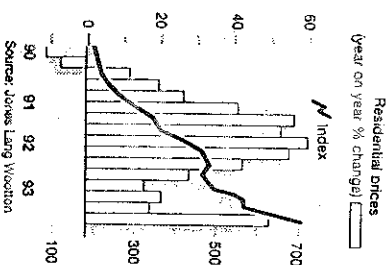
THE COST of apartments in the Crown colony has reached crisis proportions and leading to social unrest. At the top end of the market, prices rose by up to 38% last year, with prices of about 20% in other parts of the colony. This has led to record prices for land.

One company has just paid HK\$2.26 billion (£197m) for 7,000 square metres of residential land near Kai Tak airport. The company hopes to sell modest 500 square foot apartments at a cost of HK\$4m (£348,000).

These boom conditions "could end up in public disturbances," according to one politician, Martin Lee, leader of the minority United

Democrats Party.

The government realises that there is a need to speed up the supply of land, but such a strategy is constrained by a deal with Peking. Under the 1984 Sino-British agreement, under which the colony reverts back to China in 1997, the supply of land has to be limited to 50 hectares a year.



But the restriction on supply has pushed up prices to the point where companies are now speculating in land. This has resulted in a warning from China's Hong Kong and Macau Affairs Office, the director of which has warned Chinese companies not to dabble in property speculation. He said: "There are some companies who think if they lose money they won't have to foot the bill themselves. This means they push the property prices up very high indeed."

TOKYO Bailouts

BANKS want taxpayers to pick up the bill for the sour loans to land speculators. The financial system is in a constant threat of collapse due to the massive loans that ought to be written off, but Japanese banks are reluctant to make such a concession.

Gaishi Hiraiwa, chairman of the Keidanren, the leading business federation, has thrown his weight behind the proposal

that public funds should be used to take over the banks' bad loans.

The banks complain that they are unable to sell land held as collateral because the property market is "dead". Commercial vacancy rates have now reached 50% in areas that were the target of land speculators.

SEOUL Secret funds

A PRESIDENTIAL decree banning tax dodges is giving South Korean officials a headache. Investors use false names to conceal their financial transactions. This makes it more difficult for the government to put a brake on land speculation. Officials are now examining property deals in the hope of preventing secret funds being pumped into land deals.

BEDFORD Heritage for sale

BRITAIN'S aristocracy has not been immune from the recession. Some of the oldest families are having to sell their treasures to pay bills.

When Hinwick House in Bedfordshire was put up for auction in March, it ended 500 years of continuous occupation by the Orlebar family.

But few aristocrats can match the record of the Marquess of Bristol, who spent £7m in 10 years, according to his lawyer in a trial last year. The marquess ended up in prison for possessing cocaine and heroin. Much of the money was raised from selling land. Now, he is selling more of his heritage. An advertisement in *Country Life* offers 2,150 acres of his West Suffolk estate for sale. His agent says that the marquess's connection would boost the land's value. The sale is expected to raise about \$3.5m.

News in Brief

U P R I S I N G down Mexico Way

by *Peter Poole*

RALLING to the cry of "Land & Liberty", 1,000 Mayan Indians came out of the jungle and took control of six towns - just as the Mexican government was signing the trade pact with the USA and Canada.

The Indians, calling themselves the Zapatista Army of National Liberation, drew the world's attention to the economic policies that will enrich a few Mexicans and further impoverish the poor.

The Zapatistas come from the southern state of Chiapas, one of the poorest in the country. Their complaints echoed the complaints of the Mexican peasants who followed Emiliano Zapata during the revolution of 1910-17.

Zapata, famous for his drooped mustache and sombrero, insisted: "It is better to die on your feet than live on your knees." He defended the right of poor peasants to seize land from wealthy farm owners. And that is the aspiration of the new Zapatistas. They complain that President Carlos Salinas's "revolutionary" government is about to remove even more of them from the little land they still occupy.

For the government has changed the land tenure rules. "Market forces" will now determine land possession - a policy that abandons the communal landowning structures that were established by the revolution 70 years ago.

THE IMMEDIATE focus of the insurrection was the North American Free Trade Agreement.

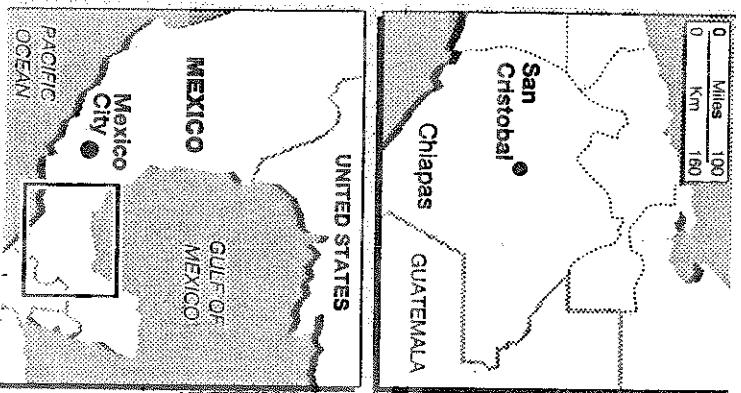
The peasants know that the living standards of the average citizen is likely to decline further. NAFTA removes all barriers to grain imports. So prices for the cereals which Mexicans grow will be driven down by cheaper imports from US producers. According to one estimate, US farmers will help to put about 1.6 million maize farmers out of business.

The NAFTA threat gave a cutting edge to the simmering discontent in peripheral states like Chiapas which, despite the inflow of substantial sums from the World Bank, continue to suffer from unemployment and illiteracy.

The discontent was summarised in the statement issued by the Zapatistas on January 1, which said: "The dictators have been waging an

undeclared and genocidal war against our peoples for many years, wherefore we urge your full participation in

- Mexico (pop: 85 million) has 32 million people living in poverty, according to the World Bank.
- Governed by the Institutional Revolutionary Party for nearly 65 years.
- Chiapas ranks last among Mexican states in households with electricity, in the number of children under 14 who attend school, and in the number of people over 14 who can read.



support of the Mexican people and their struggle for work, land, housing, food, health, education, independence and freedom, democracy, justice and peace."

Over the past decade, Mexico opened its economy, brought the budget into surplus and reduced the

public sector. That transition to the open economy, however, was accompanied by hardship: unemployment grew to 18 per cent. To find work, over 2m workers emigrated to the US. Average food consumption fell sharply.

According to a report from the Mexican news agency Notimex, official statistics reveal that even the volume and circumference of the brains of children living in the urban ghettos have been affected by the deterioration in living conditions.

And yet, reports Forbes, the US business magazine, Mexico is one of the countries with the largest number of billionaires - fourth in the league table behind the US, Germany and Japan.

Which is why the Zapatistas took as their hostage a retired general and former state governor, who owns a large ranch in Chiapas. General Absalon Castellanos represents the corrupt politics which the Zapatistas hold responsible for their plight.

The Zapatistas resorted to violence after peaceful persuasion by people like their Catholic Bishop had failed. The Bishop, Dom Samuel Ruiz Garcia of San Cristobal de las Casas, appeared on a hit list after he had campaigned for social justice. The assassination plot was traced to landowners who objected to his campaign for human rights. The Bishop is reported by Alberto Huerta, of the University of San Francisco, writing in *Commonweal* (Dec 17 1993) to have identified "the real needs of the people" with their being "deprived of their own lands and harassed indiscriminately by the landowners and the law enforcement authorities

• The Zapatistas have denied involvement in the slaying in Tijuana of Luis Donaldo Colosio, the governing party's presidential candidate.

RUSSIAN LAND

An Ethic for a New World

American social reformer Henry George's philosophy of land and public finance was shaping policy in Russia in 1917, writes Nadezhda K. Figurovskaya. Then the Bolsheviks struck...

At the turn of the century, the works of Henry George were very popular in Russia. Sergi D. Nickolayev was the translator. He shared Henry George's ideas, popularised them, wrote a biography of him and belonged to the followers of Leo Tolstoy, who was an ardent advocate of land reform. *Progress and Poverty* was published in 1896 and *Social Question* in 1907 with an introduction by Tolstoy.

Tolstoy wrote that "a simple change in the taxation system is considered to be a greatest turnover in public relations". He was upset that Henry George's "great ideas" remained unknown to the majority of the population. "It is the way society is dealing with ideas, disturbing it's peacefulness", and "feeling by their feeling of self-protection the danger..."

But it was impossible to kill this fruitful idea "especially in Russia, because there lived and still lives among the great majority of Russians, the main Henry George idea that land is the common property of all people and it is land that should be taxed and not people's labour. Rent should be used by society in the interests of all its members." Russian people always shared this idea and were bringing it into life. There was no force from the government to hinder.

Tolstoy wrote of "The only possible solution of the land problem". And: "to solve the land problem does not mean to meet the wishes of one or another group of people, it means to reinstate the disturbed

natural right of everybody to the land and the right of individuals to the results of their labour".

Tolstoy then continued that "private ownership of land is terribly unfair," and he restated that everyone had the equal right to land. The mechanism for achieving this, he acknowledged, was a single tax on land value, which would open up access to land for all working people. The policy had to be introduced step by step, for it was impossible to value all land at the same time.

IN 1885, prior to the Russian translation of Henry George's books, Mikhail M. Filippov (1858-1903), the well-known Russian philosopher and writer, published a book in which he analyzed Henry George's ideas in "*Social Question* (H.G. studies)".

Filippov wrote that Henry George's main idea was that implementation of the single tax "will simplify a financial mechanism in the state and turn land indirectly into national property." To collect land rent means that land is being "transferred" into the hands of those who are involved in productive activity. Small businesses would benefit.

Concentration of land rent in the hands of society corresponds to the nature of rent - it is a result of common endeavour.

THE WAY preparations were made for agrarian reform in 1917 shows the influence of Henry George's ideas. The main Land Committee of the Provisional Government and the

League of Agrarian Reforms were in charge of that reform.

The initiative to create the League was taken by Alexander Chayanov. The League represented a scientific society which combined all well-known specialists in agrarian problems. The League organised three all-Russian Congresses, and it published papers containing statistical data and the results of research work.

A scientific movement of those who supported Henry George's ideas existed within the League. Among its members was Sergi Nickolayev, the translator of Henry George's works who enabled a wide circle of people to learn and understand Henry George's idea of a single land tax.

In the pamphlet "What does the agrarian question mean?" (Moscow, 1917), published by the League, Chayanov mentioned the idea of State regulation of land possession on the basis of a state plan of land use, which was supported by a group of economists who were popularising the plan of reform. They took into account the differences in life style and economic systems in the different regions of Russia.

The central problem was the system of property rights for land, and in particular the attitude to the private ownership of land.

Chayanov believed that private ownership "was not our ideal," but that at the same time it was not a "social misunderstanding". It was a "social fact, brought into life by specific conditions of time and

place". In their draft of a policy for land, those who supported the idea of state regulation did not abolish private ownership, but they proposed "to abolish the opportunity freely to buy and sell the land. Land would cease to be a free commodity."

Chayanov explained that it was "a freedom to buy and sell land" that was to be abolished, not the turnover of land. A person could sell land only to the state, and it could be obtained only from the state. State land was a land fund that would be used in the interests of society.

Chayanov recognised that the Single Tax system was the collection of land rent by the state, but it was not the state that used all the land itself. The state was able to control the Agrarian Reform as the land tax was progressively introduced. There was no free buying and selling of land. The state received the right of eminent domain. At the same time the introduction of a single tax guaranteed the democratic character of public revenue, the main components of which would be rental revenue and income tax.

Chayanov was sure that the single tax and state control could be introduced immediately because they were not constructing a new land order but new conditions for the economic activity. The land order was created by spontaneous development of the economy, not installed by the state.

At the same time the state was not going to organise agricultural activity itself. "The State should regulate an evolution of agriculture, to regulate turnover of goods. Control means that there will be no free buying and selling of land. A special system of permission for deeds connected with land will be introduced."

IN THE SUMMER of 1917 the League for Agrarian Reforms held its Second Congress. The debates disclosed the direction in which the policymakers were moving.

A. Minick, Chayanov's close friend and supporter, gave a speech.

From this, it is possible to guess that it was he who contributed a great deal and was one of the authors of a plan about the state's regulation of the possession of land, about which Chayanov had earlier spoken.

Minick's ideas can be summarised as: differentiation in the taxation of lands of different categories, regulation of the process of land transfer, elimination or limitation of free buying and selling of land in some categories, control over inheritance, and division and concentration of land sites.

A state should have the right to regulate systems and forms of land use. The measures of state control over land relations, when "collected together," constituted a "substantial limitation of private ownership of the land," which would be practically abolished.

