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Post-socialism and the Single Tax: a holistic philosophy

FRED HARRISON

MIKHAIL Gorbachev had a problem. He wanted nothing less than the transformation of Soviet society, but his aspirations were not synchronised with a relevant cosmology. He sought some semblance of continuity with the past, by wistfully invoking Lenin's vision of socialism. On economics, he acknowledged that the new system would have to evolve within a market framework, though he persisted in using the notion of a 'social market'. He recognised that internal transformation could not be approached in isolation from the rest of the world; that the benefits of change would be restricted if sovereign nations continued to adopt aggressive postures in defence of their land.

But there was more. Uniquely, he declared an intention to progress beyond social and economic reforms, for intuitively he was aware of the need to elevate natural resources to the centre of the strategy for transformation. He was aware that the damage to the natural environment would lead to a rapid depletion of Earth's ability to sustain life. His program was vague, but courageously he sought to link international political relations with ecological imperatives.

Could he knit this catalogue of concerns into a coherent, practical philosophical framework? He had no answer, yet this child of the planned society was willing to leap into the dark without the aid of the holistic philosophy that was a pre-condition of success.

By 1990, five years after the announcement that the USSR would break with the past, no-one had presented to the Soviets for their consideration an appropriate philosophy that could match the aspiration to create a post-socialist society.

The search for a hard-headed philosophy which, in its visionary grandeur and practical formulations matches the *perestroika* prospectus, need not have taken him further than the Kremlin archives. A statement of that philosophy was presented as a viable social and economic system in St Petersburg a decade before the 1917 revolution. A considerable part of the literary activity of Leo Tolstoy, during the years leading up to his death in 1910, consisted in expounding the ideas of the social reformer Henry George. So convinced was Tolstoy that the American had developed a program that would meet the then needs of the empire, that he used his influence to lay the plan before the Czar; to no avail.

Eighty Years later, the USSR has a new czar. In the fall of 1990, Mikhail Gorbachev was granted almost absolute power. With the Soviet empire crumbling, the republics reluctantly handed over almost complete authority to one man, in the hope that he would get them through the hungry winter months. Pressed by the elementary need to eat and remain alive, Gorbachev had little time to reflect on philosophical issues. And yet he was aware that, without the appropriate philosophy, his search for a human society, one that bound nations together and corrected man's abuse of the natural environment, his society would disintegrate in civil violence.

Henry George's philosophy is not produced here as if a rabbit from the magician's hat. A hard-headed assessment of contemporary realities in the Soviet Union suggests that this philosophy addresses the immediate needs of hungry people while also addressing Gorbachev's larger vision. It is a holistic program, readily available to guide the emergence of post-socialist society.

In laying bare some of the essentials of that philosophy, testing the principles against the facts of Soviet life, we bear in mind the possibility that the market economies of the West are also in urgent need of reform. The attempt at a counter-revolution against the Welfare State in the 1980s by the New Right, led by Ronald Reagan and Margaret Thatcher, failed. It failed in its ultimate goal (diminishing the size of the public sector) because it had no answers to the problems of the causes of poverty and unemployment. Indeed, material and spiritual deprivation deepened, despite significant achievements in the labor and capital markets. The record of the capitalist mode of production remains a blemished one, despite 200

years of scientific and technological progress. One of the awesome questions, then, is whether Mikhail Gorbachev can avoid the pitfalls that entrap so many western citizens in poverty, now that he has accepted that the answer was not to be found in socialism.

An Appropriate Path to Freedom?

The absence of a clear vision of the *practical* steps they would have to traverse to the new society left Soviet reformers in a state of depression that found its expression in political fractiousness. With food stocks diminishing, the social situation would get 'out of control', warned Deputy Prime Minister Leonid Abalkin (reported in *Pravda*, Nov. 11, 1989). That was one reason why, when the 13th 5-Year Plan was unfolded by Prime Minister Nikolai Ryzkov on December 14, 1989, the Kremlin disclosed a continued dependence on central regulation. Western analysts interpreted this as a betrayal of *perestroika*. In fact, Mikhail Gorbachev was buying time.

Despite five years of *glasnost*, by the end of 1990 the coterie of advisers around Gorbachev had failed to formulate an effective strategy. The Politburo did not want to risk social chaos in a rush for directionless change, yet something had to be seen to be happening. That was why Gorbachev was handed full authority to create a new government and quickly define some political solutions to the immediate economic crises.

The price of a misaligned program of change was already being paid by the other Warsaw Pact countries. They were sinking into economic turmoil, the price they had to pay for help from the International Monetary Fund. To secure the massive loans that were needed to bail out their bankrupt economies, the popular leaders of Poland, Hungary and Czechoslovakia agreed to telescope changes into a short time frame. These changes took the form of higher prices and lower living standards.¹ At the heart of the process was the removal of state subsidies, so that resources could be allocated by the market on the basis of their costs — and used according to the preferences of consumers.

This rush to change led to the first error. The nature of the challenge before the liberated governments of Eastern Europe necessarily entailed the introduction of a system of taxation that corresponded to the needs of a market economy in which the individual,

and not the all-wise planner, was the primary decision-maker. The fiscal question — as well as the liberty of the individual — was intimately bound up with the financial mess of the former communist countries, but the reformers were too anxious to escape the clutches of socialism to worry much about the nature of a post-socialist society.

Setting the pace was Poland's Solidarity government, which aimed to switch from a command to a market economy by the beginning of 1991. Without time to consider its new fiscal system, the leaders of the workers' union who filled the ministerial posts moved in favor of income taxes and the Value Added Tax. The first is a payroll tax, which implied that fewer workers would find jobs during the period of transition than might otherwise have been the case. VAT is a tax that raises the price of the consumer goods that the government ostensibly wanted to place within the reach of its citizens: this tax-push to prices meant extra downward pressure on the real value of wages that were already very low.

These fiscal choices were not consistent with economic aspirations, but was there an alternative on offer? The answer to that question begins to emerge as we re-examine the character of a Marxist society.

Under Marxism, the state appropriates people's incomes. Legitimacy for this action is provided by the fiction that individual contributions to the process of wealth creation cannot be differentiated: hence the justification for the collective ownership of the means of production. With all money accruing to the public sector, the distribution of income (and the standard of living) is in the gift of the state. The bureaucracy determines the allocation of resources, including the spending power of individuals. Amenities that are deemed to be the essential requisites of life — food, housing, medicine, the 'goods' that free men and women would prefer to provide directly for themselves — are 'subsidised', to put them within the reach of everybody. No-one is poor, because no-one grows rich by exploiting others.

The claim that the state 'subsidises' the essential needs of its citizens is also a fiction, employed to disguise the fact that the incomes generated by individuals are spent on their behalf by the state. East Germany, for example, devoted 65 billion marks each year

to food and clothing. This was not an act of distribution in favor of the workers, for they were the ones who generated the income in the first place. Wages had remained fixed at the level of the 1950s; as incomes rose over time, they were captured by the state. The bureaucracy and its political masters decided how the money would be spent. The 'subsidies', then, were not a redistribution of income in favour of those in need, but a measure of the servile dependence of the worker on the state.

But it is not possible even for the command economy to do away completely with wages, so each worker is provided with pocket-money to exercise a limited discretion over his life. In these circumstances, the tax-take from 'pay' packets is necessarily a token sum — in the USSR, about 8% of what is characterised as 'nominal wages' (Aganbegyan and Timofeyev 1988: 33).

