

Governance & the UN

“A High Political Price”

ECONOMICS, if applied scientifically, leads to one unchallengeable conclusion on how public policy can maximise people’s welfare. The optimum conditions prevail when government draws its revenue from the rents of land and natural resources. Why, then, do social scientists fail to prescribe this powerful tool for eradicating poverty? Let us assume that they are purely concerned with being practical. This leads to the advice that is stressed in a study produced by the World Bank’s Infrastructure and Urban Development Department. The study was written by William Dillinger for the Bank and agencies of the United Nations. The author makes plain at the outset why his analysis would not commend the optimum pricing policy: “For all its economic virtues, the property tax carries a high political price”.¹

Repeatedly, the World Bank analyst restates – as if it were a mantra – that the property tax entails political costs. The policy was just too good – and too honest – to handle. So

its capacity to deliver economic efficiency and democratic outcomes (such as transparency – no tax-by-stealth here) are held against it as a liability.

From a political standpoint, the effectiveness of the property tax in confronting taxpayers with the costs of municipal services is no virtue. Central governments – which exercise veto power over property tax policy and frequently are responsible for its administration – are reluctant to allow the tax to be exploited effectively.²

So, the tool that would do most for the least effort to enable people to achieve their aspirations without hindrance from others (or their government) is skilfully side-lined. It is true that people do react with greater passion towards changes in their property tax than to other forms of exactions. This explains why UK governments, for example, have persistently avoided reforms that would make the property tax more effective. This timidity tells us that politicians are not willing to trust people with all the facts.

The property tax connects the payer directly with the benefits received from public services through their occupation (or other use) of land. This is the principle that we all apply and accept in the markets for consumer goods, without causing howls of protest: people expect to pay for what they receive. This contrasts with taxes that are concealed in the prices that consumers pay. When stealth tax rates are altered, protests are not vociferous. So politicians are tempted to avoid the property tax in favour of a hundred and one other ways to squeeze people's private incomes.

The outcome is under-use of the property tax (sacrificing efficiency) and resort to stealth taxes (sacrificing democratic

Trading off the Truth

THE reforms which the IMF prescribes are wrapped up in language persuasively designed to convince the neo-colonised countries that its financial medicine is based on reason. For example, governments are repeatedly told that they face 'trade-offs' between high-return investment projects (as in infrastructure) and spending on health and education.

A classic example is the IMF's *Public investment and fiscal policy – lessons from the Pilot Country Studies* (2005).*

To avoid increasing their debt burden, the neo-colonised are informed that they face spending constraints and that hard choices have to be made between building a road and social welfare.

Backed by impressive research, the IMF brings the agenda round to its preferred approach. This "would entail an assessment of the scope for mobilising both private and public resources for infrastructure spending, within a macro-economically sound and fiscally sustainable framework" (paragraph 16). This leads to the recommendation for funding public investment either by debt or the sale of state assets (paragraph 17, table 7). Decoded, this language is based on Orwellian doublethink.

- Taxes favoured by the IMF are *unsustainable*. They corrode enterprise from within by inflicting deadweight losses on the private sector – which consequently provokes the need for the state intervention that the IMF wishes to avoid.
- The sale of state assets – if these are land or natural resources – deprives the state of revenue in perpetuity from a source that would optimise the provision of public goods and so maximise the profitability of private enterprise.

Nowhere in the IMF's review does it commend the optimum strategy for maximising economic growth.

* www.imf.org/external/np/pp/eng/2005/040105a.pdf

ideals like transparency and personal responsibility). The material loss is enormous: Britain alone lost the equivalent of one year's output of GDP during Tony Blair's 10-year premiership.³ But the stakes are higher in the neo-colonised world, where people *die* every day because their leaders are intimidated by the doctrine of "a high political price" into employing inferior ways to raise revenue. There comes a time when the price of not doing what is right is too great. This is when people demand a strengthening of the moral and social fabric of their communities.

The philosophy of property rights and public finance, and the administration of these policies, are in a state of disarray. This is due more to ideological prejudice than lack of reason (an example is given in the box on the previous page). An informed public debate is needed before governments will muster the courage to embark on policies that deliver remedies. The starting point must be with that most revered of documents, the UN's *Universal Declaration of Human Rights*.