"The measures themselves and the stage of state influence is not something permanent, related to all the lands in the country. Measures for different lands should differ in time and correspond to economic development. Measures can be stronger or weaker according to the conditions of the particular lands, categories of possession..."¹

Minick explained the flexible system of state control which he proposed, using the example of forests, which would become either state or municipal. In some cases forests could continue to be privately owned while the state would retain the right to control the way forests were preserved. Though there could be different types of economic relations "a state must have all rights to interfere with the process of economic activity. Economic development must go on free but under state control".

Minick characterised his economic measures as nationalization of land. The state received land rent not only for fiscal reasons, but also in the interest of more effective land use.

S. Nickolayer reminded delegates of Leo Tolstoy's thought that Henry George's ideas about land and labour "are very near to the mental-

ity of Russian peasants and totally corresponds to their understanding by all Russians". Land should become the property of all people, which meant that land rent should be the property of society.²

At the same time he stressed the need for "guarantees of the right to dispose, to be sure that if I am planting a garden, this garden is mine and I am able to sell it."

PLANS for a new Russian land order were not completed. But it is obvious that very specific approaches to land, based on Henry George's ideas, existed in Russia.

This approach treated land as unique property, granted to the people just as was water and air. There was an understanding that property rights for the land should include a moral base. The state should act as the owner with supreme rights, for the land is the property of all.

It was understood that land should be effectively used for the benefit of everybody, but that it could not belong to nobody. Thus it can be owned by the state directly, be in collective or private ownership, and those owners should have right to use land in their economic activity and have the right to dispose of it.

Everything, however, was on the condition that the state had the right to collect land rent, to regulate land use and the turnover of land.

Russia had a historical tradition that reflected a special attitude to the land, which offered the basis for a unique approach to agricultural development. This offered the opportunity to create an economic system that was based on the market but at the same time would not repeat western models. If land was preserved as common property, this would provide a moral base to the economy.

It is extremely important to learn our own history, to understand it and to try to revitalise the best ideas and achievements we had to help economic and social progress of Russia and other countries.

❖ THE LAND & LIBERTY ESSAY ❖

RUSSIAN LAND

1. A. Minin, Report at the II Congress of the League of Agrarian Reforms (Main Ideas about the solution of Agrarian Problem), Papers of II All Russian Congress of the League of Agrarian Reforms, Moscow, 1918, Issue I, pp. 34-37.

2. Ibid., pp 58-62.

* The author, a scholar at the Institute of Economy, Russian Academy of Sciences, Moscow, prepared this article for *Land and Liberty* after re-reading archival materials published between February and October 1917. She returned to the original documents after reading studies that were written by consultants to the Centre for Incentive Taxation, London, which were published in St. Petersburg in 1993.

The Bolshevik Counter-revolution by Stanley M. Sapiro

IN MARCH 1917, the czar was deposed by a combination of leftists, centralists and rightists, not just by the Bolsheviks, who actually played a minor part in the Russian revolution.

The largest party in the Duma was the Social Revolutionaries, previously known as the Peasants Union of Social Revolutionaries. Its membership included a wide spectrum of political and economic beliefs, but its leaders supported enterprise without special privilege. It differentiated between land and natural resources, on the one hand, and labour and capital, on the other hand.

On May 20, 1917, the Chief Land Committee of the government, led by Prince Lvov, proposed to the General Assembly: "The land reform should be based on the idea that all agricultural land must be transferred to the use of the toiling agrarian population".

To carry out this goal, the land taken from the nobility and uncultivated land was divided up according to its value. As for existing peasant

units, there was to be a land tax, with the higher tax yield from the more valuable lots to go into a special fund for settling unallotted land. There was to be no tax on improvements or on crops showing more diligent cultivation or greater intensity of labour. Victor Chernov, Secretary of Agriculture in the Provisional Government, described the purpose of this plan, which resembled that of Henry George, as follows:

"Personal interest, the irreplaceable motive power of agricultural progress under modern conditions, was thus left in full force. The final result would have been a flexible system of peasant economic balance, with extensive freedom of personal enterprise. The enlargement of the peasants' land supply by wiping out large-scale landowning was not the heart of the reform. It was merely the original fillip to promote the reconstruction of that economy, based on the free union of toil and land."

Sabotaged by the nobility and big landowners, disrupted by the right-wing counter-revolution of General Kornilov, and destroyed by the left-wing counter-revolution of the Bolsheviks, which overthrew the war-torn Democratic Provincial Government, Chernov never had an opportunity to put this plan into effect.

The Second Congress of Soviets, under Lenin, took an entirely different tack. On November 8, 1917, it declared: "The right to private property in the land is annulled forever."

* As a result of the Bolshevik's land policy, the production of food was disrupted by the peasants. Lenin denounced the "Kulaks", or more prosperous peasants. Under his definition, there were two million of these scapegoats. Lenin proclaimed "Merciless war against these Kulaks! Death to them" - possibly the first instance in the 20th century of a government official demanding genocide against a whole class of people.

Russia: Tolstoy's nest of wax...

HERMAN BERNSTEIN, in a story filed from St. Petersburg to the *New York Times* of July 20, 1908, reported an interview with Leo Tolstoy:

"He asked me about my impressions of Russia, and particularly about the popularity of Henry George's works in America. 'Nearly 50 years ago,' he went on slowly, 'the great question that occupied all minds in Russia was the emancipation of the serfs. The burning question now is the ownership of land. The peasants never recognized the private ownership of land. They say that the land belongs to God. I am afraid that people will regard what I say as stupid, but I must say it: The leaders of the revolutionary movement, as well as the Government officials, are not doing the only thing that would pacify the people at once. And the only thing that would pacify the people now is the introduction of the system of Henry George.'

"As I have pointed out in my introductory note to the Russian version of 'Social Problems,' Henry George's great idea, outlined so clearly and so thoroughly more than 30 years ago, remains to this day entirely unknown to the great majority of the people. This is quite natural. Henry George's idea, which changes the entire system in the life of nations in favor of the oppressed, voiceless majority, and to the detriment of the ruling minority, is so undeniably convincing, and, above all, so simple, that it is impossible not to understand it, and understanding it, it is impossible not to make an effort to introduce it into practice, and therefore the only means against this idea is to pervert it and to pass it in silence. And this has been true of the Henry George theory for more than 30 years. It has been both perverted and passed in silence, so that it has become difficult to induce people to read his work attentively and to think about it. Society does with ideas that disturb its peace -

❖ THE LAND & LIBERTY ESSAY ❖

RUSSIAN LAND

and Henry George is one of these - exactly what the bee does with the worms which it considers dangerous but which it is powerless to destroy. It covers their nests with wax, so that the worms, even though not destroyed, cannot multiply and do more harm. Just so the European nations act with regard to ideas that are dangerous to their order of things, or, rather, to the disorder to which they have grown accustomed. Among these are also the ideas of Henry George. But light shines even in the darkness, and the darkness cannot cover it.' A truthful, fruitful idea cannot be destroyed. However you may try to smother it, it will still live: it will be more alive than all the vague, empty, pedantic ideas and words with which people are trying to smother it, and sooner or later the

truth will burn through the veil that is covering it and it will shine forth before the whole world. Thus it will be also with Henry George's idea.

"And it seems to me that just now is the proper time to introduce this idea - now, and in Russia. This is just the proper time for it, because in Russia a revolution is going on, the serious basis of which is the rejection by the whole people, by the real people, of the ownership of land. In Russia, where nine-tenths of the population are tillers of the soil and where this theory is merely a conscious expression of that which has always been regarded as right by the entire Russian people - in Russia, I say, especially during this period of reconstruction of social conditions, this idea should now find its application, and thus the revolution, so

wrongly and criminally directed, would be crowned by a great act of righteousness. This is my answer to your question about the future of Russia. Unless this idea is introduced into the life of our people, Russia's future can never be bright."

* David Redfean's *Tolstoy: Principles for a New World Order* (Shepherd-Walwyn, 1992, £9.95), is available through UK bookshops, or from Land & Liberty Press, 177 Vauxhall Bridge Road, London SW1V 1EU.

Land & Liberty : 1894 - 1994

The Centenary Conference July 2 - 3, London

Distinguished Speakers Include

Dr George Miller
Medical Research Council
Epidemiology & Medical Care Unit
"The Health and Wealth of the Nation"

Dr Michael Hudson
New York University Institute of Fine Arts
"Clean Slate Proclamations in History"

James Robertson
Author, *Future Wealth:*
A New Economics for the 21st Century
Benefits & Taxes: A Radical Strategy

To register

contact Barbara Sobrielo, 177 Vauxhall Bridge Rd, London, SW1V 1EU
Tel: 081 834 4266 Fax: 081 834 4979

Fees:

£5 (\$7.50) for each day's session;
or £30 (\$45) for those requiring overnight accommodation

RUSSIAN LAND LAW & PRIVATISATION

A poverty-stricken nation is rich in natural resources.

All it needs is a rational system of public finance,

writes Sir Kenneth Jupp

WHAT A CHALLENGE! To put the land, now owned entirely by the State, into the hands of private persons or legal entities!

What a land! Vast and mysterious; 95 times bigger in area than Great Britain, two and a half times that of the United States.

What variety! Stretching from within 800 miles of the Arctic Circle in the North, to 800 miles from the Tropic in the South. From east to west, covering eleven time zones; a huge range of climate!

When privatising land, its immense diversity is the first important point to deal with. The land varies-

- In fertility, from the fertile "Black Earth" region of European Russia to the desert regions in some other parts, and there is every shade of difference in between those extremes.

- In mineral deposits: The Urals are rich in mineral deposits of all kinds; elsewhere there is only soil and in some places just desert.

- In Siberia there is coal enough to supply the whole world's needs for many years to come, and three million square miles of timber forest. But these resources are only in certain places. However rich the land, the resources are scattered all over the place.

- There are mighty rivers for navigation, harnessed in some places for hydro-electric power; elsewhere land is arid, or seriously lacking water.

LAND & LIBERTY

And what about the people into whose hands the land is to go? Again the great diversity between individuals is the important point. The Russian people have all the necessary skills - intellectual (who can beat them at chess?) - artistic (ballet and literature) - and physical (circuses and gymnasts).

The people are every bit as variegated as the land: ranging from the sluggish to the brilliant in all three respects.

IN PRIVATISING land the whole object is to ensure that the right people are put in possession of the right land. The differences between land and the differences between people have to be matched so as to bring about a happy conjunction of people with resources: Mother Russia happily married to her people!

The Communist system and the capitalist system (both) have failed to achieve this object. A command economy rigidly forces people and land into an ill-fitting alliance, so that the wealth produced is insufficient to provide for the people's needs. The so-called 'free' economies of Western Europe produce more than the people need, but many of the people are too poor to buy it. So it stands in mountains of food and lakes of wine while governments out of public funds support millions of unemployed, and pay producers to keep land out of use - it's called 'set-aside'. This leads to higher and higher taxation. The millions of unemployed, who would gladly work so as to be able to buy things, simply degenerate into dependance on the State. To keep this

DOUBLE ISSUE

system going the people are taxed so heavily they remain poor unless they happen to have control of land. Government help to the needy puts taxes up and up.

Command economies don't have unemployment to that extent, but they too tax their people into abject poverty.

The trouble in both types of economy is that the revenue naturally due to the State is not properly collected. If it were, that revenue would lighten taxes, and poverty would to that extent be relieved.

RUSSIA is in a position of advantage over all the Western economies in one respect: at present the State owns the land.

In privatising it Russia can give possession of parcels of land to individuals or companies as they require them, whilst the government retains at all times the rent yielded by the land, and that means the State must retain ownership of the land in the way that Britain does at the present time. Private possession of land but public ownership of land.

Land is by natural law the common property of the community. By letting anyone into possession of a piece of land, and protecting him in that possession, the community assures him of undisturbed use of the land together with the exclusive use of-

1. The resources not made by man - the natural resources available to that particular piece of land.

2. The infrastructure built by the community at public expense - roads, railways, etc.

3. The availability of the surrounding population to act as suppliers to his undertaking, as customers of it, or workers in it, and as companions in social intercourse.

All lands differ over an immense range of climate, fertility, minerals, density of population, and access to roads, railways, airfields, etc. Justice demands that the holder of the land should pay for these things. Rent is the measure of their value to him.

In Western countries the rent is paid to a landlord; or if the landholder is himself lord of the land, then he keeps the rent, and is to that extent enriched beyond his less fortunate competitors. This is why there can never be the 'level playing-field' Westerners are so fond of talking about, unless every holder of land pays rent - and it must be rent at the current market level.