To move to a market-based system in which the individual is free to express his preferences, the state has to give up its power over people's incomes. For the state to continue to function, however, a new tax structure has to be created. Rationally, this ought to be consistent with the logic of the market and the financial obligations of the public sector, a primary one being the need for massive investment in infrastructure, to accommodate the market economy. The adjustments that were accepted by the East European countries in 1989 were undoubtedly necessary. The fatal mistake, however, was to accept the view of western financiers that the adjustments (characterised as 'stabilisation' programs) were preconditions to the move to the market economy. In fact, these austerity measures ought to have been postponed until the governments had formulated a coherent vision of the substantive institutions and policies that would constitute the new social foundations; to be implemented as part of the creation of an integrated system of pricing (in the private sector) and taxation (for funding the public sector). Prices and taxes are inextricably related, and they have a crucial effect on the levels of employment and investment.

Instead, the rush to obtain money from western bankers exposed the East Europeans to the crude model favored by capitalist ideology, a model built around the concept of privatisation of industrial enterprises and state property. This western influence planted in Eastern Europe the philosophical flaws that are built into the

foundations of the capitalist nations (Harrison 1991; and below). The newly-liberated nations were not encouraged to differentiate between man-made capital and the resources that are provided by nature. This, as we shall see, now means they are denied the best chance of accelerated change in the desired direction. Instead, the East Europeans are creating carbon copies of an imperfect market. This system is a vast improvement on the command economy; but despite the modifications associated with the emergence of the Welfare State, the capitalist system has lamentably failed to free every able-and-willing person to work for money to pay for his basic needs without the need for charitable hand-outs from more to less fortunate citizens.

The fundamental structural defect in the western model is the way in which land and natural resources are used and abused. A particular combination of tax-and-tenure arrangements has conspired in the land market to assign monopoly power to a small class of people who exercise the right to prevent the economy from operating efficiently (Harrison 1983). The USSR, however, retains the opportunity to create the first system built on rational economic principles and ethics. The test of the integrity of that system, however, is its further capacity to guarantee both the integrity of the natural environment and the rights of future generations to inherit Earth in a state that is capable of sustaining life for as long as the sun shines benignly.

The 'Braking Mechanism'

Marx's labor theory of value provided the theoretical flaw that institutionalised the waste of the rich natural endowments of the USSR. Mikhail Gorbachev, as he scaled the heights of power in the Kremlin, did not articulate the problem in these terms, but he was uncomfortably aware that there was something seriously wrong:

A kind of 'braking mechanism', affecting social and economic development, formed. And all this happened at a time when scientific and technological revolution opened up new prospects for economic and social progress (Gorbachev 1988: 19).

Marxist theory had caused the planners who commanded the mighty Soviet economy to shadow those errors in the capitalist economies that permitted owners to underuse urban sites and over-exploit the

fertility of farmland (see Chapter 9). In the Soviet Union, the absence of market prices — rental values — encouraged planners to use natural resources as a costless substitute for improvements in the productivity of labor and capital. The planners did not impute rental values to land and natural resources, for the simple reason that — according to the labor theory of value — land *had* no value! So the planned targets were achieved by the *extensive* — that is, wasteful — use of the resources of nature.²

This approach, now characterised as the 'spend-away' economy (Gorbachev 1988: 46), forced itself on the collective consciousness of the Moscow mandarins through the accumulation of the brutal facts. Gorbachev admitted:

We spent, in fact we are still spending, far more on raw materials, energy and other resources per unit of output than other developed nations. Our country's wealth in terms of natural and manpower resources has spoilt, one may even say corrupted, us. That, in fact, is chiefly the reason why it was possible for our economy to develop extensively for decades. Accustomed to giving priority to quantitative growth in production, we tried to check the falling rates of growth, but did so mainly by continually increasing expenditures: we built up the fuel and energy industries and increased the use of natural resources in production. As time went on, material resources became harder to get and more expensive . . . So the inertia of extensive economic development was leading to an economic deadlock and stagnation . . . An absurd situation was developing. The Soviet Union, the world's biggest producer of steel, raw materials, fuel and energy, has shortfalls in them due to wasteful or inefficient use (Gorbachev 1988: 19-21).³

In 1985, Gorbachev, as General Secretary of the Communist Party, moved swiftly. Wielding the long knife, to overcome political resistance, he recruited a new team of advisers into the inner circles of the Kremlin. His chief economist was Abel Aganbegyan, the portly academic from Novosibirsk who was flown to Moscow to chair the Commission for the Study of Productive Forces and Resources. He was also appointed head of the economics section of the Academy of Sciences of the USSR.

Had they rediscovered the lessons that flowed from the theory of rent, which was developed by David Ricardo in his *Principles of Political Economy and Taxation* (1817)? The opportunity to test the depth to which new thinking may have penetrated was afforded by

the 27th Party Congress in Moscow, which endorsed Gorbachev's *perestroika* plan. In an early example of *glasnost* in action, the Foreign Ministry agreed to present Abel Aganbegyan at a Press conference on March 5, 1986. This was the first opportunity for western correspondents to probe Aganbegyan's thinking on the use of land and natural resources, which had been used to undermine the aspirations of Lenin's legions. Aganbegyan's answers reflected the shallowness of the prevailing theoretical perspectives. He replied, in answer to a question from me:

As of today and the existing system of accounting, the price of land is not included in the overall system of pricing. Maybe an experiment will be conducted in the nearest future — for example, in Estonia — where a new system of taking into account all the factors of production will be adopted with payments for all the resources utilised in production (Harrison 1986: 44).

Despite Gorbachev's attempts to initiate qualitative changes, the key constraint on the Soviet economy was still at work. Three years later, a dismayed Aganbegyan reported that, between 1985 and 1988, the major brake on growth was the failure to improve on the efficiency with which natural resources were used (Aganbegyan 1989: 243-44). This failure distorted investment and production in the urban/industrial sector, it slowed the pace of change and retarded living standards. He noted of the attempts at reform during the early years of *perestroika*:

The gross imbalance in favor of our raw materials production is a burden to the whole structure of our natural economy, retarding it and preventing its development (Aganbegyan 1989: 244).

This defect could be remedied only after people were required to pay the price — rents — for using natural resources. But this, in itself, would not be sufficient. *For even if a market in land and natural resources had been created, the historical evidence from the market economies demonstrates that the privatisation of rents generates frictions which obstruct the optimum use of natural resources and full employment levels of economic growth.*

The logic of history and of economics, therefore, dictates that fiscal policy must intersect the debate on *perestroika* because of its central importance in the redefinition of legal rights to, and efficient use of, the resources of nature.

The importance of the appropriate definition of property rights was appreciated in Moscow. According to Abalkin:

The diversity of the forms of property, their equality and competition, is the fundamental condition for the economic freedom of citizens which ensures the best possible utilisation of their abilities (Peel 1989).

In the capitals of Moscow's erstwhile satellites, however, there was no similar appreciation of the importance of appropriate fiscal policies. Gorbachev, who had by now emerged as President of the Soviet Union, was more shrewd and patient.

We must enter the next five-year period, having a smoothly operating mechanism of financial relations between enterprises and the state budget. In this connection there is a need to speed up the working out of scientifically substantiated rates of income tax and rental payments to go to the budget. It is of paramount importance to establish a procedure for replenishing the local Soviets' budgets (Gorbachev 1989: 32-33).

This realisation of the importance of fiscal policy explains why we believe it made strategic sense for the USSR not to jump feet first into the hands of western financiers.

