

**PROPERTY RIGHTS, LAND VALUES & URBAN DEVELOPMENT  
BY LI TIAN**

*Reviewed by Fred Harrison*

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A great leap forward in evolutionary development of mankind was possible on two separate occasions in the 20th century. The first came with the decision by Mikhail Gorbachev to try and chart a new course for the block of countries that had come together as the Soviet Union. The second opportunity arose when Deng Xiaoping decided that the Chinese Communist Party needed to adopt elements of market-based economics. Tragically, both experiments failed. The result: One third of the world has lapsed into the same culture of greed which afflicts the West.

It need not have happened. At the end of the Communist experiment, land and natural resources were in public ownership. Had the leaders of those countries merely modified the tenure-and-tax system, they could have emancipated their peoples to embark on entrepreneurial enterprise while securing for the public good the net income – the economic rents – which they would collectively generate in the course of going about their private business. This didn't happen, in the case of Russia, because Western ideologues launched a campaign to persuade Boris Yeltsin, who had taken control of the Kremlin, to privatise land and natural resources. Despite the efforts of a global network of experts who spent 10 years explaining to the Russian people that keeping the rents in public ownership would free them of taxes and nurture a new value adding economy, what was then called *The Washington Consensus* prevailed. Today, Russia is dominated by an authoritarian regime that depends on oil rents and a network of oligarchs whose primary interest is in extracting rents out of Russia and investing them in Western real estate. It might have been different in China, because the Communist Party retained control. To this day, the party claims that land and natural resources are public property. But as Li Tian explains, government failed to ensure that the rents were recycled into the public purse. As a consequence, a rent-seeking culture emerged which cannot be differentiated from the one which cripples the UK and US societies.

Li Tian provides her readers with an introduction to the philosophy of property rights as they relate to land and its value, and offers a succinct comparison of the works of classical philosophers like Hobbes and Locke. But the most important part of the book is the detail of the history of land ownership from 1911, with the onset of the Republic, and the influence of its first president, Sun Yat Sen.

The author provides some valuable detail on the way in which the Kuomintang government established a land value-based tax in 1924, and a capital gains tax that was intended to forestall land speculation. Following the death of Sun Yat Sen, the government persisted in applying land reforms and it clearly affirmed that all land was state land and belonged to the state on behalf of the people. But there was one exception to this rule: some land had been transferred legally into private ownership. Here, Li Tian creates confusion by claiming that this complex system of property rights became the weakness which the Communist Party was able to exploit, paving the way for the final victory of Chairman Mao over the Kuomintang.

A more nuanced account of this history would have demonstrated that the Kuomintang was persistently thwarted in seeking to collect rents for the public purse. The combination of warlords (rent seekers with guns) and Mao's Red Army challenged the

legitimate government, creating the havoc which inhibited peaceful social evolution. The outcome was the victory of Mao and his Marxist doctrines. The Kuomintang was driven into exile on the island of Formosa. There, free to embark on a consistent programme of reforms, the Kuomintang introduced the land-to-the-tiller programme and the land value tax. These laid the foundations for the emergence of the first Asian Tiger.

We now have dramatic empirical evidence to test the claims made on behalf of the rent-as-public-revenue thesis: that when the burden of taxation is minimal because government relies on rents to fund public goods, growth is optimised and people's freedoms are maximised. If we compare mainland China with the record of economic and political development in what became Taiwan since the 1960s, we get a sense of the huge cost that the people of China paid for following Mao rather than Sun Yat Sen.

The outcome, today, is a heavy focus on real estate speculation on mainland China, which threatens to undermine the achievements of that country in the realm of reducing poverty and creating new forms of market-based industrial production. At the heart of this failure is the corruption which Li Tian describes in these terms:

*Motivated by the high profit return, some developers pay bribes to government officials to obtain land at low prices and with favourable planning parameters. The ambiguity of property rights in land has left much leeway for government officials to take bribes. The recent most common corruption in land management is the grant of high plot ratios. As noted earlier, the plot ratio is critical for the land value (p.115).*

This is not, in fact, a problem of ambiguity in relation to property rights in land. The Chinese constitution makes it crystal clear that land is in public ownership and must be held on leases. The problem is with the doctrine of rents. One would have thought that the Chinese *Politburo* in Beijing would have understood that rents are the monetised expression of the property rights in land, all of which ought therefore to have been directed into the public purse.

Speculating in real estate is now evidently a national pastime. This is complemented with a bizarre state policy of expanding urban development far beyond the demographic needs of the population. The outcome is a gross waste of capital resources and a preoccupation with the purchase of empty apartments in the hope of accumulating capital gains.

China is now in a bad state, with potentially serious consequences for the rest of the world. Reforms are needed in the realm of public finance, but Li Tian's discussion is disappointing. Instead of emphasising the wisdom of a simple and direct collection of all rents payable by those who benefit from location-based services, she wanders off into a review of the kinds of tools employed by Labour governments 50 years ago – such as betterment levy and compensation – which failed the United Kingdom.

Nonetheless, the book is stimulating in providing the opportunity to explore the central weakness of the new China: the failure of the Communist Party to retain command over the rents that are collectively created by the people of China. ■