Because of the immense difference in productivity of different parcels of land, the payment of rent is the only leveller. It acts like a handicap in sport. All people holding land must pay rent, so that all have an equal opportunity in competition with others. But if they pay rent to a landlord every improvement of the infrastructure simply gives the landlord more rent. The rent must go to the government, local and central, to pay for the infrastructure, and used on behalf of the community.

The second important point is that all this is forever changing so that rent must be kept up to date. Advancing science and technology can make yesterday's arid desert into today's region of rich oil wells. Public works financed by local or central government - roads, bridges, railways, airports (the 'infrastructure') - make production cheaper and easier: so the relative advantage of one piece of land over another is constantly changing.

This is immensely important, and has to be provided for when privatis-

ing the land. Diversity is the first point to watch, constant change is the second.

RUSSIA'S existing land law has two advantages over most Western systems. The first is the clear distinction it makes between buildings and the land underlying them. Thus Soviet legislation of 1922 allowed ownership of buildings, but not of land.

The new legislation by the Federation seems to have preserved this distinction, by taxing land and buildings separately, and at different rates. Thus the distinction between buildings and the land on which they stand is better understood in Russia than in the West, where taxes are usually levied on land and building together as one entity.

Secondly, the Russian land taxes have some regard to differences between different types of land. Thus the twelve Economic Regions have been differently rated according to the quality of agricultural land and the size of the cities. Resorts and cities with 'developed social or cultural potential' pay multiples of the basic rate. This, however, does not go anything like far enough to differentiate the subtle variations between one parcel of land and another. Only the market can do that: and only the market can find the true value of land. That is why rent auctions are necessary. Once these auctions have established a sufficiently connected picture of the different values in a particular locality, then valuers can form a reasonably accurate opinion as to the value of other lands which have not been the subject of auction.

Taxation in Russia is extremely complicated. A recent paper counts 43 taxes: 16 federal, 4 at the oblast (regional) level, and 23 at local level. In the Moscow oblast three taxes account for 97.33 of total revenue. But these are the very taxes which strangle trade and enterprise: namely, VAT, Profits Tax and Personal Income Tax. It is obvious that VAT raises the price of anything which has to bear it. Profits Tax discourages all businesses, and may make it impossible for some to

continue. This reduces competition so that those who are better placed are able to inflate their profit. Income Tax is always unfair because it takes no account of the difficulty or ease with which a person's income is gained.

The new property taxes of 1992 on land, on buildings individually owned, and on buildings corporately owned, are said to have contributed less than 1% of the budgets of government at all levels. The buildings are assessed sometimes on depreciated cost, sometimes at compulsory insurance valuation, and only very rarely at market value. They have produced so little revenue that some local authorities have found the cost of collection higher than the yield, and have ceased collecting them. The rates of tax on land are grotesquely inadequate to collect any significant portion of the true rent. There is little registration of land. Documents of title are unusual. There are reports of scandals in dealing with land.

WHAT is to be done?

Registration

All land should be registered with large-scale land maps showing each parcel of land, its area, and its identification number.

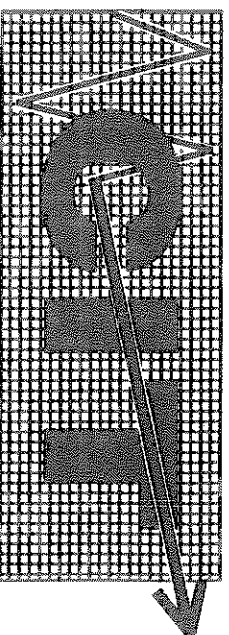
Certificates of title should be issued to every land-holder, defining the land and setting out any legal interests others have over the land, such as rights of way, or passage for drains, water pipes, telegraph or electricity cables etc. All registers should be open to public inspection.

Titles and covenants

Only two kinds of title should be registrable: Perpetual Tenure and Leasehold Tenure. Both these tenures should contain a covenant to pay the rent as from time to time revised by government; also a covenant to observe the planning restrictions imposed by local government. Any change in the planning restrictions needs to be accompanied by a revision of the rent: usually upwards if the

ECONOMIC INTELLIGENCE

EI/41 April 1994



CENTRE FOR INCENTIVE TAXATION

UK LAND PRICES THREAT TO RECOVERY

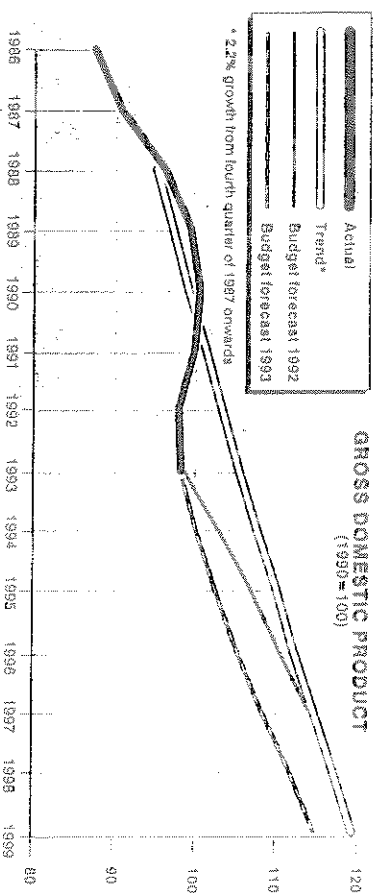
PREMIER John Major claims that the UK economy is recovering from recession. His Chancellor, Kenneth Clarke, told *The Sunday Times* (April 3): "I cannot see what is going to stop the recovery being sustained".

Flattering upturns in some of the indicators encourages the government's complacency. For example: unemployment is supposed to be coming down. Jobs are being created. Fine, if you fall into the part-time, unskilled, female category. Tough, if you are a male worker seeking a full-time salary.

Parts of the economy are struggling to shake-off the depression, but commentators remain sceptical. Particularly embarrassing are the observations of those like Anatole Kalesky in *The Times*, and Peter Jay of the BBC, who point out that the £30 billion gap in output is not being closed (see graph); and won't be for a long time. On present trends, manufacturing output won't achieve pre-recession levels until the next century.

The nightmare scenario of a protracted slump, however, is coming true. * An increase in the tax burden in April is encouraging consumers to postpone High Street purchases. That will feed through to a cutback in orders from manufacturers. The Treasury-led deflation will give Kenneth Clarke what he wants: low inflation. That prize has a price: a curb on job-creating activity, and high tax rates for the remainder of the 1990s.

* A leap in land prices will continue to deprive Britain of the benefits of growth from the leading sector - the construction industry. Already, building bosses have warned that land prices are rising too fast. David Wilson, chairman of Wilson Bowden, one of the most profitable builders, says that



prices for well-located sites have risen by an average of 20% in the past year; and by as much as 50% in the south-east. House Builders Federation director Roger Humberwans, "We could have a rerun of the late 1980s if house prices start to chase up land costs."

The problem is an acute one. The economy relies to a critical extent on families' willingness to buy and sell their homes. Without a buoyant housing market, business is bad for the manufacturers of household goods.

But builders are also now facing a dilemma. They need land on which to carry on constructing houses, but they face a profits crisis if house prices rise more slowly than land costs - and that is now happening. Countryside Properties reports that land prices have risen from £300,000-350,000 an acre to £450,000-500,000 an acre around London. And house prices are rising at a fraction of the rate of increase in land prices.

Builders that have not suffered from recession, like Redrow, were acute enough to run down land banks in 1988 - at the top of the land price cycle. They started buying land several years ago when prices hit rock bottom.

To remain in business, builders now have no option but to start buying land. They are spending large sums

on sites, which is good news for the speculators who have managed to hang onto their sites. Taylor Woodrow is paying over £30m to acquire 1,100 housing sites and almost 200 partially-completed homes owned by Heron International, the property and trading company that is loaded with debts. But the buying spree is helping to force up prices: bad news for firms that need to increase their profit margins to remain in business.

AS USUAL, the policy debate is clouded by a failure to understand the impact of land prices.

* The private sector blames planners for failing to allocate sufficient land for housing: in fact, there is as much land available as anyone could want - at the "right price". Government, and the construction industry, still fails to recognise the impact of the speculative motive on land prices.

* Manufacturers want interest rates to be lowered: but a reduction in interest rates raises the selling price of land, which creates the fundamental obstacle over which the economy needs to jump, if it is to launch itself on a sustainable path of growth!

Result: confused policy and a protracted slump. And no-one's telling the Chancellor of the Exchequer.

INVESTORS are getting restless. With the world economy still in the doldrums, people want to know how to pick the winners of the 1990s.

Globalisation of the markets means that financial advisors are talking increasingly of which country or region, rather than which firm or sector, should benefit from the massive funds that they control. Recent favourites have been Latin America and the Asian Tigers.

The looseness in this thinking is exposing people's savings to unacceptable risks. For, according to the IMF/World Bank economists, luck plays a major part in the fortunes of countries. And financial gurus do not have a special Hot-Line to Lady Luck!

But what does the IMF mean by "luck"? The conclusion of an exhaustive travel through the economic literature, and the performances of a large number of countries over a long period of time, arrives at the conclusion that random shocks are vital ingredients of an economy's record:

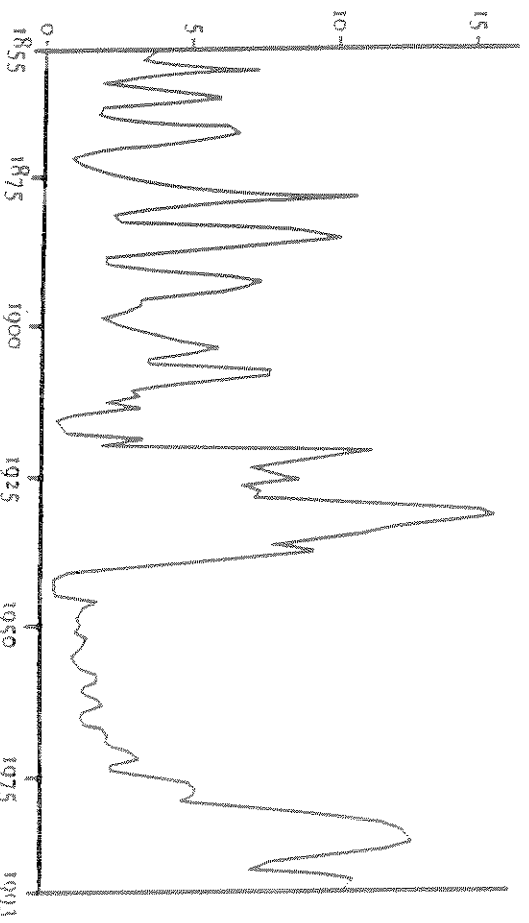
"The find that much variation in growth rates is due to random shocks should induce caution in attributing high growth rates to good policy (or to a good 'work ethic')...some so-called economic miracles are likely due to random variation."

The problem with random shocks, of course, is that you cannot see them coming! This is bad news for economists, who rely heavily on extrapolating the future from the data garnered over the previous three or four years. Which explains why they fall lamently, when it comes to pinpointing turning points.

THE MAJOR problem is that economists still cannot agree on what makes the economy tick. They can describe the components of an economy, but their explanatory theories have become increasingly remote from reality. This is a central criticism levelled by Paul Ormerod, the former Director of Economics at the Henry Centre for Forecasting:

"It was only with the onset of the marginal revolution that the habit of deducing logically, from a set of rational principles, how the world OUGHT to behave, with little or no

THE SEARCH FOR LADY LUCK



British unemployment rate, 1855-1993 (%)

reference to how it did in reality, began to permeate economics."²

During the 19th century, when governments did not presume to think about how the economy ought to behave - they adjusted action on the basis of how it DID behave - the fluctuations in activity were predictable and regular. This is illustrated in Ormerod's graph of UK unemployment rates (above).

In the 20th century, however, governments decided that they were competent to "manage" the economy. Result: the booms and slumps increased in amplitude. State intervention, on the advice of economists, proved to be one of the key factors in aggravating an already unstable system.

THE STARTING point for a new approach is to figure out what causes the booms and slumps.

These crises ought to be the focal point for research because, again according to the IMF/World Bank economists, "There is a surprisingly large volatile element - transitory 'booms' and 'busts' - that has a significant effect on growth rates over periods of a decade or more."³

This "volatile element", which transforms economic fortunes and scuppers all attempts at predictions, "can be described simply as 'luck,'

[and] includes internal shocks, such as droughts, as well as external shocks, such as sudden shifts in terms of trade."⁴

This "luck" - usually, of course, bad luck! - is the joker in the pack. A country may have durable characteristics of a cultural or resource kind, but sooner or later, it seems, these are undermined by shocks. And it is bad luck for the reputations of economists that they often make confident predictions that are falsified by the facts. Here are some examples:

* A World Bank team to Korea in the early 1960s rubbished the government's development programme as "indicously optimistic" because the country had performed badly in the 1950s. Korea could not achieve the 7.1% target to which it aspired, said the experts. In fact, Korea turned in a growth rate 7.3%.

