

LAND RESEARCH TRUST

LONDON

17 October 2004

Dear Colleague

The Dialectical Process

FOR ALL his failures, Marx did develop some useful concepts. The dialectical process is one that he popularised among social scientists. Georgists need to think more deeply about this, because we have traditionally been innocents to the slaughter when it comes to changing the system. We have acted as if change to the structure of the system was not necessary. We merely assumed that the wisdom of our proposals would be recognised by a society that claimed to be champion of efficiency and justice. Where the rent of land is concerned, nothing can be further from the truth. So how do we get from here to there?

First, we have to overcome *the autistic barrier*. We have to help politicians and their advisors to overcome their inability to communicate with words like *land* and *rent*.

Second, we have to overcome *the philosophical barrier*. We have to help politicians to integrate land and rent into fiscal policy.

In Britain we have achieved a measurable success with these two first steps. Politicians of all parties have observed a general and genuine excitement about the idea of using land-rents to fund the capital costs of infrastructure. So they have sought, after a fashion, to respond to this public engagement with concepts that were formally excised from the political lexicon.

Third, we have to overcome *the institutional barrier*. We have to persuade, *inter alia*, the civil servants who would administer a new approach to public finance that they can separate the value of land from the value of buildings (for example). Institutions are inherently conservative. They will resist change, just because the good old familiar ways are the ones with which they are comfortable – even if they do not actually work.

It is important to de-code what the spokesmen for the institutions – such as ministries of finance – actually say. This is because we could be led into the trap of spending valuable time solving problems for them which are actually red herrings. In the UK, for example, the Treasury has a list of “problems” which is used to argue that LVT is not practical. That list is not a genuine identification of technical problems that need to be solved. By working the telephones, within 24 hours the civil servants could satisfy themselves that these problems are not insoluble. The list is a political statement about the wish to preserve the existing fiscal doctrine. The lesson for us: do not waste time talking to the civil servants as if they really did believe that they had insoluble problems on their hands. Instead, work out how to enable the institutions to adjust their aspirations.

Fourth, we have to overcome the legal barrier. People really believe that they own the rent of land, just because they paid previous landowners for the right to occupy their sites. To recommend to government that it ought to *tax* that rental income is not the correct approach. It locks government into limiting the charges on rent to tax rates that are currently applied to earned incomes. Higher tax rates would be opposed as “confiscation”. That’s why we need to burrow beneath – or walk round – the assumptions about property rights. This is achieved by using a new language of public finance with which the population would empathise.

In Britain, we are halfway there. The Blair government, if re-elected next May, will bring forward legislation to tax land values. But at the present time, we know that the proposal will be

7 Kings Road, Teddington, Middlesex, TW11 OQB, UK

Tel: 020 8943 3352 e-mail metaman@compuserve.com

Land Research Trust is a Registered Charity No: 327041

for a half-baked public charge on land values. This tells us that we still have to overcome the institutional and legal barriers. We need two more years before we have reached the point where politicians and social scientists can speak coherently about rational and fair forms of public finance.

THE IMPORTANCE of integrating language, law and logic is illustrated by the outcome of our work in Russia. President Putin is now running ahead of even the economists who advise him. This is illustrated by the complaint registered by Andrei Illarionov against his boss, the President. Illarionov is Putin's economic advisor. But in an interview with two journalists from the *Financial Times*, he attacked the Kremlin approach to economic policy, and particularly public finance. The bureaucrats, he regretted, had become infatuated with "redistributing rents [natural resources revenues]": October 7, 2004.

This shift towards raising more revenue from resource rents, he said, was a problem.

The school of thought that natural resources are a very special commodity is spreading very fast. In the 1990s it was widely believed that natural resources could be privately owned and therefore private companies were accumulating reserves. But over the past several years, a near-consensus has emerged that natural resources should belong to the state – not to private citizens and private companies – but the state. This is now very clearly understood and that's why any decision by foreign investors to acquire natural resources is expected to be discussed with the state.

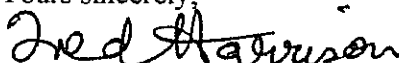
What makes this assessment convincing is that it is not being *advocated* by the President's economic advisor. Illarionov is *complaining* about the emergence of a consensus between President and people over the disposition of the nation's rent-yielding resources.

There is still much work to be done in Russia to achieve the best outcome. Market-based institutions and processes need to be developed to complement the philosophy of the social ownership of nature's resources. But, under Putin, Russia is heading in the correct direction. That is why the Western media is firing vitriolic barbs at the Kremlin today, claiming to perceive a reversion to Soviet authoritarianism. But as the *Financial Times* has acknowledged in its reports in recent months, Putin is unambiguously committed to the free market.

The West is facing enormous crises, and we would do well to examine the fundamental obstacles to the freedoms of our citizens. Domestically, there is the breakdown of law and order. Internationally, there is the breakdown of diplomacy – who are the winners in Iraq? Economically, how to sustain the pensions for retirees in future generations, and the welfare of people who fall sick in the present generation, remains beyond the grasp of governments. So there is much work of a fundamental philosophical kind to do at home, before we dictate to others how they should put their houses in order.

Britain's Georgists have the best prospects for advancing change in the correct direction at this point in time. Tony Blair, for example, has gambled with his political fate by publicly declaring his intention to alter the basic principles of the much cherished Welfare State. This took courage. Hitherto, even Conservative politicians have been scared to question Britain's commitment to the Welfare State. But Blair lacks the economic mechanism to deliver on his intentions. Over the next two years, we will provide him with a fully worked out scheme for delivering change to the post-World War II settlement. Blair will discover that he has no option but to begin by redesigning the system of taxation.

Yours sincerely,



FRED HARRISON

7 Kings Road, Teddington, Middlesex, TW11 0QB, UK

Tel: 020 8943 3352 e.mail metaman@compuserve.com

Land Research Trust is a Registered Charity No: 327041