As a contribution to *perestroika*, an attempt to prescribe the relevant policies and institutional arrangements is outlined below. Our analysis begins with the agricultural sector. Gorbachev (1989: 4-5) acknowledged the crucial role of agrarian policy, which would identify 'the main direction of our entire political course.' He also saw that the inadequate supply of food was 'our society's biggest wound.' But there is also a heuristic reason for considering this sector first: the relevant economic principles — and policy solutions — emerge here with the fullest clarity.

Food for Thought

The quality of food was in inverse ratio to the quantity of vodka consumed by Soviet citizens. Despite the grandest of plans, insufficient food was placed on the tables of the proletariat. The reasons were not difficult to determine, but anyone who might have developed a critique of Marxism soon found himself consigned to a mental hospital or a Siberian work camp.

The waste of lives and precious capital found its corresponding

expression in the countryside, where the planners wasted millions of hectares of rich soil. Gorbachev confessed to this in the lengthy analysis that he presented to the Plenary Meeting of the CPSU's Central Committee in March, 1989:

In the past 25 years, 22m hectares of farmland have been lost; nearly 12m hectares of that area were used for industrial construction and roads, and more than 6m hectares were neglected — left to be overgrown with shrubs. At the same time, huge sums of money were spent to develop millions of hectares of new land. The fertility of fields is declining in most regions. More than 3m hectares of irrigated land — the 'golden fund' of every state — have practically dropped out of cultivation due to mismanagement. It should be added that the country has lost more than 10m hectares of flood meadow and pastures during the past two decades due to ill-conceived hydropower generation projects (Gorbachev 1989: 6).

The farmland of the Soviet Union was abused on an official basis.⁴ Abolishing the centralized administrative structure is the starting point of any plan to raise productivity and reduce the massive damage to the countryside.

Speed of implementation is vital. Success, in the form of immediate and visible benefits, would buy time (through the goodwill of consumers) for changes in other sectors where progress is necessarily slower. The output of food can be markedly increased in a single growing season, sufficiently to make a measurable impact on supply and prices in the shops. To do so, however, and to create a competitive economy within which enterprise can flourish and the material needs of consumers be satisfied, the USSR has to transfer the means of production to individual users. Gorbachev acknowledged this by declaring that farmers had to become 'masters of their land.' This is a hazy concept, but it does convey the impression that the tiller has to be more deeply associated with the fields than is possible under the collective structure. At the same time, however, Gorbachev — while demanding the display of 'independence, enterprise and initiative' from farmers — has continued to promote the virtues of collective farms, albeit in the form of 'co-operatives of leaseholders.' Nevertheless, he is not dogmatic; and following Lenin, he is willing to 'let life have the last word' (Gorbachev 1989: 24, 25). This implies a pragmatism that augurs well for *perestroika*.

The first problem for the policy-makers is this. After 70 years of

dictatorship, the USSR is devoid of entrepreneurial skills based on the exercise of individual initiative. What mechanism would recreate the willingness of people to take risks, re-cultivate innovation, encourage hard work for just rewards and guarantee the use of finite resources on the basis of conservation of, and respect for, man's natural habitat?

The output of food increases markedly when land is cultivated by farmers on an individual basis, and the most productive and ecologically-sound unit is the family-sized farm. The first problem, then, is to transfer possessory rights to farmers. An appropriate mechanism for enabling the state to reallocate tracts now held by collective farms has to be devised. This is a critical issue, because there is a danger that, for the sake of either speed or the appeasement of entrenched conservative interests, the state may adopt a second-best formula for the redistribution of land.

The most efficient method for allocating land would be by locally-administered *auctions*. Farmers should be free to bid a rent for the right to *possess* and *use* (but not own) land. This process would define the first benchmarks of a unique system that was consistent with both economic efficiency and the spirit of communalism.⁵

Farmers — and not the bureaucrats — would determine the initial level of rents. These bids measure the commitment of individuals to use land in an optimal way to produce the highest financial surplus consistent with acceptable levels of wages and ecologically-sound methods of farming.

Farmers having set the benchmark rents, it would then be incumbent on the state to publish a cadastral survey. The information should include the classification of all sites (as to quality and use) and annual rental values. This data is essential, the lifeblood for new institutions that would be charged with the task of monitoring trends in rental values and reallocating land to new users. Prospective users need this information if they are to bid for the right of access to land; and it is the raw material that both current users and the taxing authorities need, to ensure that appropriate adjustment (upwards or downwards) are made to the tax liability (= rents).⁶

Auctions also serve a crucial sociological purpose. They would help to differentiate the workforce, by identifying those who wished to remain as employees from those who wished to become risk-

takers. It is a mechanism for enabling potential business leaders to come forward of their own volition.

This approach removes the risk that the bureaucracy might corruptly favor one individual as against another. Favoritism does not necessarily result in resources being placed in the hands of the most efficient users. Thus, market-based auctions would guarantee that public assets were allocated fairly and according to the expressed preference of consumers.

The auction room becomes the focal point for establishing the legitimacy of competition and the pricing mechanism. In a society where there is no private market for the sale of land, *the auction room becomes the local marketplace for socially-owned sites.*⁷

This formula creates a competitive *milieu* which excludes the excesses associated with market economies. In the ideal market *there are no losers*. The auction system is a win-win arrangement. Farmers who fail to secure use rights would be compensated by the knowledge that the winning rents bid by their competitors were going into the government exchequer to finance socially-necessary programs, from which they would benefit directly and equally.

China: a Missed Opportunity

The history of attempts to reform Communist China highlight some of the conclusions that flow from our theoretical framework.

China launched her reforms in 1978. Within 10 years, agriculture doubled its output. This remarkable success was achieved by re-creating family farms. But there were serious shortcomings in the measures adopted by Peking, and these reflect the failure to adopt appropriate tax-and-tenure measures.

The state did retain legal ownership of land, which was leased to users. A series of defects were built into the Chinese model, however. First, rents were not charged at market level. This provided leaseholders with an unintended windfall — they retained part of the unearned income and became a new class of rich people. Discontent in the countryside was the result. The differences in income were not based on special skill or hard work, but originated with the appropriation of part of the rent — the surplus value that is not created by any one person's labor or the investment of his capital. This illus-

trates the critical rôle of rent, which can be taken into account by the appropriate fiscal policy only if former communist countries are to adopt market-based systems without also incorporating the deep-seated inequities that mar the record of the industrially developed societies.

But there was also an efficiency problem with the Chinese model. During the early phase of the reforms, leaseholders were not confident that they would be allowed to retain possession of their fields. They were reluctant to invest their savings in land which might be taken away from them. The peak in the grain harvest was in 1984, when 407m tons were produced. From then on, millions of acres were allowed to fall into disuse and exposed to climatic erosion. Farmers invested their capital, instead, in the construction of new houses. The supply of food to the towns was dislocated, which forced up prices and sparked social discontent.

The Chinese had failed to learn the Georgist lessons which, through the writings of Sun Yat-sen, were buried in the Peking archives: that security of tenure — not ownership — is both a necessary and sufficient condition for farmers to invest their labor and capital into, and on, the land. Tenant farmers in the market economies are as productive as owner-occupiers. So long as they pay the rents, they retain the use of land and are compensated for the undepreciated value of capital investments when they relinquish their leases. To *whom* they pay the rents is irrelevant, so far as their willingness to grow food efficiently is concerned.