* The World Bank experts took the pulse of both the Philippines and Burma, claiming that the former would be "second only" to Japan, and that "Burma's long-run potential compares favorably with that of other countries in South East Asia". Outcome: both countries were among the few that did not experience the East Asian "miracle".

* Another team of distinguished economists visited Sri Lanka in the 1960s and concluded that it would exceed Taiwan's per capita growth rate

over a 14-year period. Outcome: Sri Lanka barely grew at all (0.3%), while Taiwan clocked up a 7.3% rate.

These embarrassments did not prevent economists from building up the literature on economic development during the '60s and '70s. From on high, they read the indicators and pronounced their judgments. One of them, in a standard textbook, said that Africa had a bright future compared with Asia!

To their credit, World Bank economists Easterly and Pritchett acknowledge the record, and warn:

"The recent optimism inspired by Latin America's rapid growth in the 1970s and early 1980s, for example, led many to underestimate the risk of a debt crisis. Such mistakes could be repeated today, given the euphoric expectations for East Asia and gloomy predictions for Africa and the states of the former USSR."

Investors who want to keep some control over their money ought to be asking fundamental questions that appear to contradict conventional wisdom. Questions like: Have we seen the end of the German miracle? Is the USA misjudging its impact on Japan (see page 4)? Is Russia really the sleeping economic bear that many commentators would have us believe?

AS FOR GOVERNMENTS, they need not abandon hope of constructing policies that would smooth the economy. They need to try, but the problem is in deciding which of the policy options are appropriate.

"Our findings suggest that luck and temporary policy mistakes - as opposed to permanent policy differences - are important factors in explaining sudden changes in growth," conclude Easterly and Pritchett.

Unfortunately, the process of appraising the failures of the past has not even begun. And that is one of the

key problems for investors. If they pay too much attention to the good intentions of government - such as responding to minute changes in interest rates, or worrying about ministerial statements on inflation - they are likely to commit serious errors.

A longer-term strategy is necessary for the treacherous '90s in which the impact of deflation has changed the rules from the ones that operated in the high inflation postwar years (inflation is now down to just over 2%). And in trying to calculate trends over the rest of the decade, particular attention ought to be given to the IMF and the World Bank, whose influence has now become one of the determinants of economic uncertainty. Because of their control over loans to struggling countries, they have been instrumental in developing a standard global approach to policy formation. This is leading to a homogenised global economy, which means that if the policies are wrong, the errors are significantly magnified. You do not have to be a Darwinian to understand that competitive diversity is essential for survival. The absence of these ingredients - diversity and competition - explain the demise of the Soviet approach to life.

But the global bankers are determined to hold onto their influence through the dictation of on-the-ground policy to countries that need financial credit. Their strategy is to ring the world with a single philosophy of how the market economy works - even if that view is seriously defective.

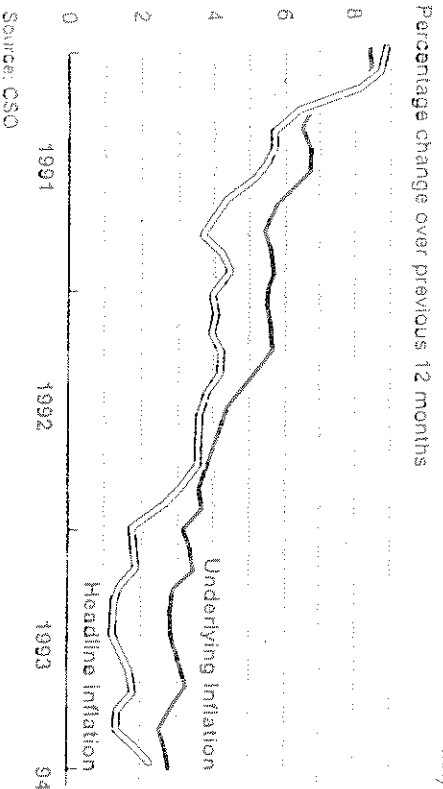
IMF economists are embarrassed at the consistent failure of their efforts to help countries to develop onto paths of sustainable growth. So what is their response? Well, they plead for at least a weak form of international coordination. They are now talking about the need to adopt "simple, nonactivist rules" in the face of uncertainty. But

this does not seem to lessen the uncertainties, for the rules themselves serve to restrict the freedom for nations and investors to test alternative strategies that just might be more profitable than the theories that guide the advocates of orthodox economics.

The IMF bureaucracy, of course, has contingency plans to survive, whatever happens in the 1990s. It recognises that cooperation will be dogged by the unwillingness of some countries to abandon their interests for the sake of less efficient partners; and that the failure to agree frequently stems from genuine differences of opinion on strategy and goals. But as one of the IMF economists (Paul Masson) put it:

"The problems of bargaining over the exact outcome of a coordinated agreement when there is asymmetric information about beliefs or preferences are in fact so severe that a coordinated regime may be unattainable. Again, it may be important in achieving coordinated policy agreements for a respected unbiased organization to confront various theories and evaluate the empirical evidence, narrowing the extent of differences in views."

And who might that "unbiased organization" be? "As for the obstacles to achieving coordination, international organizations such as the World Bank and the IMF can play a role in making them less severe". Naturally! EI is worried by the failure of the Washington DC-based financiers to recognise that their participation in strategic planning is now one of the principal causes of uncertainty. Policies now being imposed by the IMF will add significantly to the deflation of the world economy in the 1990s, as debt-ridden countries go cap-in-hand to the bankers for bail-out loans. Investors will have to analyse the the policies favoured by the bankers, for these will significantly determine the rate and course of growth not just in individual countries, but on a geopolitical basis; and will therefore shape the prospects for profits.



Source: CSO

1 William Easterly et al., "Good policy or good luck?", *J. of Monetary Economics*, 1993, p.481.

2 Paul Ormerod, *The Death of Economics*, London: Faber, 1994, p.170.

3 William Easterly and Lant Pritchett, The Determinants of Economic Success: Luck and Policy", *Finance & Development*, Dec. 1993.

4 *Ibid.*, p.38

JINGOISM COULD BACKFIRE ON CLINTON

WASHINGTON is playing poker with Japan without realising that Tokyo's backroom strategists plan for the long term. The stakes are high, but the historical record provides a clear warning of the consequences of gambling with Japan. The secret strategy now unfolding is a re-run of the "free trade" game that transformed Japan from a feudal country into a leading industrial power. Unfortunately, US diplomats have failed to warn the Clinton Administration that their gameplan could severely disadvantage the US economy.

The story goes back to the gunboat diplomacy of Commodore Perry, who dropped anchor off Japan and insisted - with his canon trained on the mysterious mist-shrouded shores - that the country be opened up to American products. The emperor, shrewdly supported by his civil servants, leaped out of history and into modernity with sweeping reforms that mobilised a nation of rice growers into a dynamic powerhouse that was to leave its mark on the 20th century. One of the primary reforms was in public finance. In 1867 the landlords were brusquely shoved aside, and the emperor adopted a tax on the rental value of land which stimulated economic development by encouraging investment in industry.

Now it is happening again. President Clinton, seeking new markets for US manufacturers, terminated trade talks to express his dissatisfaction with Prime Minister Morihiro Hosokawa's efforts to boost the Japanese economy and boost demand for US products. Then, on March 3, Clinton signed an executive order resurrecting the Super 301 provision of US trade law, to enable the US to impose trade sanctions on Japan.

"This action will help us reach our objective: open markets that will create better jobs and increase wages at home and abroad," said President Clinton. He is miscalculating. For the political pressure is driving Japan's bureaucrats into formulating plans that will further streamline their capacity to outsell US products on world markets. The Tokyo government's wish to accommodate Washington is being met with fierce resistance by the Ministry of Finance and other ministries which are determined to preserve Japan's competitive advantage.

The Ministry of International Trade and Industry is quietly planning a "new market creation" pro-

gramme aimed at stimulating eight promising industries into becoming world-beaters. MITI has

- targeted the telecommunications and information and biotechnology sectors, which are forecasted to treble output in less than 10 years;

- poured a Yen 2 trillion subsidy into solar energy systems; and

- provided "positive business prospects" to four other promising sectors, including environment-related matters and product safety businesses.

Japan's industrial leaders, while shell-shocked by the recession, are nonetheless taking a long view. A more open economy will stimulate them into even greater productivity! An industrial advisory panel has urged the prime minister to ease or lift about 500 regulatory restrictions. Tactically, this makes sense: it lulls Washington into thinking that it is exacting

President Clinton's trade pressure on Japan is playing into the hands of strategic planners in Tokyo, who are helping their corporations to retain market supremacy in the 21st century.

benefits for US exporters, but

this buys vital time to enable Japanese manufacturers to tool up for the next growth cycle.

Reforms are also being instituted in the land market, which helped to drive the economy into the industrial era a century ago. A law that previously discouraged owners from leasing their land has been altered. Result: a boom in housing, as families acquire 50-year leases on land to build homes.

The average price of a house, including land, in Tokyo is still ¥53 million (\$514,563) - about seven times more than the income of an average middle-aged household. Leasing the land means families can acquire a house for half the price of a purchased property. This reform, coupled with the new land tax on paddy fields in urban areas, has helped to boost the construction industry. The sale of condos in Tokyo has been particularly buoyant.

Behind these reforms is a strategic plan to keep Japan ahead of the world. Forcing open the domestic markets is welcomed by Tokyo's civil servants who have no intention of letting US producers get the better of them. As US Ambassador Walter Mondale acknowledged: "Your bureaucrats are highly skilled and are seasoned. I know them and all, and get along fine on a personal basis. But boy, are they tough."

Admiral Perry, in opening Japan, thought he was doing the US economy a favour. In fact, he triggered a process that has led to a bilateral imbalance of trade with the US of \$60 billion - in Japan's favour!

restrictions are enlarged, and downwards if they are reduced.

Security of possession

This is vital. There must be no fear of anyone lawfully in possession of land being disturbed, dispossessed or in any way interfered with, especially not by government agents. As in English law, the possessor of land should be entitled to obtain damages against anyone who unlawfully enters upon his land. If no damage was done, he should have nominal damages and an injunction to prevent further unlawful entry. If he proves actual damage, he should be compensated. If the entry is by soldiers, policemen or other servants of local or national government, he should be entitled to punitive damages for any oppressive, arbitrary, or unconstitutional conduct on their part.

Rent Auctions

To ensure that the most suitable people get the land best suited to them, the land should in the first instance be allotted to the bidder of the highest rent at a rent auction. There will need to be a Valuation Office in each locality, where these rents are recorded. This will gradually build up a picture from which the comparable values of parcels of land which have not been auctioned can be ascertained.

It should take only a few years before a complete and sufficiently accurate land map showing rental values is available. Once this is achieved, yearly revaluations of rent should be instituted, as happens in Denmark. The covenants to pay rent must therefore be drafted to cover rent as revised. Failure to pay rent or failure to observe planning restrictions should entail forfeiture of the land. Relief from forfeiture should be within the discretionary power of the courts.

IF LEGISLATION of this kind had been enacted immediately after communism ended, everything would have been easy. But since that time, unfortunately, some land has already been

privatised, either in the black market, or by legal means under the direction of local or national government.

If it is impossible to recover this land from its private owners, then it will be necessary to recover the rent of it by a system of taxation based on the imputed rent of the land. The Valuation Office will have to be entrusted with the duty of making sure these lands are included in the land maps, and that the estimated rent of each parcel of these lands is duly recorded as soon as it can be ascertained by comparison with known rents elsewhere. These rents too should be displayed for general public inspection.

Clearly as large a proportion of the estimated rent as possible should be collected from the holders of these already privatised lands. But whether this is feasible depends on (1) whether the particular piece of land was acquired legally; (2) how much the present possessor paid for it; and (3) what length of tenure he or she obtained. If the number of cases in question is not too large, it is possible the best way of dealing with them is by setting up a special appeals court to adjudicate on each case separately. Otherwise a taxation programme to work out a suitable land tax will have to be devised. In any event all land held in this way must be brought into the general system of allocation by local authorities as soon as the period of occupancy expires.

RUSSIA is particularly fortunate because the land is owned by the people, through their government. The government can therefore privatise the land whilst retaining the rent of land as public revenue.