The UN Universal Declaration of Human Rights

AROUND THE world, people campaign for human rights as never before. Curiously, however, the birthright to land receives rare acknowledgement. Collectively, we have forgotten the philosophy of sharing the resources of nature, a primordial right that was recognised by John Locke when he wrote *Two Treatises on Government* (1690). That is why it is one of the supreme ironies that Locke helped to lay the foundations of the modern power structure that excludes

the majority from their right to land. The tradition which he helped to enshrine in law has disfigured the various bills of human rights in the 20th century, including the United Nations' attempt to pronounce on the right of people to be treated as equals.

In his account of the rules of governance (he called it a 'social contract'), Locke explained that everyone enjoyed the natural right to "life, liberty and estate".⁴ That word *estate* is the old English legal concept for landed property. There was no ambiguity in Locke's exposition of natural rights: we all had the right to land, without which there could be no life. But he conceded that, in a commercial society, people could hold more land than they needed to meet their immediate needs, so long as they left enough land for others to use. But that provision – that everyone was entitled to access land – was not incorporated into his draft of the constitution for the settlers of Carolina. Instead, his provisions consolidated the monopoly of land for the English aristocrats who embarked on the most audacious land grab in history. Sanctioned by the power of the English state, the patricians of the Old World staked their claim to the lands of the New World and sealed the fate of the indigenous peoples.

Today, the property rights that were defined by Locke's successors are treated as sacred. Those rights, however, are wrapped up in documents that display a curious opaqueness, as if there was something to hide. The UN's *Universal Declaration of Human Rights* is the prime example. It affirms the right to private property in a way that (1) sanctions the deprivation of people's human rights, and (2) legitimises the appropriation of property that belongs to others.

The modern doctrine of human rights has abandoned

its origins in natural rights. The doctrine has become little more than the expression of a vested interest. The constitutional documents of the US, for example, protect the version of property rights favoured by the heirs to the English aristocracy,⁵ a historical reality that is obscured by the rhetorical claim that all citizens are treated as equals.

The United Nations adopted the *Universal Declaration of Human Rights* in 1948. This is the template against which we now judge the behaviour of individuals and of sovereign nations. It purports to define the rights of everyone on earth. Unfortunately, the exercise of those rights permits the institutionalised abuse of people in every country of the world.

- The *Declaration* fails to specify the preconditions for liberty. So even if we all complied with its strictures, people cannot secure their humanity because the individual's *right to life* is unenforceable.⁶
- The *Declaration* fails to specify the conditions for a healthy society. Obligations are placed on the state which cannot be fulfilled without abusing people's freedom, which includes their right to retain the property they create by their labour.

These defects render the *Declaration* inadequate to secure the universal rights as these were conceived under natural law.

Problems begin with the preamble, where the UN promotes "inalienable rights". Primordially, early humans acted *as if* they recognised the equal right of everyone to access nature's resources. This biologically-based 'right' gained formal recognition as humans acquired the cultural capacity to

consciously express their inter-personal agreements. And yet, there is no reference to people's equal right of access to land or nature's resources in the UN document.

The UN records its disapproval of the barbarous acts which result from contempt for others. But those abuses were rarely inspired by the desire to deprive people of "employment", "housing" or "medical care"; in the significant cases of mass intrusion on the rights of others, the aggressors sought to appropriate the territory on which people were settled. And yet, the *Declaration* has *no provision for restoring every person's equal right of access to, and use of, land.*

Without land, the affirmation that people are "born free and equal in dignity and rights" (Article 1) is meaningless. In Article 2, we are assured that "everyone is entitled to all the rights and freedoms set forth in this *Declaration*". They are guaranteed freedom of religion, to get married and have children, to work and associate with others. But what they are not guaranteed is an entitlement to occupy the space they need on which to practice their religion, procreate, build their homes and work for their living.

Article 3 offers a variation on the Lockean theme. Whereas the philosopher wrote about the right to "life, liberty and estate", the UN in Article 3, offered "security of person" in place of estate (land). But *without the guarantee of land, no-one's life can be secure.*

The *Declaration* offers a crude portrait of the individual, who is treated as detached from nature and barely anchored in the community that gives personality its content. Thus its catalogue of rights are assigned to individuals in a sometimes empty rhetoric: who would one sue to secure a remedy for the right to employment?

The *Declaration* grants society a grudging status. Where it is introduced, society is burdened with the responsibility to secure the rights of individuals without provision for it to acquire the necessary resources. In Article 28, for example, "Everyone is entitled to a social and international order in which the rights and freedoms set forth in this *Declaration* can be fully realised". But the *Declaration* falls short, and *remains silent on the rights of a community against the individual*. Where the individual is said to have a duty to the community (Article 29 [1]) the duties are not specified.