Gorbachev (1989: 26) recognised the psychological importance of security of tenure; this is not surprising, for his parents were peasants who worked their own holding before being moved on to a collective farm. China's simple mistake was that she failed to reassure farmers that they would retain legal possession for as long as they paid the full current rent to the community. Her remedy was to create 50-year leases; and then make these inheritable. For all practical purposes, land that was ostensibly owned by the community was transformed into private property.

Efficiency was further compromised by the continued interference with prices. A free market would have led to optimum output at lowest costs (to the producer) and maximum surplus income (rent) for the community. Holding prices below market levels does curtail

rents, but this is a very inefficient way of influencing the distribution of income or allocation of resources. By contrast, the model based on a 100% tax rate on the market-determined rent of land (which excludes, we emphasise, the interest payments for man-made capital investments on the land) harmonises the conflicting needs of farmers and consumers, and ensures a balanced distribution of income based on work and investment.

In China, social discontent in the countryside soon found its expression in the towns, where it was most brutally repressed in Tiananmen Square. This encouraged the Chinese Communist Party to unwind its reforms. The brunt of that reactionary process, ironically, fell on industry. The main charge against the nation's 14.5m privately-owned businesses was that many of them avoided the payment of taxes (a problem that could not arise, were the tax liability based on the value of land). Renewed interference with free enterprise led to a contraction in the private sector. Over 2m individually owned businesses disappeared by the end of 1989, which cost an estimated 3.5m jobs. One result was quick to emerge: in October 1989, negative growth was reported for the first time in 10 years.

Chinese society seems destined to foster private enterprise in the rural areas, in which a class society based on the privatisation of unearned income will store up the potential for another violent eruption; and collectivised production in the urban sector, with an ever-diminishing capacity to satisfy consumers. This will produce a dangerously lopsided economy, which will necessarily rely on increased state violence to contain the social dissatisfaction.

Soviet reformers have discussed the possibility of adopting 'leaseholds in perpetuity' (Peel 1989). This sounds remarkably similar to the Chinese model; the Soviet politicians who frame the new property laws should examine the empirical evidence from China very carefully.

Privatisation of Industry

Critically important lessons in the culture of enterprise and initiative would be provided by participation in auctions. Diffused into the urban sector, they would accelerate both the privatisation of enterprises and the efficiency with which capital was deployed.

If the wage-earner and the consumer are to derive maximum benefits, this process must be based on an appreciation of market values — that is, the prices that people are willing to offer for the right to own or lease premises and equipment. This lesson was not learnt during the early stages of change in Poland, where publicly-owned assets were alienated for less than their real value. In one case, a member of the Communist Party acquired a machine tool factory that was formerly state-run. 'He fixed things so that he could lease the land — formerly state property — for a nominal sum,' reported *The Guardian* (London, August 28, 1989). If the land is leased, of course, it is not 'formerly' state property. But if the rent payable under the terms of the lease is nominal, the state might just as well hand over the title deeds, for possession of the income generated by land is what ultimately matters.

Apart from equity considerations, what are the economic ramifications implicit in such cases? The most obvious one is that the rents that ought to be paid to the asset owner (the community) can be used to subsidise the wages and profits of a company which, because it is not satisfying its customers, must be deemed to be inefficient. The receipt of rents disguises this inefficiency. The community is materially poorer than it need be; and the tax burden on labor and capital is necessarily higher than it otherwise would be. This absurd chain of events stems directly from the failure properly to value land and charge the user the full annual rent for the right of possession.⁸

Even isolated examples of such corruption or economic inefficiency gain wide publicity. This jeopardises the goodwill of the public, whose sense of fairness is outraged. The practical consequences, in times of uncertainty, ought not to be under-estimated.⁹

So there are lessons to be learnt by both government and citizen. In the government's case, it is crucially important that the alienation of publicly-owned resources should be on the basis of their full opportunity costs — that is, the price that others would be willing to pay for the resources. Where this is not done the national exchequer is deprived of revenue which then has to be raised from labor and capital, which retards economic development.

In the case of the citizen, the process of bidding rent for land forces prospective entrepreneurs to calculate 'the bottom line' of the

enterprise. They are obliged to come to terms with the pricing system, calculating how much is needed for wages and to finance working capital, and what the revenue would be (given the price that can be charged in relation to the market that is to be serviced). Armed with this information, entrepreneurs arrive at the figure which is the surplus to these costs of production — i.e., the rental income.

If the citizen, as a resource user, and the government, as guardian of the social interest, discharged their responsibilities towards the use of the community's resources, a creative dynamic would be set in motion based on organic adaptation to changing tastes and rising living standards. This would ensure a constant reallocation of resources to meet new challenges. This necessarily entails change, a process which in the West is explicitly held to be obligatory for the labor and capital markets but which is not properly monitored and enforced in the land market. In the same way that a firm can be liquidated if its workers are unwilling to be as productive as their competitors; or if capital can be withdrawn in favor of uses that more efficiently meet the needs of consumers; so the current use of land should be abandoned in favor of uses that will yield the full rent to the community. That the latter does not occur as efficiently as it should is a serious restraint on the operation of the market economy.

Starting at the End

Armed with these insights, the historic conditions confronting the Soviet Union could turn economics on its head. The classical theorists recognised that rent was the surplus income; the *end result* of production and pricing, after all the costs of labor and capital had been met in a competitive environment. For the Soviet Union, however, which is obliged to conflate change into a relatively brief period, it is conceptually most useful to treat the determination of rent as the *starting point* in the joint venture between the state (the exclusive owner of natural resources) and citizen (who wants to obtain and use those resources at a competitive rent). If this appears to be a topsy-turvey approach, it is one that works. It was adopted by the Japanese reformers in what is known as the Meiji revolution, the lessons from which would serve Gorbachev well.

In the 1870s, feudal Japan decided to modernise in double-quick time. She needed an industrial economy to resist the aggressive trading overtures of foreign powers. At the heart of her strategy was the fiscal policy that captured rent (Harrison 1983). Japan's land tax, because it fell on the *surplus* income after all the costs of production had been met, achieved some remarkable results. First, it provided farmers with the incentive to improve productivity. This raised incomes and lowered prices for urban consumers. This tax-and-tenure approach encouraged the retention of family farms and protected the right of the rural community to keep the income that it *earned*. There was a mirror-image effect in the urban sector, where a balanced distribution of wage-bargaining power between employees and employers was established in the labor market. For there was no captive pool of unemployed laborers in the towns to exploit (as happened with the Enclosures in Britain at the turn into the 19th century, which conveniently provided Marx with his stereotype of the exploited proletariat). So short of workers were some capitalists that they had to resort to kidnapping people! A rise in the real value of wages followed.

The fiscal lessons are also crucial for the USSR. The tax fell on a buoyant base. The government invested the revenue in infrastructure and the educational needs of the formerly agrarian workforce. This removed the need to adopt forms of taxation that deter the formation of fixed capital and the creation of jobs; the logic of the land-value tax was exactly correct for this critical transitional period from feudalism to capitalism.

The fiscal policy proved to be catalytic. It laid the foundations for the unique Japanese industrial system (this contention needs further elaboration elsewhere). It can be contrasted with the approach adopted by Stalin in 1924-32. His brutal solution was to kill the rural wealth-creators (the entrepreneurial *kulaks*) and plunder everything that could be removed from them. This was not a rational program of incentives designed to increase productivity and economic development.

After 20 years, however, the Japanese model was compromised. A new class of landlords emerged. They did so by taking control of the political process and reducing the share of government revenue derived from rent. This produced a disastrous shift in the distribu-

tion of power, and it was to bequeath to the Japanese people a land market that was every bit as inefficient and socially destructive as its western counterparts.

