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Land Use and Taxation in Non-Communist Underdeveloped Areas

by RICHARD W. LINDHOLM

A VERY important aspect of the application of the principles of taxation and resource use developed by Henry George is that it can speed up economic development in the non-Communist underdeveloped areas, and establish institutions compatible with the American way of life. In low-income countries nationalization often consists of a program offering peasants ownership of small pieces of land. In Communist areas these are made available in order to obtain their support, then because of inefficiency in producing government revenues and providing necessary food, the small holdings are combined into nationalized farms organized along police state lines.

The problem of introducing satisfactory land ownership and land-use in underdeveloped countries, whether Communist or non-Communist, certainly does not seem to be met by fragmentation or nationaliza-

tion—either case is opposed to the best interests of people anxious to increase productivity and to enjoy freedom and higher living standards.

We seem to have here then a situation where the ideas, philosophy and program of action of Henry George become appropriate, desirable and vital in meeting the blandishments, offers and pressures of the Communist world. Land area taxation on the basis of capitalized value of location and basic fertility meets the requirements of rapid development within the democratic capitalistic framework while also meeting the welfare, exploitation and anti-landlord appeals of communism.

The economic impact of land taxes based on area and classified according to grade of land has been the subject of much research and analysis. While the findings are not as complete as we would like it is true

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that such a tax increases the cost of holding land idle. If the added costs were heavy enough it might force a landowner to bring idle land into cultivation or sell it to someone else for cultivation. In other cases, if the tax on land were high enough, it would force a landowner to change the use of a plot from grazing to the cultivation of cereals in order to pay the tax. This might result in a more intensive use of the land.

It is frequently said that taxation of land is only one way of taxing agriculture and perhaps not the best way. A number of countries in the Middle East have made extensive use of marketing taxes. A tax on land however has this outstanding advantage over marketing taxes—its burden remains the same whether a large portion of the produce is marketed or not.

It seems very likely that a tax on the economic rent or economic surplus of land has a desirable income (incentive) effect, substitution effect, announcement effect (does not change the pattern of production), and an investment encouragement aspect. The question then arises, why isn't it more widely used, and why has it not been advocated and supported by economists, American aid officials, and others?

Before the days of the Communist programs and propaganda, money lenders, landlords, speculators and other groups, numerically small but strong economically, had to rely on their own political power to prevent the government from using agricultural land as an important base of taxation. Communist propaganda has greatly improved the political position of these groups. Now they can effectively raise the Communist bogey when taxation of land is considered. They join with the Commu-

Professor Lindholm said the proposed study of underdeveloped countries would soon be complete. It will include reports from Mexico, Japan, Korea, Indonesia, Thailand, Pakistan, Ethiopia, Nigeria, Greece and Peru.

nist agitators who hold that this would make the lot of the poor tiller and new landowner even more difficult. Thus the masses in the rural areas of non-Communist countries are on the side of the speculators, middlemen and landowners. The result is that the governments of these areas are very hesitant to use their land taxation powers.

If this explains the reluctance to institute the plan, what can be done about it? First, American advisors can be taught the usefulness of a land value tax. Second, analyses showing the effect of fragmentation of land ownership can be made. Third, education of the people can be aimed at making them see government as an efficient method of bringing about group action. Fourth, our aid program should place greater emphasis on developing tax programs and government efficiency.

Other broad questions deserving of an answer are: is such a tax administratively feasible, will it raise sufficient revenues, will it fit in with vital welfare, is it an answer to the Communist land program, is government encouragement of industrial development assisted? To all these the answer is yes.

But I wish to emphasize that land reform of any type will not magically bring about increased production or better government. All it can ever do is to establish favorable conditions for change and development. Progress in these countries depends on hard work focused upon education, marketing procedures and agricultural experiments, and upon honesty and efficiency in government.