

Social Capitalism

Pioneer for Prosperity: South Africa?

STUDIES BY the IMF and the World Bank report that tax rates are the main constraint on the private sector.¹ Economic bottlenecks attributable to inadequate provision of infrastructure (such as transport) are also identified as a major obstacle to economic growth. But the IMF, in analysing the relationship between public investment and tax policy, secures the answers it wants to highlight its preference for the private provision of public goods – with the taxpayer incurring the major risks of investment in capital-intensive infrastructure.

We have shown that public finance policies and the provision of infrastructure can be united in a self-funding arrangement that works with the grain of both human dignity and market economics. Why, then, do the IMF and the World Bank play fast and loose with the policy of property taxation? One answer is to be found in the fact that the IMF's research favours private and foreign sources of revenue and Western

property rights. Studiously, the IMF remains uninformative on the potential for raising funds from domestic sources on the back of improvements in infrastructure.

We can assume that the fiscal reform we propose would, at first sight, worry property owners. But that is why democratic debate, to achieve popular understanding, is vital. People who wish to take charge of their lives – and the destinies of their communities – need to arrive at a consensus for change based on access to knowledge that the IMF is not in a hurry to deliver.

- *Only* by introducing a fully functional pricing mechanism for the public sector does it become possible to neutralise the monopoly power that is otherwise handed to the private owners of nature's resources.
- *Only* by restructuring the distribution of income in favour of those who work and invest in the creation of capital goods, does it become possible to achieve the UN's Millennium Development Goals.

This is the model for *social capitalism*. There is no back-street route to this outcome. If these two insights are not enshrined in laws and economic processes, *there is no prospect of achieving sustainable growth and the evolution of balanced communities*. For a society that operates outside this framework is necessarily exploitative, depleting both human potential and the riches of nature – and ingraining poverty into the fabric of society.

The concept of social capitalism would be dismissed by most socialists as a contradiction in terms. But if further empirical evidence is needed, where better to find it than

South Africa? The African National Congress was democratically elected. Its ideology was rooted in socialism, but – once in power – it pragmatically turned to the free market. It could have embarked on a radical fiscal reform, for South Africa had in place an effective administration of site-value taxation. This locally-administered charge was employed in municipal jurisdictions that held approximately 70% of the nation's land value, and was an effective rent-collecting fiscal tool.²

Politically, the ANC and Nelson Mandela achieved a monumental feat. They mobilised blacks and whites behind a common agenda of social renewal. Their constitution contained fine words about the rights of the individual. But (as we saw in chapter 6), the doctrine of ownership rights in the nation's natural resources needs practical expression on the ground (literally on the ground) (see box).

Terror (I)

The roadside piles of stone missiles near slums were a familiar sight in apartheid South Africa. They were revived in the rural township of Boikhutso, where residents of the tin-shack dwellings rioted and stoned cars in frustration at the lack of economic progress.* They had hoped, post-apartheid, to dispense with bucket toilets and the other symbols of deprivation. The Rev. Moses Moshelane, the local municipal manager, said: "The expectations of people are too high and too fast. And while you are busy addressing one squatter area, another one mushrooms somewhere else."

* *Financial Times*, June 5, 2007

The post-apartheid republic could have elevated its municipal site-value tax to a national fiscal strategy. This would have delivered justice between the races, and it would

have placed the economy on a new – accelerated – growth path that included the people of the shanty towns. Instead, in 2004, with its Property Rating Act, the government scrapped the land-only tax in favour of a tax that also fell on capital investments on the land. This was the version of the property tax favoured by the IMF. The new law consequently introduced a penalty on people who invested their money and enterprise on land. In the case of Cape Town, the amendment bequeathed the owners of idle land an annual gift of approximately 136 million rand.³

The bias against people who worked and invested was a fundamental policy error. We may assume that the consequences were not intended by a government that genuinely wished to help low-income citizens. Fortunately, however, because of its administrative history, it would be easy for South Africa to revert back to a site-value-only charge.

The price of not doing so would be crippling. Without the property rights and public finance that favour the common good, South Africa is not entitled to claim that it champions *justice* and *efficiency*. And since the synthesis of these two is the precondition for consigning poverty to history in that country, nor may it claim to speak for the poor.