We can now relate this fiscal policy to the two topics on which Soviet citizens will place the greatest emphasis in the 1990s — prices, and the redeployment of employees to new jobs. In doing so, it is worth re-emphasising that, economically, the only frictionless fiscal policy is the tax on the rent of natural resources. This is acknowledged in the standard textbooks on economics. Milton Friedman, an arch exponent of minimal government, concedes that governments have to raise revenue — in which case, he grudgingly admits, there is a rational method for doing so:

There's a sense in which all taxes are antagonistic to free enterprise — and yet we need taxes . . . So the question is, which are the least bad taxes? In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago (quoted in *Human Events*, November 18, 1978).

The lessons that can be learnt from the western tax system are those of fiscal failure or inefficiency. Capitalist societies extract exchequer revenues from earned income, consumption and profits on the basis of taxes that obstruct growth and prosperity. By adopting Henry George's land-value tax, the USSR would be creating the first coherent tax structure in the world.

Prices Other forms of taxation are treated as costs of production. They are incorporated into product prices and passed on to consumers. This raises the general level of prices. Such an effect would be disastrous for the USSR, for it would compound the consequences of cutting subsidies. It would be irrational to aggravate this process by adopting taxes that raise prices higher than is necessary for the sake of the efficient use of scarce resources. In contrast, the tax that falls on rent — after the appropriate structural adjustments in the market — cannot be shifted on to either the wages of labor or on to the profits of capital. It is a tax that remains where it falls — on the rent of land. Since this fact is not clearly understood by the public, it would be as well to digress, briefly, into the theory of rent.

Landowners *per se* do not make a practical contribution to the

wealth-creating process. The receipt of rent (we are here excluding the income that a landowner can with justice claim in return for his capital improvements upon the land) is a privilege derived from a particular legal system, which permits the owners of the resources of nature to privately levy a land tax without sharing the proceeds equally with others.

Rent is treated as a *cost*, by firms or households, but only for accounting purposes; it is *not* a cost of production. Natural resources are literally provided free by nature (which is not the same thing as saying that they have no value). The costs of recovering them — for example, subterranean minerals which have to be hauled to the surface — are the costs of labor and capital. In a fully competitive system these have first claims on the revenue of an enterprise, before the residue, or rent, can be calculated.

The rent of natural resources, therefore, does not enter into the price that is charged for individual products that are either made or sold on a particular site, thanks to competition. Thus, a tax on the pure surplus income (rent) is unique in that it cannot be shifted to customers through higher prices. So in the West, today, if a tenant was required to pay the land tax, he would reduce the rents he paid to his landlord. His total costs of occupation would remain the same; the higher the land-value tax payable to the state, the lower the rent that could be claimed by the landlord. This is a well-attested fact in economic literature. The essence of the reasoning was explained in a technical note by the British Treasury in these terms:

The effect of taxes depends upon the demand and supply elasticities of the commodity being taxed. For example if the supply is very elastic the main effect of a tax is to increase the market price; if the supply is very inelastic the main effect of the tax is to decrease the net of tax price. The supply of land, for example, is relatively inelastic and the usual long term effect of property rates [taxes] is largely to reduce rents and land values (Treasury 1984: 9).

In a local market, under certain circumstances, the elasticity of supply of one of the other factors of production — labor or capital — can be artificially altered (through, for example, the exercise of trades union power; or international barriers to the free flow of capital). But this is not an unalterable situation: labor and capital are reproducible. Land is finite; so, in the economist's term, its supply is

inelastic. All the more reason, therefore, that the land market should be efficient enough to recycle sites quickly in response to the organically changing needs of the community.

The effect of taxation on prices must be borne in mind as a major consideration in the reform of the Soviet economy. It is a reality that cannot be avoided by inaction. The failure of government to take the impact of fiscal policy into account does not thereby mean a neutral response in either the market for land and natural resources, or the consumer markets. There is a reciprocal impact on the way that the private sector uses land and distributes income (Banks 1989: 149-53), and on the pricing structure for consumer goods and services, if an alternative fiscal policy — such as the income tax — is adopted.

Redeployment of employees The large-scale reallocation of labor is socially traumatic, but the damage can be minimised and even turned into an exhilarating and rewarding experience. It all depends on whether the time spent out of work is brief (no more than is necessary to find alternative work) or protracted (which is evidence of institutional barriers to the efficient use of resources). *Perestroika* may force employees to abandon the security of the old system, but there is no excuse for aggravating their plight by the adoption of misaligned policy. Taxes that raise prices above costs of production cause unemployment, because higher prices restrict demand: less can be bought by consumers than would be the case if price = cost.

A tax on land values represents a positive incentive to growth and the rational deployment of resources at the lowest possible prices. The implications for increasing the Soviet Union's share of international trade — providing an export-led thrust to growth — are plain: a country that heavily exploits land value taxation acquires a major advantage in price competitiveness.

Fiscal Policy & the Transitional Stage

We can now take a closer theoretical look at the holistic dimensions of our developmental model based on land value taxation (LVT), bearing in mind that Gorbachev sought broadfront solutions that integrated social, economic and ecological objectives into a single thrust.

Psycho-dynamics of LVT Personal fears stemming from the uncertainties of the future generate a 'conservative' reaction. LVT would play a significant part in ensuring the continuity of social cohesion, by minimising those anxieties. Consensus support of the population would be retained if people were assured that they had an equal claim on the cash value of common property — the natural resources of their community — whether through social expenditure or the distribution of land-value revenue in the form of a guaranteed minimum income for everyone.

Infrastructural investment The value of that common inheritance, of course, would rise as the economy developed. This would not only serve the material interests of the individual, but would also meet the budgetary needs of the Soviet Union, whose infrastructure was built to accommodate heavy industry rather than the consumer. A great deal of money will have to be spent on infrastructure. The Soviet Union entered the 13th Five-Year Plan period with the intention of building 226,000 kilometres of hard-surface roads in the rural areas, to assist farmers to transport their increased output of food to towns in a marketable condition. In one area alone, in what is called the non-black-earth zone, over 35 billion roubles were allocated for improving the road network. The impact of this investment on land values is of supreme importance, but the risks are those of a double-edged sword: handled incorrectly, it can injure the person wielding it. This point must be stressed, for it identifies one of the key weaknesses in the structure of the western market economies.

If rising values are reflected in higher government revenues, taxes on labor and capital are rendered unnecessary. Furthermore, the rise in rents proves that sound projects are self-financing: they pay for themselves through the increased benefits they generate (as measured in the land market), which means the government can accelerate its program of investment in socially-necessary infrastructure without burdening the wealth-creators with the damaging taxes that are employed in the west.

Where, however, the tax structure permits individuals to speculate in future rental values, it pays to hoard land that ought to be brought into use in the current period; this is a feature of western societies, and is most visible in the dereliction of the inner cities of

Europe and North America. This behavior alters the distribution of income between the factors of production (for artificial restriction of the supply of land pushes rents up even further); it results in the waste of capital (through the extensive provision of amenities required by communities that have been forced to sprawl into the countryside); and leads to a degeneration in the living environment. This prospect is now opening up for Poland, Hungary and Czechoslovakia, for they have failed to think through the consequences of the rush into the arms of the IMF.