The same situation exists in England, but only in theory. All land in England is owned by the Crown. A small part is in the Crown's actual occupation. The rest is occupied by tenants holding either directly or indirectly from the Crown. However, the head tenants now holding directly from the Crown pay no rent to the Crown. In feudal times the services and payments made by these tenants

financed most of the functions of central government. But by the middle of the thirteenth century, in the struggle between the barons and the King, the old feudal dues were shrugged off, and the Crown was compelled to take its revenue directly from the whole population; first by levies on the personal property of all save the very poor, and ultimately by taxes on every conceivable commodity or service, and ultimately, in the 19th century, on incomes. No trace of the feudal dues now remains, and the head tenants are, for practical purposes, although not (this is important) not in law, absolute owners.

The important point is that Russia should be very careful not to go all the way down the same road as the Western world. Russia, in putting the land into private hands, should at all cost retain the rent of land on behalf of the people, who have, after all, created it. It belongs to them. Nevertheless the English land law has the merit of retaining the correct theory, and could easily be adopted by the local governments in Russia without the faults that have distorted it in the course of English history.

For 'the Crown' read 'the State', and you have the head tenants with either a Perpetual or a Leasehold tenure in respect of which they owe dues to the state in the form of rent. Sub-, and sub-sub-tenants, and so on, pay their dues, which are passed up the line, and so to the state in the head-rent. Under that system there will be very little need for taxation to meet government expenditure. The government will be collecting the whole rent of the land of Russia.

** Sir Kenneth Topp was for 15 years a judge in the British High Court. He was awarded the Military Cross for bravery in the Second World War, and is currently an advisor to several Russian municipal authorities.*

RUSSIAN SCIENTISTS BACK LAND-RENT FOR PUBLIC FINANCE

LEADING academicians are developing a plan for Russia that locates the rent of land and natural resources at the heart of reform. The initiative has been taken by Professor Dmitry Lvov, deputy director of the Russian Academy of Sciences' Central Economic and Mathematical Institute.

Last year, he and his team calculated that the rent of oil and gas alone was sufficient to meet the budgetary needs of the Russian government. In *Practical Course of Economic Reforms in Russia*, they pointed out the rental value of sub-surface minerals would be sufficient to abolish or reduce all forms of taxation from the incomes of enterprises and citizens.

"Using all natural resources, minerals, land and water should be taxed. The calculations confirm that the rental payment for production of oil and gas alone in world prices could amount to about \$30 billion of budget income annually."

With a properly organised system of taxation "the total income that the state receives from natural resources is sufficient to pay for all budget needs and to contribute to the pension fund. Therefore it should be possible to abolish the value-added tax, to reduce the profit tax, to free enterprises from contributions to the pension fund and to free most employees from the income tax."

Their calculations revealed that this reform of public finance would not raise the general level of prices. This was an important finding, for inflation is a problem that is bearing heavily on policy-makers: they are under pressure from the IMF to stabilise the financial system as the price of financial aid from the West.

The Lvov strategy would require a "special mechanism of realization". And that was why the Russian Academy of Sciences called for help from the London-based Centre for Incentive Taxation.

Professor Lvov had heard CIT director Fred Harrison advocate the

rent policy at a conference in Moscow in December. From his seat on the platform, the professor raised his thumbs in agreement. He was later to say in his speech: "Why does our government listen to foreigners, but will not listen to us?"

Prof. Lvov lost no time in arranging a special seminar for academicians to listen to Harrison. This was convened on February 22, at which the work currently being performed in Russia by CIT consultants was described by CIT chairman Ronald Banks. Banks and Harrison gave an account of the institutional arrangements - the "mechanism" - that was being developed for Russia in cooperation with officials of Novgorod, the original capital of Old Russia.

After the seminar, Prof. Lvov faxed a message to London: he wanted to fly to England to discuss joint research projects. The areas of research in which they wanted to collaborate included:

- institutional preconditions for incentive taxation;
- methods for evaluating winners and losers;
- how to measure the efficiency of different fiscal policies with the goals of financial stabilisation and the restructuring of the economy; and
- the feasibility and efficiency of market-oriented environmental taxes.

CIT is testing the rent-as-public-revenue theory to conditions in Novgorod, which last year expressed enthusiasm for reforming the budget as a way of stimulating the economy.

Since then, President Yeltsin closed down the council and left the unelected officials to run the city. And those officials are now under pressure to sever their connection with CIT.

The programme being developed in Novgorod is for a dramatic reduction in the taxes on profits and incomes of employees, in favour of drawing revenue based on the value of land. This policy relies on both its superior efficiency in raising revenue, and also on the ethical principle that

the rental value of land is a community-created income.

This fiscal philosophy has now come under attack from Olga Kaganova, a St Petersburg real estate dealer who had formerly helped Novgorod draw up its land zone map.

Ms Kaganova is urging Novgorod Land Committee chief Nickolay Shestakov to sell his city's land. And in conversations with city officials she has dismissed the Georgist policy as "utopian". For support, she has drawn on evidence provided by a US think-tank, the Lincoln Institute of Land Policy, which is based in Cambridge, Mass. Ms Kaganova wrote in a letter to the Land Committee:

"For example, if we remember the well known Pitsburg experiment, which is often mentioned by Henry George supporters, not long ago there appeared information that the effect of separating taxation of land from taxation of buildings is extremely low, and the construction boom was caused by quite different factors. This fact was mentioned by Mr. Robert Ellsweller, the director of Research Programmes for the Lincoln Institute for Land Policy, the most recognised institute in the world continuing to work out Henry George's ideas."

Pitsburg has a long tradition of taxing land values more heavily than the value of buildings. This two-rate approach to the property tax was investigated by two US economists whose conclusions were published in a Lincoln Institute monograph (see review, page 24).

The Lincoln Institute is taking an interest in land policy in Russia. It has despatched several of its associates there on lecture engagements. And they have expressed concern at the influence of Georgist activists in Russia. One result was a telephone call to Fred Harrison in London from a Georgist activist who said he had been asked by a member of the Lincoln staff to inform Georgists not to say that land in Russia was common property.

CANTERBURY Spiritual verdict

OUTSPOKEN Archbishop of Canterbury Dr. George Carey has pronounced on the scandal of the missing millions from the coffers of the Church Commissioners.

The Church of England lost millions of pounds during the land boom of the late 1980s. It happened when the investment advisors encouraged the church to pursue the windfall profits being made out of speculation in property.

Now the Archbishop has condemned the practice, which led to an £800 million fall in the value of assets and jeopardised the wages of the clergy. He said the Church Commissioners had been guilty of "no criminal behaviour whatsoever", but he added:

"What is inexcusable is the borrowing of so much money and the investment of hundreds of millions of pounds in property. Now you don't invest borrowed money, you just don't. That's highly dangerous, especially if the bottom falls out of the market, which it did."

Dr. Carey's comments were made during an interview; his views were to be published in a book. These comments, however, have since been cut from the version to be published later this year, but were leaked to the Daily Telegraph (April 6).

"According to an investigation in *The Sunday Times* (March 27), some of Britain's insurance companies are refusing to meet legitimate claims by policyholders. The London newspaper quotes one loss assessor as stating: 'They are behaving like crooks in bowler hats. They squandered millions of pounds on estate agencies and property; now they are

trying to claim back from the public in one year the losses of four or five years'."

BOGOTA Death squads

LANDLESS peasants in Latin America continue to be victims of official policies that ignore the role of land ownership in the cultural crisis.

In Brazil, 1,000 children from landless families are murdered annually, but the number is twice as large in Colombia, according to the UN Children's Fund. Officially, the link is not made between landlessness and the teams of children in the streets of Bogota, who are the victims of shopkeepers and their security guards. Also among the victims of the land tenure system are the Arhuaco Indians, who live in the Sierra Nevada. Their attempts to protest at government policies have led to the murder of tribal leaders.

The Bogota government, while officially proclaiming a wish to eradicate the cultivation of narcotics, does not recognise an association between landlessness and the narcotics industry, which is centred around Medellin, Cali and Cartagena. The link is made by journalists, however. One of them, Lynne Wallis, writing in *The Observer* (London: 5.9.93) notes: "Now the land is being taken over by drug barons growing leaves for cocaine. The Arhuaco chew the leaves to suppress hunger and help them stay awake to tend crops."

In El Salvador, leaders of the left-wing FMLN, who abandoned guerrilla warfare in favour of peaceful settlement, now complain that the government has not kept its promise to provide land to former fighters. They also claim the government has tolerated the re-emergence of right-wing death squads.

ROMANIA'S parliament has approved a tax on land which opposition MPs are to contest in the constitutional court. They claim that the tax would be levied on estimates of production from land, which they argue is contrary to the law. The tax, they say, discriminates against private landowners, of which there are now over five million.

Agricultural companies, such as state farms, are exempt from the tax; they will continue to be liable to pay a profits-related tax.

The land tax is among measures that open the way for the IMF to approve a \$700m loan. But the Protopact farmers' union predicts the tax will create social unrest.

TOKYO Landless dead

THE HIGH price of land in Japan is so great that there is little room for the dead. Tokyo's metropolitan government has a solution: the dead are being offered multi-storey steel dormitories - but only for cremated bodies. A place in the 70-foot concrete dome, which holds 5,200 lockers, costs £1,400 to £2,400. The space crisis is a disaster for Buddhists, who believe the dead must be given a resting place before the 49th day after death. In Tokyo, the premium on space means that the city government has to sell 750 to 1,000 sites a year by lottery.

LONDON Privatisation

LAND at a discount, or even free, is being offered in 21 English towns. The offer is from the Commission for New Towns, which has been ordered to privatise public assets before it is wound up in 1998. The commission is asking councils to launch

development competitions. Winners would receive land at less than its commercial value.

Since 1979, when Margaret Thatcher's privatisation programme came into action, the Commission has raised £2 bn for the Treasury. Assets still available for disposal include over 9m sq. ft. of commercial premises and 18,000 acres of land.

* An underground toilet in London's West End, with a guide price of £70,000, has been sold at auction for £350,000. The toilet, in Charing Cross Road, has planning permission for conversion to retail use. A public toilet on Twickenham Green, in south-west London, has been converted to a bistro: the price has not been divulged by the borough council.

LAGOS Redistribution

NIGERIA'S defence, justice and information ministers have been named in a court case in which they are said to have acquired prime building sites in Lagos at prices below market values. The 40 sites were compulsorily acquired from the owners. Now a development company is challenging the decree on which the coastal sites were acquired. The Lagos state high court has temporarily restrained the federal government from exercising ownership rights over the land.

In Harare, white farmers are complaining that Prime Minister Robert Mugabe is not playing fair with the programme of land redistribution. The Zimbabwe government has passed a law to compulsorily redistribute land to poor peasants. But the first farm to be compulsorily acquired has been leased to the cabinet minister who designed the land reform programme.

Corruption in high places

LEADERS of the rich industrialised nations of the world have decided to preach about corruption in politics. Senior officials from the 24 countries of the Organisation for Economic Cooperation and Development are now working on a common policy that is aimed at clamping down on bribery and corruption.

Imagine it! Bribery and corruption! Where? In Italy? No. In Japan? No. Where then? Why, in the Third World, of course!

Putting an end to bribery, says the OECD, is vital as a way to improve governance - in developing countries. The multi-national corporations of Europe and North America must not be held to ransom by crooked politicians in the Third World, who want

to line their Swiss bank accounts with back-handers (which can notch up to many millions of dollars if the contract is big enough).

The US is taking a hard line. It wants the recommendations to be as binding as possible. One pressure on the bribers - from the rich nations - is to disallow bribes as tax-deductible.

"The largesse out of which to pay bribes is the rent of land. In a rational system of public finance there would be no cream to skim off the surface"

THIS monstrous exercise in cheek leaves one breathless. For the democratic governments of rich nations have no moral right to preach to others. During the past 12 months, the integrity of democracy has been severely damaged by the revelations that have flowed from the capitals of the western world.

• Japan's government collapsed because of a running series of revelations about corruption between big business, organised crime, and the politicians. Then, the man elected to clean up the corruption, Morihiro Hosokawa, resigned as Prime Minister on April 8 after allegations over a loan which, he insisted, did not involve malpractise.

• A similarly disgraceful series of disclosures in Italy brought down the government. There, the pattern of bribes is identical to the one that is now being documented in Japan.

• In Britain, key politicians in two major London boroughs - Westminster and Wandsworth - have shown themselves willing to "bribe" citizens into voting for them (by offering public housing for sale at well below market values, as a way of shifting voting intentions in favour of the Tory party). Their housing policies are now the subject of investigation.

• And we now have the US President himself as the target of an official investigation, because of his connections with a dubious land deal: see page 21.

What right, then, do the G7 countries have to preach to the leaders of nations that are copying what is done in the metropolitan countries?