In the case of South Africa, the outcomes specified in chapter 8 would be achieved at the end of a relatively short transition. South Africa could pioneer the advance to economic equality in Africa. The alternative outcome has been foreseen by Desmond Tutu, the former Archbishop of Cape Town, who warned that the gap between rich and poor was widening. “We are sitting on a powder keg over the matter of redistribution of wealth,” observed Tutu, one of the charismatic leaders of the anti-apartheid

movement. Most of the people living in shacks before the end of white rule were still living in shacks. The poor had remained patient, and Tutu found it hard “to explain why they don’t say to hell with Tutu, Mandela and the rest, and go on the rampage”.⁴ Politicians were aware that a crisis was looming. The alternative was ominously identified by a spokesman (Eddie Mhohobi) for the South African government’s Agriculture and Land Affairs Ministry:

It is clear that, short of nationalisation of land, there is a need for drastic measures to be implemented, to intervene in the land market to accelerate redistribution.⁵

The only way to synthesise all competing interests – to unite commercial imperatives with ancient attitudes towards the land as culturally and spiritually central to the lives of the people living on it – is through fiscal reform.

Pioneer for Prosperity: India?

SEVEN YEARS after Jeffrey Sachs promoted an 8% growth target, India celebrated the 60th anniversary of her independence. It was a time for national celebration, but still Prime Minister Dr. Manmohan Singh had to lament malnutrition rates as a “national shame”. Gandhi’s dream of a free India, he declared, “will only be fully realised when we banish poverty from our midst”. Almost half of India’s children are underfed, with about 160,000 dying every year before reaching their first birthday.⁶

India, as one of the high-growth countries, was not immune from the widening of the gap between the rich and

the poor. It had fallen victim of the capitalist growth disease. The number of her people living below \$1-a-day is almost equal to the number in sub-Saharan Africa – 300m.⁷

Economic inequality in Asia is approaching levels in Latin America. According to a professor of economics at the University of California (Berkeley), if current trends continue, China may soon reach the high-inequality levels of Brazil, Mexico and Chile.⁸

Inequality in India, measured in terms of land distribution, is greater than in China.⁹ This is one of the outcomes of the land boom in India which has enriched the few – such as KP Singh, the country's real estate baron whose fortune is estimated at £16.3bn.

Land is increasingly an explosive issue in India, where incomplete reforms have left much of the country in the hands of a few. This has led to riots and armed insurrection against attempts to industrialise large parts of India's interior.¹⁰

In October 2007, a landless army of 25,000 marched on Delhi.¹¹ This was the legacy of socialism's failure to provide the antidote to capitalism's growth disease. And yet, India preserves a collective memory of the value of shared rights in the community's land. India is, therefore, equipped to modernise the commons model of property rights so that the traditional benefits that flowed from social solidarity may be absorbed into the commercial economy.

As an example of a transitional mechanism towards the general solution that we discussed in chapter 8, India could designate swathes of her slums as Community Land Trusts (CLTs) (see box facing). This would be an alternative to the decision taken in 2007 by the government in New Delhi to demolish

the tin shacks and construct dwellings for displaced families. The slum-dwellers were hostile to the plans, because the government also announced its intention to auction the land to the highest bidders. The poor had good reason to be anxious. Conventional urban renewal is based on property rights inherited from colonial times, when investment in real estate entailed the displacement of low income people. And yet, alternative possibilities exist even under the current tax-and-tenure regime.

In Mumbai, for example, Dharavi is the largest slum in Asia, occupying publicly-owned land. Here, the land problem could be neutralised by adopting the CLT model. This would also neutralise land as a class – and in India, a caste –

Community Land Trusts

LAND-SHARING is not anathema even in capitalist countries. In the USA, for example, the first Community Land Trust was established in 1968. There are now 186 CLTs across forty states and in Washington DC.*

The stock of homes is evenly split between owned and rented units. Buyers pay for the building, and the CLT retains ownership of the land. When the house is sold, the CLT usually has the right to repurchase it at a price that takes into account the value of improvements to the property and changes in local house prices.

Originally, CLTs were established by private groups. But this mechanism for providing affordable homes to low-income families has attracted local governments and public sector financing.

A similar movement is growing in Scotland, where the new parliament has made community land-sharing the centrepiece of its programme of land reform.

* Greenstein and Sungu-Eryilmaz (2007)

weapon. All of the future growth of rental income would be pooled back into the community and devoted to health clinics, educational amenities or whatever people needed. The CLT arrangement would enable residents (through, for example, management organisations) to shape the spending programmes funded out of the ground-rents that they paid into their community's purse.

The employment prospects would be significant, not least in construction. Using modern methods, structures could be built at less cost than conventional building techniques. And local labour could be trained to use the innovative methods that have been tested in countries such as Malaysia and China. Families would pay an annual rent for the land they occupied. The private home and the shared rights to land would bind the inhabitants into holistic communities that fulfilled traditional cultural norms while working with the dynamics of the modern economy. By pioneering this approach in Asia, India would demonstrate that the urban crises that are intensifying everywhere in the world can be addressed locally in a socially inclusive way.