It is not possible for people in community to fulfil obligations without access to resources to fund the provision of public goods. Culture, for example, is acknowledged as indispensable for the dignity and development of personality (Article 22). Everyone "has the right to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits" (Article 27 [1]). So we are *entitled* to the benefits of a civilisation. But civilisations are contingent on the ability of people to generate and share in the economic surplus (rents), without which there would be no culture, arts and science. And yet, the UN *Declaration* again is *silent on the right of the community to claim those rents to fund culture*. And it is silent on the duty of the individual to deliver those rents.

This places the nation-state in an invidious position. It is obliged (under Articles 21 and 22) to deliver public services to everyone, including social security, but the terms on which it may raise the funds to meet the costs are not specified. There is a right way and a wrong way to achieve this, and a person's liberties are infringed if the wrong choice is made.

- **The wrong way** is to tax the product of people's labour. This is an intrusion on private property that is possible only by exercising coercive power. Under the *Declaration* such revenue-raising instruments ought to be outlawed, *unless there are extenuating circumstances in each case to justify the infringement of a person's liberty and private property.*
- **The right way** is for the state to act as the guardian of the public value. In this case, the rents are freely yielded by the individual in exchange for the use of public goods. *Under the Declaration, this financial expression of human rights and obligations ought to be sanctioned as the pre-eminent method for raising revenue.*

The omissions from the *Declaration* create an intolerable philosophical and legal situation, for the individual depends on a healthy society for the fulfilment of personal potential. The individual is recognised by the UN as a social being – someone with “honour and reputation” to protect (Article 12). But this means that, for the individual to equip the community with the means that lead to the enforcement of personal rights, revisions to the *Declaration* are imperative.

The need to fill the void in the UN *Declaration* is urgent, for sovereign states today are unable to meet their responsibilities. In Britain, for example, more than 25% of households are deemed to be ‘breadline poor’.⁸ Those households are dependent on the state for subsistence, a dependency that undermines their right to the dignity that comes with the ability to pay one's way through life. Britain, despite its tax exactions, is not able to fulfil its obligation to enable everyone to live the life visualised by the UN *Declaration*.

If an honest politician were to propose that all of the

rental income of a person's land should be paid to offset the cost of the services that give his site its utility, the howl would go up: *confiscation*. Legal action would probably follow on the grounds that government was taking the property of its owner. We need to untangle the mess behind property rights.

- Criminals who reallocate the possession of articles that we have earned the right to possess by our labours are left in no doubt about what law-abiding citizens think of them. They are imprisoned.
- When people walk away with publicly-created wealth, however, action is not taken to restore that property to the rightful owners. The owners are the people who, by their presence and co-operative activities in the community, originate that value. Yet, their deprivation is sanctioned by law.

Why don't we think it is appropriate to throw into gaol the people who steal the public value? Because the UN ritualises a doctrine of property that makes respectable the private appropriation of that value. To alter this state of affairs, we need a new understanding about the way governments fund public services. For a start, the language that biases the way governments frame their revenue policies needs to be clarified. An example is the emphatic statement by the World Bank that "in principle there is no 'right' rate of property tax".⁹ This tells us more about the mind-set of the authors than about economic theory, morality or the process of producing and exchanging wealth. There is a right rate: 100% – the full price – of the stream of urban

and agricultural rents, nature's minerals, and the absorption capacity of the environment. These rents equal the benefits of services delivered to users. They are the measure of what people are willing – and actually do – pay. So the only question is *who* collects the rents. The agencies that provide the services, or strangers?

Intellectuals in the neo-colonised world – be they in politics, academia, the media or civil society's NGOs – have the resources to engage in an enquiry into the rules of governance to determine what would best serve the needs of their communities. They have the intellectual capacity to set aside the prejudices inherited from the colonial past. They should be on their guard against the constitutional jargon that does not protect people's primary rights. Fiscal practice and legal preaching need to be harmonised, if the riches of territories are to be shared by all. Fine words, even the right words, are not enough, as we learn from the case of Ethiopia.

Beyond Athenian Democracy: Ethiopia & the Fiscal Imperative

CONFLICTS OVER natural resources arise because societies fail to neutralise those riches as the source of contention. For so long as they are available to some, they will be fought over by others.

Traditionally, governments were controlled by people with property. This applies to the democracies, as well as governance by aristocratic elites or tyrants. It was only in the 20th century that the property qualification (mainly the ownership of land) was separated from the right to vote.