I AM NOT condoning the use of bribery in either business or politics. What irritates is the hypocrisy that surrounds this attempt to tell others how to put their houses in order.

The question is this: how do you stop corruption? Policing techniques are a waste of time. Corruption will continue, so long as there is money to be made out of influence over other people's money.

View the problem in terms of the workings of the markets. There is little money to be made out of the labour and capital markets. Competitive pressures serve as the best restraint on the distortions that encourage dirty deals.

In nearly all the acts of public corruption that have been documented in the last 12 months, the source of the problem is the ability to carve-up the proceeds from deals in the land market. This is clearly perceived in both Japan and Italy, where most of the corruption in public life is linked to construction companies that want favours from the politicians. The ability of politicians to exact a price for their favours is their guardianship over the use of land.

The largesse out of which to pay bribes is the rent of land. In a rational system of public finance, there would be no cream to skim off the surface: the whole of the rent of land would be going into the public coffers. This, allied with the appropriate institutional arrangements to regulate the land market (such as up-to-date assessments of values, and transparency in transactions) would remove the prospect of corruption. Under these conditions, construction companies would not be able to afford to bribe politicians.

So if democratic governments really want to raise the standards of public life, they first have to understand the dynamics of corruption. That entails a re-examination of the basis of public finance. By putting their own houses in order, first, they would be leading by example. Everything else is so much hot air.

IAN BARRON

AFRICA: CRY FOR FREEDOM

A continent bleeds, and a TV reporter dies telling the world how it is; but no-one knows what to do about it...

IT WAS A RIOT that my brother knew would come.

John had been sent to Johannesburg in November 1991 as the TV correspondent for the BBC. He had completed a stint as chief political correspondent in London, and was looking forward to one of the big political stories of the decade: the deconstruction of apartheid.

Running the reels of his first despatches to London, I realised that he had learnt well the lessons of the Georgist philosophy. For some years, he had helped me to edit *Land and Liberty*, so he was familiar with the thesis that the control of land was the cornerstone of political power.

It was not easy to dramatise that reality in terms of the day-to-day politics of the House of Commons, but his new assignment gave him greater scope to convey that lesson to the world.

His first story included footage of a white farmer who symbolically stooped to scoop up a handful of earth, which he slowly filtered through his fingers. Defiantly, the farmer warned that he would not yield his land to anyone. The parting shot was of the sun setting on a white South Africa. John knew that history was in the making. That, one day, the sun would rise on a multi-racial society in which the blackman would reclaim his birth-right: land.

John chose, as his second assignment, a profile of the puppet president, Lucas Mangope, the primary school teacher who had been picked by Pretoria to run one of the "sovereign" homelands.

Reclining in his presidential seat, Mangope answered John's questions about Boputhatswana, a pox of a country scattered across the map to

expose the pockets of black isolation and exploitation. All was quiet, but, warned John, "the harmony is deceptive." The people wanted jobs, health, homes. And as the South African regime was in the process of being forced to bend to the politics of democracy, so Boputhatswana, too, would one day have to accommodate the realities of multi-racialism.

Under Mangope, people had suffered detention and authoritarianism. Those people, John sensed, realised that their future lay in a democratic South Africa into which the homelands would have to be reincorporated. A society in which everyone would enjoy equality of opportunity.

But on the question of sovereignty, President Mangope was adamant. "I will not budge," he insisted. He was master of his territory, and that was how it was going to remain.

Under John's questioning, the petty tyrant was firm: independence was a "heritage and a right", an "inalienable right", and he would "not budge" from this position...

TWO YEARS passed. The white regime was engulfed by the demands for one-man-one-vote. Nelson Mandela and the African National Congress, negotiating with President de Klerk, agreed a new constitution for South Africa. The elections were set for April 27, 1994.

John was right: the citizens of Boputhatswana were determined not to be excluded from the benefits that they believed would flow from the right to vote. The civil service went on strike, to reinforce their demand for the right to vote as citizens of the new South Africa. The hapless President Mangope resisted,

and John was back in the capital, Mmabatho, to report on the riots.

The citizens of Bop had no doubt what was at stake. One of them, Timothy Morake, told the reporter from the *Weekend Star* (March 12): "For me, land and voting is about the same thing. I have to vote because I want to get my land back. We all want to go back to where we came from."

Resentment against Mangope was building up, wrote reporter John Perlman, because people were "yearning to have their land back, land now farmed by Mangope's rightwing associates".

In his despatch, filmed in the streets of Mmabatho on March 9, John reported that Mangope was still "refusing to budge". That evening, having filed his story, he returned to the scene with cameraman Glenn Middleton. They secured the first pictures of gun-shot victims being admitted to a clinic. This was the human cost of the fight for land. Despite the tight deadline, John was determined to inform the world. On the road to the TV station in Zeerust, where he was to satellite out his film, his car crashed and he died.

Thirty-six hours later President Mangope was under arrest. His regime fell, and the citizens of Boputhatswana had won the right to fight for their land through the ballot box.

A NEW ERA is dawning in South Africa. The need for drastic action is illustrated by new statistics on income from the Development Bank of South Africa, which reveal that 75% of black women and 60% of black men in the northern and eastern Transvaal received no income in 1991. There was limited opportunity to find

work in the formal economy or to earn a decent living in subsistence agriculture.

The report noted the obvious: these people were restrained by lack of services, assets and access to credit. "Though the situation is worse in the drought-prone northern Transvaal than in the eastern Transvaal, there is still hope," according to the report. "People find innovative ways of dealing with poverty. Poverty alleviation programmes should recognise people's coping strategies and build on these by reducing impediments."

The biggest obstacle is the one that makes access to land all but impossible. The African National Congress realises this, but its plans do not inspire hope that the landless poor are about to enjoy a new deal.

In its bid for acceptability to the international community, the ANC has abandoned its radicalism. It does not intend to restructure the economy to give everyone a fair and equal deal. In fact, we now know that it has conspired with the de Klerk government to produce commitments that have as their consequence the preservation of power in the hands of those who already hold it.

The suspicion that this was so was confirmed a few weeks before the election, when a leaked letter confirmed that the ANC was committed to fiscal and monetary disciplines of the type dictated by the International Monetary Fund. The commitment was contained in a letter of intent sent by the South African government to the IMF, which the ANC's representative on the Transitional Executive Council's finance committee accepts as "binding".

The implications are clear enough, for the IMF's track record on economic development in other countries is unambiguous: unemployment and a cut in public services. Those are the consequences that an ANC government will have to swallow, in return for a five-year \$850m (£574m) loan for drought relief from the IMF.

IRONICALLY, the IMF letter has cut the ground beneath the man who has just been appointed by the ANC to implement its "reconstruction and development programme".

Professor Ben Turok is director of the Institute for African Alternatives.

He takes a tough stand against IMF-inspired policies, which he says are designed to protect "a new world order which recolonises, integrates and subordinates the Third World in a system of so-called free markets".

Prof. Turok wants investment in people, not on city centres. Cartels had to be destroyed by competition and the removal of generous tax exemptions. The fine words tumble out... "We want to overcome stagnation in industry and take up spare capacity. This will provide jobs and use internal investment productively, not for speculative purposes or unnecessary property development," he writes in a study called Development and Reconstruction in SA.

But even if Prof. Turok understood that the prime problem was with tenure-and-taxation, the ANC's binding commitment to uphold IMF policies means that South Africa cannot now expect a new start.

TO UNLOCK the talents of the underclass, in South Africa, something would have to be done about the control over land.

In the rural sector, 50,000 farmers own 87% of the land. This is a maldistribution which will provoke violence, as the landless blacks discover that the right to vote, after all, is meaningless, if it is not backed up

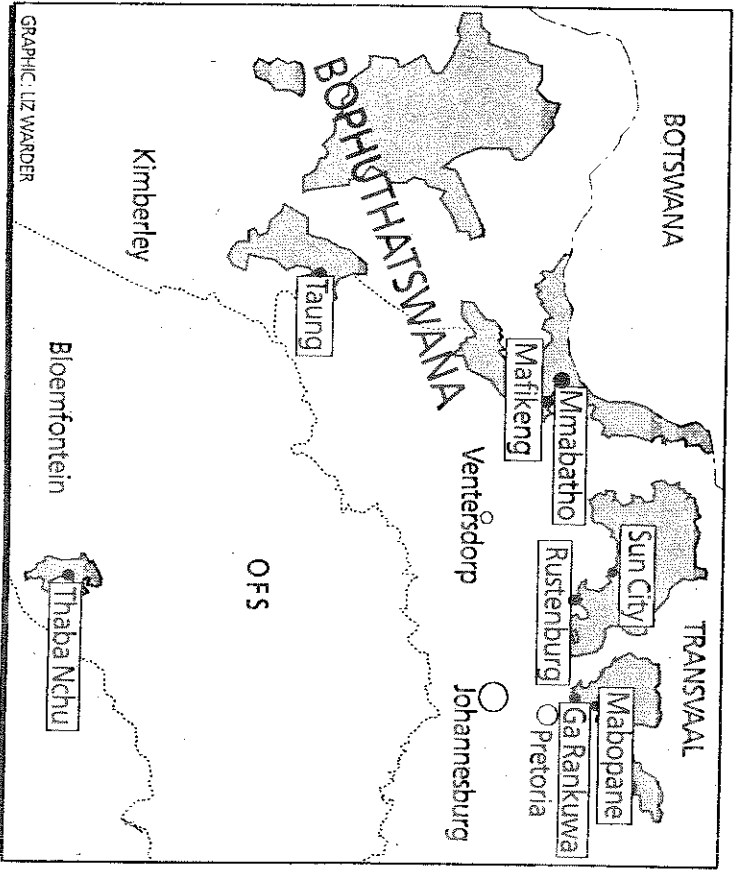
with the appropriate remedial policies.

Nelson Mandela has been hailed as the saviour of the oppressed people, but - no doubt unwittingly - he is locking his people into the same system of exploitation from which he was supposed to be liberating them. That became apparent during an election speech in February, when he assured white farmers that they had nothing to fear from an ANC government. He promised that their land would not be nationalised.

So now we can reasonably predict that South Africa will share a similar fate to Zimbabwe's. There, the war of liberation was all about land, too. Socialist Prime Minister Robert Mugabe tried to meet the aspirations of the thousands of families who are crammed on the reservations, but post-colonial prosperity proved elusive. The result: interperate threats to nationalise land, on the one hand, while handcuffing the country to the IMF on the other hand.

Zimbabwe was driven by desperation into the IMF's net. As part of the conditions for cash, Zimbabwe had to adopt trade policies that have severely damaged its industrial base. Manufacturing output in the first half of 1993 was 19% lower than in 1992, which was in turn 12% lower than in 1991.

A similar fate awaits 13 other



African countries that are reeling under the impact of a massive devaluation. The IMF is hastily trying to negotiate the terms for new loans to countries like Senegal and Niger, none of them led with the imagination necessary to haul them out of their poverty-stricken state. The IMF wants to maintain the value of the debts these countries owe to the rich creditor nations. For the African societies, however, the price will be measured in the further cut-back in public services that are already paltry.

Black South Africans can expect an equally grim future. The dual economy will continue to function: the prosperity gap between white and black will continue to widen, save for token successes that will rely on policies of reverse discrimination. For the millions of poor, the benefits will be barely visible. One day, out of desperation, Mr. Mandela's successors will decide to radicalise their policies. What are their options?

THERE IS NO POINT in reviewing the alternative strategies, because they have all been put to the test, and have failed.

The only policy that provides a balanced approach to social and economic renewal hinges on the reform of public finance. The essence of that policy is that taxes on labour and capital, on consumption and production, have to be abolished. Instead, the public sector has to be financed out of the rent of land.

There is no "shock therapy" attached to this policy, which can be phased in with minimal disturbance to the present social and economic structures. The strategy is underpinned by the most powerful of all notions of social justice, one that flows from the recognition that the resources of nature - in which South Africa is particularly well blessed - is the common heritage of mankind.

There is no need to talk about the nationalisation of farmland: farmers can keep all the hectares they possess, providing they pay the market-determined rental value of their land to the community.

There is no need to confiscate the diamond and gold mines from the corporations, providing they profit from their capital investments and

reserve the value of natural resources for the benefit of everyone in society.

There is no need to coerce people into adopting alien life-styles, providing those who live well now do not expect to preserve privileges that are denied to others. All the kinks in society, in fact - which originate in the maldistribution of the benefits of nature's fertility and sub-soil riches - would correct themselves naturally.

All of this is available through the process of liberating everyone to pursue his or her aspirations without let or hindrance. And the key precept for accomplishing this goal is this: people should pay for the benefits that they receive.