Ecological imperatives Land-value taxation is an environmentally-friendly fiscal policy; it actively encourages users to conserve resources (Harrison 1991). We need not labor this point, for the benign influence of LVT on the environment is explored below, in Chapter 8. The Green Party in Britain adopted LVT, which it calls Community Ground Rent, because of its impact on both the environment and the social structure of the countryside.

The devolution of power We live in a world of interdependent nations. This urgently requires a redefinition of *rights* and *responsibilities* that correspond with a strategy of global harmony built on sustainable relationships (both as between sovereign nations, and as between mankind and his habitat). A practical test of how LVT can be used to harmonise political relationships is offered by the tensions between the 15 republics of the USSR that first emerged in 1990.

The defining characteristic of the nation-state is its ability to defend a precisely-demarcated area of land. But the origins of territorial conflicts are complex, for cross-border disputes often stem from an unequal distribution of rights of access to natural resources within societies. Through a complicated sequence of internal repression, this deprivation eventually finds its release in armed conflict with neighbors.

In the Soviet Union's case, the most dangerous points of conflict arise over escalating demands for improved living standards and job opportunities from ethnic minorities; and pressure for greater autonomy from republics which believe that, economically, they can fare better if power is devolved to them.¹⁰ Can these demands be satisfied, while at the same time the republics are encouraged to remain united under the umbrella of a benign union of republics?

The dynamics, here, are of the spin-drier; the tendency to want to break out (centrifugal force generated by unsatisfied demands) working against the pressure from the federal superstructure, which seeks to contain the elements within it (the centripetal force). These oppositional pressures can be harmonised by a bold initiative that satisfied material needs and fulfilled a symbolic function. Such a vision, we believe, could be built on the concept of LVT. The acknowledgement that natural resources are a common heritage can be placed at the heart of a new political contract between ethnically diverse peoples.

The USSR could establish a Development Fund, into which each republic would annually contribute a percentage of the market value imputable to its natural endowments. The Fund would serve both *symbolic* and *developmental* purposes. The resources of the Fund could be used to alleviate short-term distress (natural calamities, such as famine), pay for the clean-up of the polluted environment, and to finance the economic development of regions with the lowest *per capita* incomes. Because the citizens of each republic would see that they were contributing to this humanitarian Fund, on the basis of ability, and that the money was controlled and allocated democratically, on the basis of need, the sense of a personal and collective identification with the goals of *perestroika* would be shared by everyone. There would be a general awareness that resources were being mobilised for the general good, and that every person benefited equally.

Some republics are rich in high-value minerals; their contributions would be proportionately greater than those from others. The resource-rich regions would not be net 'losers', under this formula. For if their economies were relatively undeveloped, they would be entitled to a disproportionate claim on the resources of the Fund to assist in their economic development. This meets the objection, for example, that Russia is resource-rich, but is relatively poor in *per capita* terms, compared with some of the other republics. The formula outlined here, then, restores a balance between the inflow and outflow of cash, but in the process it reinforces the restructuring of the domestic economy to generate balanced growth. As economically disadvantaged regions grew in prosperity, the monetary value of their land would correspondingly increase. Their contribution to

the Fund would consequently rise, thereby tending to equalise the contributions from all the republics into a synchronised growth path based on mutual advantage and respect. The Development Fund, then, would also enhance the prospects of political integration.

The symbolic value of sharing in the rent of natural resources is crucial. It is the first step in the development of the practical recognition of the rights — and obligations — of individual cultural entities *within the framework of the union of republics*. If the Fund was financed by taxes on the work of individuals or enterprises, resentment would be a legitimate result, which would color the prospects of social harmony. Absent would be the identification with the Fund based on the concept of a mutual sharing of commonly-owned resources.

The USSR, having adopted the auction system for reallocating land at the micro-economic level, would be able to build on that fiscal philosophy to harmonise living standards, political relationships and psychological expectations between republics within the Soviet Union.

Marx and the Single Tax

Orthodox market economists lack the credibility to instruct the Soviets on how to transform their economy.¹¹ But if our model of an ethical and efficient economy is so good, why was it not adopted before now?

First, it has to be conceded that there never was any mystery about the essential elements of an efficient market system. The classical economists described the ideal model; it was simply not translated into the 'real world'. Nor was there any mystery about why the market consistently failed to deliver full employment. Successive governments conspired with vested interests to create and preserve the structural defect in the foundations. The western model guaranteed that, no matter how diligent the worker or productive the capital, no matter how innovative the scientist and technologist, no matter how sophisticated the business manager, government (through the tax system) and an inefficient land market, continuously bore down on the economy.

From the outset of the Industrial Revolution, entrepreneurs were deterred from expanding productive capacity to optimum levels.

And capital that should have been invested to encourage the use of the best techniques to conserve natural resources and preserve the environment was not invested because the 'commons' (rivers, oceans, skies) could be depleted and polluted at little or no cost. The cyclical propensity to speculate in land, which dislocated incentives and the pattern of growth, was also actively encouraged. And because labor was denied access to some of the land that it needed, structural unemployment was ingrained into the system.

The second distortion was through the pricing mechanism. By placing the burden of taxation on labor and capital, governments wilfully established a permanent ratchet for raising prices, by the process we have already described. This created its own vicious dynamic. After a period of human suffering and the waste of capital and natural resources (recessions), governments intervene in the market process and artificially stimulate demand — to shorten the queues at the soup kitchens. This encouraged inflation and further reduced the efficiency of the market. Band-aid tinkering with symptoms necessitated a new round of increases in either taxes or the national debt, to fund the public make-work measures. And so the vicious downward spiral continued, for the new tax increases forced up labor costs and factory-gate prices, which in turn triggered restraints on consumption, investment and commerce — and a new round of unemployment. Keynesianism and the Welfare State were, in the Hegelian sense, historically inevitable; for the logical demand for them was built into the imperfect foundations of the industrial economy 200 years ago.

It need not have happened. The economic insights into how taxes were passed on by workers and capitalists, through the pricing mechanism, were available in the original treatise on economics by Adam Smith (1976, Vol. II: 400). That manual also spelt out the appropriate remedial policies. Smith pointed out, at the beginning of the Industrial Revolution, that the correct fiscal policy was one that built on the tax that could be directly levied on economic rent:

Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry. The annual product of the land and labour

of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground-rents, and the ordinary rent of land, are, therefore, perhaps the species of revenue which can best bear to have a peculiar tax imposed upon them.

Ground-rents seem, in this respect, a more proper subject of peculiar taxation than even the ordinary rent of land . . . Ground-rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign . . . Nothing can be more reasonable than that a fund which owes its existence to the good government of the state, should be taxed peculiarly, or should contribute something more than the greater part of other funds, towards the support of that government (Smith 1976: Vol. II, 370-71).

Adam Smith provided the clearest warnings to those who held the fate of the trading nations in their hands. The adoption of the superior method of raising revenue would have led to a qualitatively different growth path for the economies of Europe and North America; one that would provide, on a sustainable basis, for full employment, decent wages and stable prices. That is why, today, at this late stage, the adoption of LVT would entail a radical departure from the model that has operated for 200 years. For example, the imposition of a high tax on the annual rent of land would lead to the spontaneous elimination of dereliction in the city through the creation of a competitive *milieu* in the land market. This policy, in turn, would generate so much revenue, as has been noted (Banks 1989), that corresponding cuts in the taxes on wages and profits would transform the capitalist countries, leading to a reduction in the level of prices and so eliminating the principal motive force behind what is popularly characterised as 'inflation'.