Extending the CLT model into the villages would begin the process of rebalancing the relationship between town and country. The millions who are liable to quit their small-holdings for tin shacks in towns would acquire incentives to remain in the countryside, as they enforced their rights to common land.¹²

Stemming the rural exodus is vital if India is to develop sustainable rates of growth. At present, investment in infrastructure such as roads *deepens* the income divide, and consequently *encourages* migration down the nation's improved highways (see box facing). By reforming public finance, rents

Equity in Highways

RURAL infrastructure is crucial to development, yet “little is known about the size and especially the distribution of benefits from such investments in less developed countries”, according to World Bank economist Hanan Jacoby. This is curious, for German agricultural economist Johann von Thünen (1783-1850) explained the economics of highway infrastructure long ago. Essentially, the better the road network, the lower the transport costs and the higher the land rent.

Jacoby tested this theory with land value data collected by the Nepal Living Standards Survey (1995-96).^{*} By building a new road, would rents rise? He confirmed von Thünen’s theory, but his approach is more interesting for what it reveals about the mindset of post-classical economists.

Jacoby’s conclusions were coloured by his assumption that a new road would be funded by foreign aid. Why not assume that the road is funded out of the value which it adds as a result of improving productivity? Clawing back the increased rents would deliver startlingly different outcomes to those perceived by Jacoby.

- *Politically*, the state would not be in debt to foreign lenders.
- *Economically*, there would be little justification for Jacoby’s claim that “rural road construction is certainly not the magic bullet for poverty alleviation”.
- *Socially*, the bias in the distribution of benefits to owners with the most valuable land would be eliminated. For if the rents were collected, these net gains would be shared by everyone through their equal enjoyment of rent-funded public amenities.

As Jacoby notes, landless households do not benefit at all from road construction because the increase in wages is offset by price rises (like the cost of renting one’s home). But there is no law of nature which says that this is an unavoidable outcome.

^{*} Jacoby (2000)

would be available to upgrade rural infrastructure and *automatically* increase the living standards of those on the lowest incomes. This, in turn, would ease the pressure on urban infrastructure and enable people to diversify into new forms of economic activity. By diffusing higher living standards, India could pioneer the retrieval of authentic local culture while engaging with the world of global commerce.

Terror (2)

“Those familiar with recent Indian history will recognise one rather stark difference in the political ethos. The areas most associated with Maoist insurgency movements [are] all landlord areas. Looking at crime statistics also points to the landlord areas being most conflict-ridden....[L]andlord areas have higher levels of crime than non-landlord areas. Further, the difference is mainly in the levels of violent crime (which includes dacoities [armed robberies]).”*

* Banerjee and Iyer (2005) p. 25

Pioneer for Prosperity: Venezuela?

DEMOCRACY IS canvassed as the practical and ethical model for resolving competing claims. As such, it is advanced as the reason for many international initiatives. We need to explore the proposition, because for many people in the neo-colonised world this doctrine is a smokescreen to advance the vital interests of the West.

We have seen that the fundamental cause of poverty is the way that property rights and tax policies interact. The tensions within this process define capitalism. So tampering with that matrix is a threat to the system itself; and is – naturally – likely

to provoke a hostile reaction. Is democracy *per se* the answer? Or is the vigour with which the West advocates the adoption of democratic institutions a covert way of preserving those elements of capitalism that injure people's vital interests? To understand what underlies the political failures of Western nations on the global stage, we shall consider the traumatic relationship between the US and Venezuela following the election of Hugo Rafael Chávez Frías.

The majority in Venezuela did declare their preferences in democratic terms. They turned to one of their own kind for help. Poverty had increased over the two decades prior to the election of Chávez, but their material deprivation was not because of the niggardliness of nature: over the past 25 years the country received \$600bn in oil revenues. So, was democracy sufficient to deliver prosperity? If anyone in Venezuela was sceptical, cynicism seemed warranted by attempts to subvert the democratic will.

Chávez, the champion of peasants, achieved power with a majority of 60% of the popular vote. His presidential agenda was clear to everybody from the start: help the poor. His 'mistake' was to promote land reform. The reaction of the US to the Enabling Act (2001) was immediate. Its ambassador in Caracas, Donna Hrinak, declared: "The Land Law is an attack on the right of private property".¹³ Chávez exacerbated relations with America by linking his agenda to socialism. This was a red rag to a bull in Washington DC.