THE ADMINISTRATIVE infrastructure for this strategy is already in place, in South Africa. Most municipalities already administer a property tax based on the value of urban sites.

Even so, ingrained attitudes will present an obstacle to the policy. This became clear in March when the ANC revealed its plan to cut property tax rebates to residential property owners. The rebates are granted to homeowners so that they do not pay as much as businesses, on the grounds that businesses place greater strains on roads and services.

The ANC is searching for revenue to finance the development of black areas. The tax rebate, which black politicians regard as a discount for privileged whites, has become a target for additional finance.

When he heard about the plan, Johannesburg city councillor Paul Asherson threatened to lead a boycott "on a scale never seen before" if an ANC government interfered with the arrangement, which is "a mechanism that ensures residents pay a reasonable and correct rate [tax], but allows the city to collect twice that rate from business."

The justification for the tax rebate is a fallacious one, of course. The value of land occupied by homes, factories and offices is a precise measure of the social benefits of occupying those sites. Owners, bidding for the land in the market, set the value of their sites by freely negotiating the price. Those rents are the most effective declaration of the value placed by occupiers themselves on the value of the public

amenities available to them. They should therefore expect to pay a corresponding amount for the benefit of using the services.

As Cas Coovadia, a Johannesburg civic leader, put it: "The people in Soweto could never get a rates rebate because they have no industrial base. It's crazy that I, who could afford to pay the full amount of my rates bill, should be subsidised."

Mr Coovadia understands that the transition to a fairer and more efficient society will entail changes in the system of public finance: "Until we can look at a new and more equitable system, we need to begin somewhere to address the backlog. This is where the real crunch comes. Change means sacrifice...and we need to address unfair situations."

In fact, the sacrifice, in this case, does not entail the loss of something to which the white homeowners are fairly entitled. There is no legitimate reason to preserve a practice in which a numerically small section of the community - the landowners - have biased the property tax in their favour and against private enterprise.

A FAIR system of public finance is one in which, ultimately, everyone wins. But someone has to explain these facts to the people. Given the present level of understanding, that is not about to be done by representatives of the ANC, or any other political group.

South Africa's new constitution embodies philosophies of taxation and of property rights which will work against a smooth transition to a just society, and will militate against an efficient system for producing the wealth of the new nation.

John Harrison of the BBC understood this. When we last met, at our mother's funeral five weeks before his death, he told me about his plans. After the excitement of the first free elections, he intended to turn his hand to making documentary films. These would enlarge the vision of leaders like Nelson Mandela, who publicly acknowledged John's death as a loss to Africa. That, we now know, was not to be.

But someone must continue the work. Otherwise, the children of Africa will forever cry for freedom.

CAMELOT FOUNDERS IN A MURKY LAND DEAL

BACK IN OXFORD, where he was a Rhodes Scholar, Bill Clinton had a vision. He would one day emulate his hero, John F. Kennedy, and pitch the tents of Camelot back on the laws of the White House.

First, however, he would have to prove himself. He did well in small-town politics, and became Governor of Arkansas. Then he made it to Washington, DC, a president determined to improve the quality of life of the American citizen. His plan to reform the health system, if it succeeds, would prove that politicians could still be motivated by principle.

But the chivalrous flags are not fluttering, right now; for the US Administration is paralysed by revelations surrounding the spot of land speculation in which Bill and Hillary Clinton engaged, over in the Ozark mountains, the details of which are bogging down congressional politics.

Way back when, it seems, the Clintons tried to make a killing out of a real estate deal called Whitewater. Like so many speculators, however, they failed; they made a loss. All was not lost, however: the loss meant they could reduce the tax liabilities on their earnings.

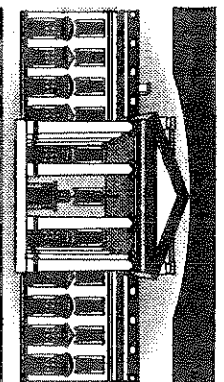
Oops! It now turns out that the Clintons claimed that the loss was greater than had actually occurred, which means that they underpaid on their taxes.

At first, the Clintons claimed to have suffered a loss of \$69,000 on the deal. Now, it seems, that loss was actually \$46,000. Mitigating the loss, it seems, was a \$32,000 loan extended to Bill Clinton's mother, which had been overlooked in the family's tax returns.

But the president's White House counsel, Lloyd Cutler, is playing down the gravity of the Clinton's error. "Underpaying your income taxes in good faith is certainly not an illegal act. Most real estate transactions, in particular, are extremely complex, both from a business and a tax point of view. Innocent mistakes are cer-

tainly possible."

The land deal is spiced by the mysterious death of the Vince Foster, the former White House deputy counsel who, it is now confirmed, did commit suicide last July. Unfortunately for the president, however, his well-meaning aides took the precaution of removing Whitewater documents from Foster's office before investigating officers got to them.



Paul Knight in Washington

OPPOSITION in Congress are not buying the claim of innocence canvassed on behalf of the President.

The case started off on the basis of two allegations. First, the Clintons were accused of "skimming" funds from the now bankrupt Madison Guaranty, a Little Rock savings and loan institution. Second, that some of the diverted money was used to finance Mr. Clinton's gubernatorial campaigning in Arkansas.

But his accusers now claim that the original allegations are overshadowed by attempts at a cover-up. The president sought to staunch public criticism by calling for the appointment of a special counsel to investigate his involvement in the Whitewater land deal, but that did not satisfy Congressman Jim Leach, who says: "In a nutshell, Whitewater is about the arrogance of power - Machiavellian machinations, of single-party government."

Nonsense, replies the president. "I think what the American people are really upset about is the thought that this investment that we made 16 years ago, that lost money that did not

involve savings and loans, might somehow divert us from doing the work of the country."

In a TV interview, he insisted: "I didn't do anything wrong except I made a bad business deal". That deal was to form Whitewater in 1979. The company was supposed to sell land in northern Arkansas for vacation homes.

Governor Clinton's partner was political aide was James McDougal, the owner of Morgan Guaranty, the savings and loan institution that cost US taxpayers \$47 millions after it failed. The Resolution Trust Corporation (RTC), the federal body that has spent hundreds of billions of dollars cleaning up the S&L industry after the nationwide land speculation fever of the 1980s, referred Morgan Guaranty to the Justice Department in 1992. And that's when life started to turn sour for the president.

Before the cover-up allegations scandalised Washington, the accusing finger was mainly pointed at Hillary. Documents show that she was active in the land deals, according to an investigation by *Time* journalists (January 17). Their partner, James McDougal, was creative in his handling of some of the sites: in one deal, he swapped almost half the land for little more than a twin-engine airplane that was then sold for a loss of \$13,000. That loss was first absorbed by Madison Guaranty's depositors, and then passed on to federal taxpayers through the RTC rescue operation.

So far, however, no proof has been offered that Bill Clinton himself was involved in any criminal activity. Land speculation is not illegal; in fact, in the US, it is a national pastime! Several White House heads have rolled, but that is because of imprudent interference with the judicial investigation.

Meanwhile, President Clinton is trying to get his reform programme back on track. And so far, he has failed to offer any observations about the imprudence of land speculation.

THE BIGGEST SWINDLES OF ALL ARE LEGAL

FINANCIAL SWINDLES are now being perpetrated on such a massive scale that they threaten the global financial system.

The prospects of effective official action are slim, however, for bribery and corruption are too deeply integrated into the political system for governments to be able to unite behind a plan to defeat the crooks. This pessimistic view stems from an analysis of the underlying logic of the rackets.

The link between political and business corruption has been transparently exposed in Japan, where politicians have received massive sums from construction firms that need access to land to conduct their business. The politicians with influence over planning decisions and the allocation of government funds find that they can exact a price for their favours.

The latest case to grab the headlines is the arrest of former Construction Minister Kishiro Nakamura, a member of the Diet's lower house. He is accused of taking bribes to pressure the Fair Trade Commission not to indict 66 construction companies. The *Nikkei Weekly* (March 14) traced the chain of corruption (see below).

But there is no debate in Japan about the systemic flaws. Financial scandals are being used to victimise a few politicians, as if throwing out a few rotten apples would leave the barrel healthy. It won't, because the barrel itself is the source of the problem.

It is the logic of the land tenure system that provides a few people with monopoly power and encourages them to milk the community. That power provides the scope for creatively developing a rich array of mechanisms for enrichment. These two random examples serve as illustrations:

- The European Union claims to provide money to encourage the production of sufficient food at stable prices for consumers. For the privilege of this service, the average family in Europe pays £28 a week more, for its food, than it would if there were no Common Agricultural Policy.

Milking the taxpayer/consumer

takes several forms. The direct fraud can be illustrated by farmers in Italy, many of whom claim large sums for olive groves that do not exist. The Brussels bureaucrats claim they are now devising remote sensing systems to try and track the phantom olive groves.

It is not possible to calculate how much money the frauds have cost Europe's taxpayers/consumers, because Brussels relies on cases being reported by member states. The European Commission has just noted a 50% increase (to £297m) in reported fraud, which it blames on organised crime.

But the control over land provides seemingly legitimate access to taxpayers' money that some would say was actually fraudulent. For example, the rearing of bulls in Spain is subsidised by "extensification" grants. What does that mean? Someone decided that bulls reared in confined spaces were not healthy. Solution: pay landowners to provide more land on which the bulls can roam, while awaiting ritual slaughter in the rings. Effect: a rise in the price of land.

- Pakistani landowners have worked out a neat way to rip off the system with the connivance of banks.

The government, allegedly anxious to raise agricultural productivity, makes loans available through a bank. Access to the loans, however, is limited to people who own at least five hectares; as ever, poor farmers and landless labourers are excluded.

The rip-off works like this, according to Farhan Bokhari writing in *The Financial Times* (March 25). The farmer borrows money with which to buy a

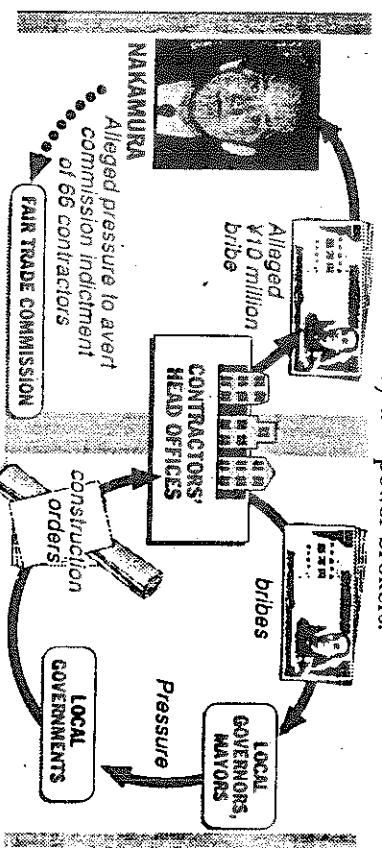
tractor. Many of them have no intention of taking delivery of the tractors, however. Instead, they sell them at a discount, with no intention of repaying the original loan from the Agricultural Development Bank of Pakistan. The landowners do not fear the consequences: the legal system is rigged to obstruct attempts to recover the loans. The farmers expect to pocket the money and walk away!

The bank's officials know that the racket is operating, but they are intimidated by the political consequences of taking action. Moving against landowners is "politically sensitive" and therefore avoided.

The sinister implication behind such stories emerges when we contrast the inaction with the way in which governments are trying to curb the laundering of mafia money.

The peddlers of drugs and vice are outlaws. As a rule, they do not try to work within the legal system. Where their activities have overlapped the politics, this has usually been in order to ensure that their nefarious activities are safely quarantined from the law. Because they pose no direct challenge to the political system, governments feel free to try and fight them.

Not so with the crooks who milk the taxpayer. For it is the direct control over land, either by individuals or the state, that is the starting point for most of the big swindles. That means any attempt to develop a socially fair and efficient system of income distribution is a direct challenge to the power of landowners. And so far, governments have not shown themselves willing to move against the power-brokers.



HUMBUG ON HOUSING POLICY

by Peter Poole

OVER 860,000 houses in England are empty, according to data supplied by local authorities to the Department of the Environment.

The value of these empty homes is placed at over £25 billion by Bob Lawrence of the Empty Homes Agency. And, he told a conference in London on April 11, the cost of keeping them empty could be £100m for every 10,000 houses.

Over 764,000 houses belong to the private sector, with 86,000 houses in the public sector - 16,000 owned by central government.

"Bringing back just 10% of these houses into use would have a very significant impact on the problems of the homeless," he pointed out.

According to experts, these figures represent a fraction of the actual totals for Britain.