Karl Marx, in 'The Communist Manifesto' (1848), had once advocated this policy himself. Would that he had continued to do so! Instead, he chose to ridicule Henry George (Harrison 1979). The two philosophers were the leading critics of the results produced by the first century of the industrial mode of production. Henry George realised that there was no need to throw the baby out with the bathwater. He perceived the advantages of the free market, and sought to build on them by reform. Marx would have none of that: he sought revolution. His scathing attack on Henry George will return to haunt his ghost.

The Single Tax was elaborated in Henry George's *Progress and*

Poverty (1879). For Marx, the book was 'the capitalist's last ditch'. The march of history, as he saw it, precluded the reform of the market economy, and would guarantee the triumph of socialism. Under Marx's influence, socialism became the dominant alternative philosophy in the West. The Georgist critique was given a good run by the Liberal Party in Britain, under the leadership of Lloyd George and Winston Churchill, but despite a constitutional victory in the 1909 election against their opponents, the aristocratic landowners, the Georgist program was allowed to lapse in the face of the rise of the socialist Labour Party.

What of the prospects, now, for the Soviet Union? Gorbachev tried to preserve a sense of socialism. After all, insisted an editorial in *Pravda* (Aganbegyan and Timofeyev 1988: 73), *perestroika* was the product of the dialectical method of Marx and Lenin. Socialism would triumph — but 'with a human face', and within the context of a market economy; or at least, by whatever emerged after the demise of what Gorbachev called 'the command-administrative model, which was contrary to the original idea of socialism'.¹²

For Henry George, socialism was not a viable social system. He understood the essential nature of the human relations that would emerge in a system in which the superstructure of the state was given precedence over the rights of the individual:

The proposal which socialism makes is that the collectivity or state shall assume the management of all means of production, including land, capital and man himself; do away with all competition, and convert mankind into two classes, the directors, taking their orders from government and acting by governmental authority, and the workers, for whom everything shall be provided, including the directors themselves . . . It is more destitute of any central and guiding principle than any philosophy I know of . . . It has no system of individual rights whereby it can define the extent to which the individual is entitled to liberty or to which the state may go in restraining it. (George 1981: 198).

The course of history has demonstrated that Karl Marx had might on his side; Henry George had to settle for being right.

But the directors of the socialist state have capitulated. The leading rôle of the Communist Party was abandoned in the glow of flickering candles in the squares of Budapest and Prague, and the flash of gunfire in Romania. And herein lies an irony. In the headlong rush

to abandon socialism, Poland, Hungary and Czechoslovakia may have willy-nilly accepted the cyclically-discredited formulas of western economics, but the Soviet Union, by cautiously retaining the instruments of the command economy for the 13th 5-year Plan (1991-95), bought time for mature reflection. Academicians who scoured the world for solutions were confronted with the need to re-evaluate the Single Tax. This necessarily challenged them with the uncomfortable task of deciding whether Marx was premature in his dismissal of *Progress and Poverty* as 'the last ditch' of capitalism.

They ought not to have been too embarrassed, however, for the Supreme Soviet independently arrived at a law on property rights with which Henry George would not have argued. The Property Law came into effect on July 1, 1990. Article 20, on the 'Ownership of land and other natural resources,' declared that 'The Land and its contents, water, flora and fauna are the inalienable property of the peoples residing in a given territory.' Apart from defining special rights for peasant farmers, the law affirmed that all land continued to be owned by the state.

The legal basis for the first Single Tax society now exists. All that remains is for the Soviet Union to be consistent in the implementation of its law.

Mikhail Gorbachev, if he were to explicitly identify himself with the full richness of the Single Tax philosophy, would place at the disposal of his peoples the most powerful tool possible for them to transform the social, political and economic system. The end result would not be recognisable to Marx, but neither would it be the authoritarian, inefficient creature now championed by the advocates of capitalism. It does not matter what such a society is called, so long as it liberated further the individual and made the best use of the resources of nature for the collective good of everyone, and not just a privileged class.

NOTES

1. Poland was the first to settle with the IMF. Arrangements reached over the Christmas holiday in 1989 brought them \$725m in stand-by loans, which triggered additional western aid. The price was a heavy one. Unprofitable enterprises had to be closed. The IMF predicted job

losses of about 1m. Government subsidies on consumer goods had to be cut from 31% to 14%, and wages had to be frozen (producing a predicted drop in real incomes of about 20%).

In Hungary, Prime Minister Miklos Nemeth resigned from the presidium of the Socialist (formerly Communist) Party, because he failed to get his comrades to support the austerity measures, which included a 35% increase in the rents of state housing. Parliament, however, endorsed the austerity budget on Dec. 21, 1989, which cleared the way for \$350m in stand-by credits and an injection of \$1 billion in European Community funds.

2. The degree to which market economies waste natural resources is not one that can be measured with confidence because of the paucity of information. This ought not to astonish anyone. Reforms to the land market have been successfully opposed by the simple expedient of placing limits on the availability of data. This preserved the privileges of owners. Britain serves as an excellent example.

For a survey into the failures of the corporate sector, see Avis *et al.* (1989), who conclude that most companies cannot relate the cost of property to their overall performance because they do not have internal property management accounts. Most companies do not even know the opportunity cost (the current market rent) of the space they occupy. Without this information there can be no accurate measurement of corporate performance.

These shortcomings were also present in the public sector. For an authoritative analysis, see various reports published by the Comptroller and Auditor General during 1988-89. The Auditor (John Bourn) succeeded in penetrating the Whitehall defences to measure the economic loss arising from the undervaluation of land that was privatised by the Thatcher government. The bureaucratic response was predictable: a new category of file was created for the use of civil servants: 'Not for National Audit Office Eyes.' See David Hencke, 'State files kept from watchdog,' *The Guardian*, London, January 3, 1989.

The Auditor, in the annual report for 1989, bluntly declared: 'Land and property are presented often as free goods in the culture; not as something out of which you could earn money.' In its practical effects, this 'capitalist' attitude towards natural resources coincides with Marxist theory.

3. Readers who imagine that the United States, which hitherto has been the leading market economy, is exempt from economic sclerosis, should consult Paul Krugman (1990). His analysis and forecasts yield a picture that has remarkable similarities to the account that emerged in the late 1980s for the Soviet Union. When the full history of the USA is finally written, the rôle of expansion based on under-priced/

over-exploited natural resources will figure prominently. The decline in growth rates in the productivity of labor and capital will, we suspect, be closely related to the rate of increase in the depletion of natural resources. The decline in overall growth rates will be related to constraints imposed by the finite nature of those resources.

4. Western governments have also been guilty of failing to identify large-scale destruction of natural resources. The starting point for this waste may have been the multiplicity of decisions taken by individuals and firms at the micro-economic level, rather than state-owned collectives; nonetheless, western governments fail to employ a system of national income accounts capable of identifying the defects in their tax-and-tenure policies. If the rental value had been correctly imputed to all natural resources, auditors could have drawn the waste to the attention of policy-makers.