The provision that the ownership of property qualified one to vote was built into the politics of the 'land of the free'. Joseph Galloway, one of the Founding Fathers of the USA, (quoted by Merrill Jensen) put it in these terms:

'Power results from the real property of society,' he said. 'The states of Greece, Macedon, Rome were founded on this plan,' and the English is founded on the same principle, the principle of the representation of landed property in the government of the state.¹⁰

Ethiopia is the one nation in Africa that was not colonised by a European power. Its roots can be traced back to the first kingdom, founded about the 11th century BC. The Homeric poems celebrate a pious people who were often visited by the gods. We pick up their history in 1974. The Derg regime, composed of members of the army, had deposed Emperor Haile Selassie and proclaimed 'Ethiopian Socialism'. All land was nationalised and strict price controls were introduced for agricultural and industrial products. The collectivisation of farming proved disastrous, and the Derg was deposed in 1991.

Thereafter followed a process of consultation among the country's 60m people on the rights to land which they wanted embedded in a new constitution. They participated at the *kebelle* (village) level, and over 90% of *weredas* (districts) completed and returned questionnaire forms showing how people had voted. The constitution of the Federal Democratic Republic of Ethiopia was ratified on December 8, 1994.

On land ownership, overwhelming support was expressed for the view that land should be treated as a social asset.

This was formalised in Article 40 (paragraph 3) of the Constitution, which states:

The right of ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is a common property of the nations, nationalities and peoples of Ethiopia and shall not be subject to sale or to other means of transfer.

Gail Warden reviewed the constitutional provisions on land tenure. She concluded that Ethiopia should resist pressure from the West, which wanted the country to legalise the sale of land as a commodity. Pointing out that much property in New York City is leasehold, which did not impede economic development, she observed: "Ethiopia is being encouraged to do what the West says, and not what it actually does".¹¹

Land really *was* available to anyone who needed it in Ethiopia. Furthermore, because it was illegal to sell land, peasants who might have been tempted to cash in their assets and migrate to the cities were inhibited from doing so. But for those who did choose to go in search of urban employment and lifestyles, the leasehold system ensured that residential plots would be made available at affordable rents.

But the formal provisions in the Constitution were not flawless. For while peasants could not sell their tracts, they could lease them to neighbours for payment in kind. The implication is crucial. While all the *land* is in the public domain, some of its rental income (whether in cash or kind) could be privatised. And, ultimately, what land grabbers want is not the physical land or resource, but the rental income.

The Ethiopian Constitution was reviewed by the late Sir Kenneth Jupp, who had served as a judge in the English

High Court for 15 years. Sir Kenneth admired the provisions in the Constitution that based the allocation of land on the leasehold system, but he feared that insufficient attention had been paid to ensuring that rents remained in the public domain. Despite the guarantee that land would be made available to those who needed it, Sir Kenneth understood that there was a finite supply in the locations where people chose to live and work. These sites were the most valuable, and it was not possible to allocate equal strips of such land to everyone in Ethiopia (let alone to secure the rights of future generations). Therefore, it was vital that the equalisation of land rights should find its reciprocal in the fiscal system. Regular revaluation of rents, at market prices, would enable government to collect the revenue to fund services that everyone shared. Otherwise, the following was possible:

If the farmers and pastoralists get their land free, then those with a surplus will soon become a class superior to the unfortunates who use land near or at the margin. In time, some will be able to lease out some or all of their land and draw rent from letting others work it. This superiority then becomes the basis for ethnic discontent and regional conflict as the losers perceive that others, on more fertile or advantageously located land, are accumulating material resources faster than they are, for reasons unrelated to their skill, enterprise, or endeavour.¹²

The people who drafted Ethiopia's Constitution understood the economics of the land market, and they were determined to remove land as the site of social contest. But the wisdom that informed the law on land also needed to be embedded in public finance.

To complete the democratic revolution in Ethiopia, therefore, provision needs to be made to regularly reappraise

the public value of land. The information needs to be stored in records that are accessible at a low cost to everyone. This would facilitate not just the collection of the public value. It is the first step towards developing a public consciousness in favour of safeguarding rents as public revenue. It would, for example, combat corruption: if people know the size of the public value, they would intervene if some of it disappeared into Swiss bank accounts.

The educational function of a sound constitution is crucial to secure an informed electorate. The UN advocates that school children should be instructed on its *Universal Declaration of Human Rights*. But given that birthrights to land do not feature in the syllabus of schools, the UN assists the rent-privatisers in their agenda – cultivating a selective amnesia so that people are inhibited from thinking about their most fundamental of natural rights.