WHAT SHOULD be done? None of the politicians has a clue, because they cannot offer a comprehensive explanation as to why landlords should willingly forego income by keeping houses empty.

Tenants have lost the security they enjoyed in previous years, but still landlords prefer to keep their properties empty in a country with an estimated 2m homeless people.

Sir George Young, the housing minister who launched the Empty Homes Agency two years ago, acknowledges that the total number of empty houses in government hands is too high. He has appointed a task force to report on what should be done. And Environment Minister John Gummer is to also announce measures in the near future on what can be done to use "wasted homes".

None of the proposals will identify the root-cause of the problem: a system of property taxation that encourages land speculation and discourages efficient use of property.

The tax system inflates the selling price of land and encourages owners to withhold their sites from the market in anticipation of huge gains in the medium- to long-run. Meanwhile, the cost of providing public services for empty houses is not fully defrayed by the owners, which means there is no

incentive for them to make their properties available to families who need homes.

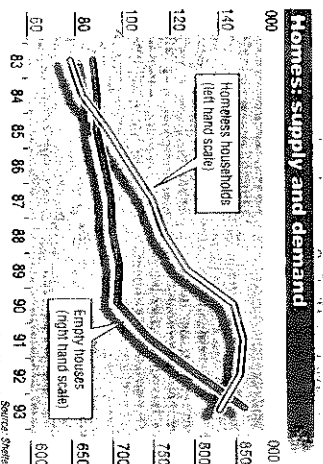
Yet there is no realisation among policy-makers of what it would take to resolve the housing crisis. Illustrative of the confusion is Sir George's proposal that empty offices should be converted into homes. There is an estimated 25m square feet of vacant office space in London alone. But the families in need could more readily be housed in purpose-built homes - if the owners were disposed to offer them for rent.

Land price rise upsets builders

HOUSING land prices are rising £44 million in March, according to a leading indicator of the construction industry. Robert Dunlop said: "The cost of the land is the most important factor in the economic cost of housing. But speculation on markets could put pressure on markets and have recently impacted the City for expansion funds."

Builders' sources said that since the market's low point in the early 1990s, the price of prime land has risen by 20 per cent. In the mid-1990s, when builders moved to stock up on land ahead of a resurge in demand.

With building materials prices expected to rise by 5 per cent, the 11th of March was causing others to fear a doubly expensive and long winter.



THE FIRST STEP towards fiscal reform would be for the government to remove the property tax from buildings, and shift the charge onto the value of sites. If that charge was payable irrespective of whether the land was used, or not, owners would not keep their properties vacant.

Instead, Britain continues to be afflicted by the legacy of irrational policies.

• Following the crash of the property market, families are being further divided by current trends in house prices. Prime properties are rising in value; meanwhile, those who suffer

"negative equity" - their mortgages are higher than the value of the houses - are not being rescued by price increases.

The failure of government to cure the housing problem stems, in part, from a confusion over how the land market operates.

• Builders are now complaining that the price of land is rising dangerously fast. They blame the planners for the shortage of affordable sites. No-one blames the landowners who are refusing to sell their sites!

RETIRED citizens are among the victims of the disarray in housing policy.

McCarthy & Stone, the builder of retirement homes, highlighted the problem when Chairman John McCarthy called on landowners to offer them building sites, without which many retired people will not be able to afford suitable accommodation.

McCarthy & Stone has £15m to spend on land in the next 6-9 months, but is finding it difficult to obtain suitable sites. According to Mr McCarthy, "landowners do not seem to realize that there is now a revival in demand and they are failing to put sites on the market".

There are fewer than 5,000 new purpose-built retirement apartments on the market, while over 3m retired people would like to move into housing that meets their needs. The scope for construction is enormous, but the bottleneck is in the supply of land.

But Mr McCarthy's explanation - that landowners "do not seem to realize" that there is a demand for their sites - cannot be correct. The well-advertised rise in the price of land leaves landowners in no doubt that they are squatting on valuable assets. Land prices rose by 28% in 1993, in the south-east, and are likely to rise by about 20% this year, according to Savills, the London real estate agency. The price of some sites in the Home Counties rose by 50% to £1.12m per hectare over the past 12 months.

The plight of the homeless will continue without relief, for so long as the current fiscal philosophy prevails in the corridors of power.

MONOPOLY: THE RULES OF THE GAME

Continued from page 24

THE GUARDIAN (London) invites its readers to pose questions to which others can then offer answers. Richard Bramhall, press officer of the Welsh Green Party, asked a question about the game of Monopoly. His question:

In the Board Game Monopoly, as in real life, the players as "landowners" are free to exploit the other players as "tenants." The wealth gap widens rapidly and the losers starve. How should the rules of Monopoly be revised to reflect landowners' responsibilities to the community?

These were the published answers.

• Monopoly beautifully illustrates the inability of the free market to sustain itself. Inequalities soon emerge and are rapidly amplified by chance and skill through the market mechanism - until the game eventually comes to a stop when all the money and most of the assets end up in the hands of one player. It is only the "social" - i.e., non-market, income received by each player on passing "GO" - that keeps the game going long enough to be worth playing.

The free market is no better than any other perpetual motion contraption. It requires an external source of demand to drive it. If you want to model the welfare state, you could impose a progressive tax on rents to go into the Community Chest and you could increase the "social income" received by players. In short, "Tax and Spend", the ultimate anathema of the free market believers. But you would then face the possibility of an endless game. - Ralph Herdan, Stockport, Cheshire.

• The game of Monopoly is based on an older game, the Landlord's Game, devised in the United States in the 1890s and intended by its inventor, Elizabeth Webb, as propaganda against slum landlordism.

In the 1970s a small US manufacturer produced a game called Antimonopoly in which the aim was to break up, rather than create, large capitalist enterprises - but was promptly sued for breach of copyright by Parker Brothers, the US manufacturers of Monopoly. A new edition of this game has appeared recently, so the dispute seems to have been resolved. - Roger Sandell, Richmond, Surrey.

• When any player amasses more than £100,000 in cash, he should give half to the Conservative Party and go directly to Cyprus. His remaining property should be sold and a pension fund should be established for the other players after 10% has been deducted for the Royal Train. - Rev.Dr. Bernard E. Jones, Fulwood, Lancashire.

Much of Pittsburgh's success is attributed to its urban renewal program without noting that almost every American city attempted the same thing. Lacking systems to reward enterprise and thwart land speculation, few matched Pittsburgh's results. The 1960-85 era is replete with urban renewal horror stories: excessive demolitions, uprooted minorities, acres of vacant business districts, abused subsidies, etc. The authors properly assign some credit to Pittsburgh's generous tax abatements for new construction. Unasked question: since many comparison cities used such abatements why were the same results not achieved?

A cub reporter, sent to cover the Johnstown flood, started dictating: "From the mountaintop overlooking Johnstown, God surveys a scene of utter devastation..." His editor screams into the phone: "Stop! Forget the flood! Interview God!" That classic journalism story comes to mind because this study offers data and opens debates bearing directly on the urgent urban issues of central city decay and sprawl - yet leaves them unaddressed, on the mountaintop, so to speak.

Oates and Schwab worry that higher taxes on land values, by hastening land use, may lead to "socially excessive levels of current development." They cite no Pittsburgh examples, nor do they confront the corollary: low land taxes and delayed development of in-city sites are promoting blight and costly suburban sprawl.

Pittsburgh's skyscrapers plus residential buildings increased substantially in the 1980s. Census data show that in its suburbs, which lack the two-rate tax, commercial industrial construction rose only 4.5% and home construction was down -35%.

• In contrast, in most comparison areas, commercial building declined in cities but their suburbs experienced major growth (percentages are for suburbs): Akron, 39%; Allentown, 70%; Cincinnati, 54%; Columbus, 106%; Detroit, 37%; Rochester, 40%; Youngstown, 65%. Central cities, of course, were desperate for a bigger piece of this action.

If the authors have not grasped the theory linking tax policy with growth patterns, they at least should alert all those who are wrestling with urban problems that Pittsburgh is doing something to counteract sprawl and keep the core city healthy.

"What the Pittsburgh experience suggests to us," write Oates and Schwab, "is that the movement to a graded tax system can, in the right setting, provide some stimulus to local building activity. The primary role of the land tax in all this is to provide the additional source of revenues that allows a reduction in the rate on improvements."

This must jar anyone familiar with land tax literature which always stresses taxing buildings less as well as taxing land values more. One welcomes the rediscovery of what Henry George wrote 112 years ago, that abolishing taxes on production is like "removing an immense weight from a powerful spring." But it is disheartening to see this integral part of the land tax mentioned as a kind of accidental side effect. Despite all this, the paper makes a positive contribution. The findings are monumental and the analysis should stimulate further research by economists who have paid too little attention to the implications of property tax modernization.

BOOK REVIEW

OATES and Schwab of the University of Maryland have unearthed impressive evidence that Pittsburgh, after significantly increasing its land value tax, far surpassed 14 other comparable industrial cities in economic growth.

All but two of the cities studied (see table) saw the value of annual building permits decline sharply in the 1980s compared with the two prior decades. Columbus, Ohio, realized a 15% increase. This was dwarfed by Pittsburgh's showing:

"The real value of building permits on an annual basis rose by some 70% in the 1980s relative to the twenty-year period preceding the tax reform!"

These comparisons are based on statistics from Dun and Bradstreet, a firm that tracks business performance. Oates and Schwab also checked U.S. Census Bureau records that, while covering shorter time spans (1974-78 and 1980-89), had richer details with breakdowns of central city and suburban construction and building activity of different types. Results: "Pittsburgh again stands out with a dramatic increase of more than 250%" a year, while new building investment in most other cities fell after 1979.

Surprisingly, these striking facts elicit no ringing endorsement of the land tax. Note the cautious opening and closing statements, respectively:

"The analysis of these data, in the context of some other key economic variables, suggests to us that the Pitts-

burgh tax reform, properly understood, has probably played a significant supportive role in the economic resurgence of the city."

"We cannot conclude, from the Pittsburgh experience at least, that such fiscal incentives are in themselves capable of generating major urban renewal efforts. But in the general Pittsburgh context, it is our sense that they have played a supporting role for new urban construction. Our findings thus do not support some of the more extravagant claims that land-tax proponents have made for the effect of the tax in stimulating economic activity. But urban land taxes, while they may not provide much direct stimulus to development activities, can substi-

SPECTACULAR PITTSBURGH FINDINGS EMERGE FROM LAND TAX STUDY

The Impact of Urban Land Taxation:

The Pittsburgh Experience,

Wallace Oates and Robert Schwab.

Lincoln Institute of Land Policy, Cambridge, Mass. 1993.

by *Walt Rybeck*

tute for other taxes that penalize such undertakings."

WHY DO the authors deflate the import of their solid findings? Some clues surface. They give credence to unnamed "development experts" who say Pittsburgh's revival would have occurred anyway. Land speculators and other land tax foes warned City Council in 1978 that its big land tax increase would dry up construction. The opposite occurred. Now they insist the reform was of no consequence.

The authors credit favorable underlying economic conditions. In the late '70s and early '80s, the steel industry, the foundation of the region's economy collapsed. A nationwide housing crisis hit Pittsburgh's metropolitan area. Thus the city's growth was even more noteworthy.

Pittsburgh's Golden Triangle renewal in the '40s is treated as if the graded tax did not yet exist. David Lawrence, then mayor, called it a critical factor in the success of that pioneering effort.

The authors show that tax rates for city property owners, nominally at a 5.6-to-1 ratio (land-to-building), are only 2.33-to-1 when combined with Allegheny County and school district rates. Observers may question whether dramatic results stem from this modest differential. However, with similar findings in too many other land tax cities to be mere coincidence, a more plausible conclusion is that this reform must be potent indeed if such little doses can achieve so much.

Continued on page 23

15 midwest cities, before and after Pittsburgh's major land tax increase

Average annual value of building permits; Constant 1982 dollars; millions

	1960-79	1980-89	% change
PITTSBURGH	181.7	309.7	70.4
Akron	134.0	87.9	-34.4
Allentown	48.1	28.8	-40.4
Buffalo	93.7	82.9	-11.5
Canton	40.2	24.2	-39.7
Cincinnati	318.2	231.5	-27.2
Cleveland	329.5	224.5	-31.8
Columbus	456.5	527.0	15.4
Dayton	107.7	92.2	-14.4
Detroit	368.8	227.7	-24.7
Erie	48.3	22.7	-52.9
Rochester	118.7	82.4	-30.5
Syracuse	94.5	53.6	-43.2
Toledo	138.3	93.4	-32.4
Youngstown	33.6	11.1	-66.9
15-city average	167.5	143.3	-14.4

SOURCE: Oates and Schwab, Table 3