National income accounts measure changes in short-term economic activity. They are largely illusory documents, however, for they do not taken into account considerations of long term sustainable growth. This is even a serious defect in the UN System of National Accounts, in which we might reasonably have expected an attempt at presenting realistic global evaluations of resource depletion. The point is highlighted by Serafy and Lutz (1989: 3):

Underlying this asymmetry is the implicit, as well as inappropriate, assumption that natural resources are so abundant that they are costless or have no marginal value. Historically they have been regarded as free gifts of nature — a bias that provides false signals for policymakers. This approach ignores the depletion of valuable resources and confuses the scale of commercially marketable natural assets with the generation of income. Thus it promotes and seems to validate the idea that rapid economic growth can be obtained by exploiting a resource base that may be rapidly diminishing. The growth can be illusory, and the prosperity it engenders transitory, if the apparent gain in income means permanent loss in wealth, that is, if at least part of the receipts is not redirected into new productive investments. As income is inflated, often consumption is also, and the country concerned gets complacent about its economic performance; as a result the adjustment in economic policy gets delayed by the seeming prosperity. In this regard, proper income accounting is an aid to better decisionmaking, but, of course, it does not guarantee that improved decisions will actually be made.

The World Resources Institute, and the International Institute for Environment and Development, collaborating with the UN Environ-

ment Programme, have published a report that demonstrates how ecological vandalism is inextricably associated with the failure to charge the full economic rent of natural resources (*World Resources 1988-89*, esp. Ch. 12). The users of natural resources who are allowed privately to appropriate economic rent find that it pays them to destroy forests, debase the growing powers of the soil, denude the hillsides, deplete the supply of potable water, pollute the rivers and turn the skies into acid baths. This propensity is evident in both the industrialised regions and the Third World. These acts of destruction are supported by the structure of fiscal policies. The process of environmental degradation would be reversed if governments were to restructure their tax systems in favor of one that valued and taxed the natural resources on the basis of current market values (see Harrison, 'Ecology, Politics and the Theory of Rent', in Banks, 1989).

5. It might be argued that the auction system has greater relevance for Soviet agriculture than for the East European countries such as Yugoslavia and Hungary, where much of the agricultural land continued in private ownership, despite the postwar influence of the Marxist régimes. In Poland, 2.7m small private farms cover 76% of arable land; private farmers are free to buy and sell land, so the institutional arrangements of a market system already exists. This would be a spurious argument, however; the fact that much of this land remained in private ownership does not alter the fiscal logic that underpins the taxation of rents, as we will show.

Note, however, that the failure to charge a tax on the realisable value of land (rent) means that a socialist society cannot escape the consequences of the private appropriation of rent. Vietnam is an illuminating example. She charges farmers a 'fixed' rent, in the form of rice delivered to the state. By failing to recognise that the productive capacity of land varies between one site and another, the state permits some users to capture part of the rental value of land. (Another example, discussed on pages 88-90, is that of Communist China.)

The lesson is further illustrated in the urban land market. In Belgrade, when publicly-owned property was transferred to new users, the occupant who relinquished possession charged the prospective occupier a 'premium' before transferring his possessory rights. This 'premium' was the capitalised value of that part of the economic rent of land that was not taxed by the state (Harrison 1983: 178-181).

6. This mechanism is sufficiently effective and simple to meet the immediate needs of the USSR in the earliest stages of the transitional phase. Trying to create a more sophisticated framework at the outset would be so daunting for the policy-makers, that there is a risk they might opt for alternative fiscal policies. The latter, which may make for a simpler

life for bureaucrats (the costs of administering the payroll or sales tax can be imposed on the private sector), would be far more damaging to the economy and the freedom of citizens.

Evidence that efforts are being made in the right direction has already emerged, in the decision by officials in Leningrad to dust off the land-value map which pre-dated the revolution. Dr John Parker, a London architect, reports that this exercise was designed to rediscover the relative rental values of property in the city.

Ted Gwartney, one of the most experienced of assessors in the US in the field of land-value taxation, has devised a simple, practical protocol for assigning rental value to land in the USSR, under proto-market conditions. But if the Soviet Union were to proceed down the Single Tax road, it would quickly acquire the capacity to develop a system for continuous revaluation of rental values even more sophisticated than the methods employed elsewhere for property tax purposes. Such a model has been described by Prof. Nic Tideman. (Papers by Parker, Gwartney and Tideman were presented to a conference on August 22-24, 1990, on 'Concepts and Procedures for the Social Collection of Rent in the Soviet Union.' This was held in New York under a grant from the Robert Schalkenbach Foundation. See also Tideman [forthcoming].)

7. Provision would have to be made for dealing with mischievous bidders who might try to force rents above the economic levels, which farmers could not pay. Winning bidders would be legally required to pay the rent (= tax) that they bid, even if they did not take possession of the land.
8. Proof of similar failure in the market economies emerges when the tax authorities finally consent to discharge their legal duty to revalue real estate for the purpose of property taxation. When this happens, it is sometimes discovered that relative property values have adjusted quite markedly. This gives rise to extreme dissatisfaction among those whose properties have risen in value, but whose bills were formerly at an artificially low level.

This occurred with the revaluation of commercial and industrial property in Britain in 1989. Some firms claimed that they would have to shut down, because of the large and sudden upward revision of their tax liability. In at least some cases, closure was evidence that the firm had been allowed to employ labor, capital and land in an inefficient combination; i.e., their flow of income was evidence of their failure to satisfy customers. They had survived because wages and profits were subsidised by the artificially low property tax, a subsidy which was at the expense of the taxpayer. (Asset strippers, of course, make their fortunes by spotting this under-valuation of assets relative to the cash-

flow of the business.)

9. The political reaction emerged in November 1990. In Poland, Prime Minister Tadeusz Mazowiecki was crushed into third place in the country's first presidential elections. He announced the resignation of his government on Nov. 26, declaring that the result expressed the public's disaffection with the IMF-backed austerity measures. In the same month, local elections in Czechoslovakia disclosed a new surge in support for the Communist Party, which observers interpreted as public anxiety about the IMF's formula that was due to take effect in January 1991.
10. In Mikhail Gorbachev's draft treaty for the union, published on Nov. 23, 1990, republics were said to be 'owners of the land and natural resources on their own territories.' This was not an uncontroversial solution to republican claims on natural resources, however, for the treaty imposed limits on these rights. The use of gold and diamond reserves, for example (produced by Russia) would have to be agreed with the union and the other republics. The fiscal question remained vague: taxation was addressed in two short paragraphs.
11. This was secretly acknowledged in a paper on the transformation of the Polish economy that was prepared for the Warsaw government by the economists of the Paris-based Organisation for Economic Co-operation and Development, which represents the industrially-advanced countries. The document was leaked to the *Financial Times*. This admitted that the OECD 'does not have, and cannot have, the degree and breadth of knowledge that would truly be required to address all the problems associated with such change' (Norman 1990).
12. In the draft of the new treaty for the USSR, Gorbachev dropped the word socialist in favor of the Union of Sovereign Soviet Republics.

Lenin remains a poor guide to land and tax policy. His analysis is redolent with confusion. For example, he confused the equalised use of land with problems associated with ownership (1965: 9). Henry George showed that the use of money and tax policy resolved the problem of an unequal distribution of land with no disruption other than to the power base of the privileged class that appropriated unearned income. For George, rent was at once the problem and the solution. Lenin sought the easy way out: he advocated the abolition of rent (*ibid*: 116). Rent cannot be abolished; but economic efficiency and social justice can be destroyed by those who try to act on Lenin's advice.

Lenin's myopia further emerges in his analysis of what the proletariat needed to do on behalf of the exploited peasants. Peasants had to be granted the 'free use of the lands they formerly rented, since no other economic or technical basis exists' (*ibid*: 120). In that case, how does

such a society resolve the problem of having to favor some users with lush fertile soil, while consigning others to the harsher tracts? The economic basis (the free market) and technical solution (tax policy) did exist, for resolving such problems; Lenin ignored them because they conflicted with his ideology — Marxism.

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