Here was a president who felt confident that he could effect substantial improvement in the welfare of people who lived on less than \$2-a-day in a nation that enjoyed a fabulous flow of oil-rents. Did it make any difference that he was proposing to promulgate his reforms on the back of a

democratic mandate? Chávez was leading what he called a Bolivarian Revolution, delivering his “socialism of the 21st century”.

His policies for land reform, because they were divorced from fiscal reform, would not work. Furthermore, they made enemies of the landed elites who took for granted their right to govern the nation. So a degree of tension within Venezuela was inevitable, but wasn't the democratic process supposed to facilitate peaceful resolutions to potential conflicts of interest?

In the past, because of the colonial origins of the distribution of land and power, peasant leaders vented their frustrations on their near neighbour, the USA. But a new maturity is needed if Latin America is finally to escape colonial bondage. As Lula, Brazil's President – a trade unionist who also achieved power by democratic means – stressed:

A long time ago I learned not to put the blame for backwardness in Brazil on the us. We have to blame ourselves. Our backwardness is caused by an elite which for a century didn't think about the majority and subordinated itself to foreign interests.¹⁴

But Chávez discovered that the mantle of democracy was no protection from his neighbour to the north. There was little love lost between the two governments once Chávez made it clear that he was going to redistribute land. Democratic mandate or not, the us government wanted Chávez removed. Millions of us tax dollars were channelled into Caracas to engineer regime change.

- The us, through its embassy and non-governmental agencies that had received funds from American taxpayers,

sponsored a coup in 2002. It failed. Venezuelans took to the streets to demand the return of their president to the seat of government.

- Next, the us sponsored economic sabotage in the form of a 64-day 'national strike'. This was an employer-led lock-out. The oil taps on which the government relied for its revenue were illegally turned off by a private enterprise that was partly funded by the us government. That, too, failed.
- Having survived these anti-democratic actions, Chávez became the target of a massive disinformation operation. The costs incurred in disseminating the black arts of propaganda were borne by us taxpayers. That campaign against the democratically-elected president continues.

The documentary evidence for the claim that the us inspired and funded these hostile attacks on a democratically elected head of state was obtained by freelance journalist Jeremy Bigwood under the us Freedom of Information Act, and published by Eva Golinger.¹⁵ The us government is exposed to the charge that it is cynical in its use of the language of democracy. If Venezuela were an isolated case, we might overlook it as an aberration, the activities of rogue elements within the us power structure. But the evidence is overwhelming that the us employed similar tactics against countries in its so-called 'backyard' such as Nicaragua and Haiti. In fact, the catalogue of us military interventions in, and covert subversion of, other sovereign states reveals a global agenda.¹⁶

Is there a viable alternative to this geo-political interventionism that embitters the victims of those who use the

language of democracy as a camouflage to favour the elites? The quest for reform should begin by asking why the USA is willing to manipulate the concept of democracy. Democrats are supposed to respect the views of the majority. But for the us, at times, democracy appears to be conditional on the privatisation of land and resource rents. Abraham Lincoln believed that American democracy was “the last best hope of earth”,¹⁷ but the American Dream needs serious reconsideration.¹⁸

It would be wrong, however, to hold the us solely responsible for bad neighbourliness. As we have noted, citing the President of Brazil, countries that want to change need to accept responsibility for the alleviation of their own problems. In the case of Venezuela, the socialist paradigm is of little use to the people. It was well tested – and abandoned – in the 20th century. So why wave the red flag under the beak of the American eagle other than for vicarious mischief?¹⁹

As for the crude, private version of property rights in land, which the us holds sacred – reform can be articulated through the language of freedom. If Chávez had announced *not* land reform, but tax reform, Washington would have had difficulty in justifying its plots against the government in Caracas. If Chávez had championed the principle that people should pay for the benefits they receive, his words would have been straight out of Adam Smith’s *The Wealth of Nations*. Smith explained that landowners should fund the public services that gave value to their estates. How could Washington subvert Adam Smith’s agenda? Publicly, it couldn’t. The sophisticated outcome of this alternative agenda would be the socialisation of rent and the privatisation of wages and profits. That is what we may call social capitalism. This is

Social Capitalism

not a hybrid (a pastiche of existing political doctrines), but a unique philosophy of social organisation designed to liberate the individual and protect the common good.

A redeveloping country that adopted this doctrine would ensure a flow of funds that would free it of the need to negotiate – from weakness – for finance on the terms of the Washington Consensus. Such a country would self-fund its redevelopment in a post-colonial form, and would therefore achieve the sovereignty that is now possessed in name only. If Venezuela pioneered this financial policy, it would emancipate the poor without impoverishing the working rich. That is the ‘silver bullet’ available to governments everywhere in the world today. There is no other way to consign poverty to history.