The state of Russia & Land Policy (1722-1992) [1]

*

Fred Harrison

Director
Centre for Incentive Taxation
London

**Paper presented to the
International Conference
"Total Tax Reform by the Year 2,000"
Melbourne, Australia
September 1993**

[1] **An earlier version of this paper was presented to the Russian Academy of Administration, Moscow, April 1993.**

HISTORY has a habit of repeating itself, even after those "revolutionary" times when people think that they have broken the old mould. Repetition usually stems from the unconscious retention of values that lead to decisions which result in the reconstruction of old systems in new guises.

Russia is a case in point. Today, she stands at the dawn of what might be a new era. Or, just as equally, she might be about to preserve a system that originated 250 years ago, under Peter the Great, a system which I shall argue was not destroyed by the revolutionaries of 1917.

> *The practices of the past 70 years, far from transforming Russian society, indicate that 1917 was little more than a coup d'etat: one group of people took over the levers of the state's power, without introducing qualitative changes in the nature of society as experienced by ordinary citizens.*

The implosion of the Soviet state under Mikhail Gorbachev need not now constitute anything more than yet another phase in the life of an autocratic system. The policies that will make or break the current experiment in reform are principally associated with taxation, and with the use of land and natural resources. Without a qualitative change in these practices, the people of Russia cannot expect substantive improvements to their lives or in the character of society.

In terms of the processes and institutions employed by the state, there is a heritage that is continuous from Peter the Great to the end of the Soviet era. Peter established the bureaucracy that administered society; he created the command economy, and sought to industrialise by nurturing a military-industrial complex; he introduced internal-passports to tie workers to the land and factory; and his henchmen did not hesitate to use murder, torture and exile to coerce the population; finally, he imposed a burden of taxation that was the heaviest in the West. These are features of a Russia that persisted right up to the fall of Mikhail Gorbachev in 1991.

The ideology of the Soviet system was different, of course; but this was dressing. In reality - from the viewpoint of the ordinary citizen - little had changed except the individuals who occupied the highest offices of state. What it all amounted to was a concentration of power in the hands of an autocratic system, first in the person of the czar, then in the hands of the General Secretary of the Communist Party.

In seeking to understand this system, to learn from the mistakes of the past, our analysis will focus

on taxation and property rights in land. These two features of society tell us everything about the power of the State and the quality of life of the citizen.

PART I

The dynamics of power

Without revenue, the State could not function. The tax system, however, does more than finance the state; it also has a formative influence on the general character of society. A "sound" system of public revenue is associated with a different approach to economics and of social relationships than a tax system that is, say, "exploitative".

The system of public revenue inherited by Peter I (1672-1725) relied on a tax that was levied on households, as identified by the house and farm. To achieve his ambitions, Peter had to raise enormous sums of money from the people of Russia. He wanted to build a capital on marshland facing the Gulf of Finland, and he was to fight wars that were to last for 21 years. Working on the assumption that the population must have grown, and therefore ought to be yielding a higher revenue, in 1710 he ordered a census. That was when he learnt one of the truths about taxation: people go to great lengths to avoid handing over their income to the taxman! In Britain, for example, when kings levied taxes on windows, property owners bricked up the openings of their buildings: no window, no tax liability!

Peter was shocked to discover that in a period of 30 years, the number of households had contracted by from 20% to 25%.[1] To reduce their tax liability, people had crowded themselves into existing houses, rather than build new ones to accommodate the increase in population. This was a real-life illustration of what was to be confirmed by the science of political economy: a tax on buildings encourages a reduction in investment in the construction sector. This effect has been verified by empirical evidence throughout the world.[2] For Peter, the greatness of the state he wished to build was being jeopardised by the tax system that he had inherited. In modern terminology, the tax on buildings was eroding the buoyancy of the revenue base.

To underwrite his ambitions, Peter ought to have drawn his revenue from the land beneath the houses. This, as the French Physiocrats were to discover later in the 18th century, was the route to public riches in a prosperous society. Instead, in 1718, Peter adopted the Poll (or "soul") tax.[3] This was a tax on each male, the rate of which varied according to whether he worked on private or state land.[4] In my view, this one decision more than any other sealed Russia's fate for the next 250 years. It drove the autocrat to

concentrate power deeper into the hands of the state and its tax-collecting representatives, the landowners. Put another way, this decision established a framework for power that inhibited the state from undertaking qualitative reforms until, come 1917, the people had had enough.

Attributing importance of this historic magnitude to a single decision about the tax system needs to be substantiated.

In former times, peasants had been free to move around the country, to work wherever they wished. Free people will go wherever they can gain the best lifestyle for themselves and their families. This freedom did not suit the landowners, the noblemen who were granted land in return for service to the feudal state; some of them found they could not obtain the labour they needed to work their fields. But while this relationship may not have worked to the advantage of the rent-seeking landowner, we can reasonably assume that, with the bargaining strength in their favour, the wages of labourers were relatively high.[5]

In the mid-1550s, the landowners appealed to the state for protection from the effects of labour mobility. The state obliged. Decrees were issued forbidding peasants to leave the land. By the time Peter came to the throne, 95% of the people were tied to the land as serfs.

The poll tax threatened to undermine this system: it encouraged serfs to flee the land. They could evade the tax by colonising free land on the periphery of the state, where they would be beyond the reach of the taxman. Once again, the landowner appealed for protection from the risk of people taking to the highways. Peter, to preserve the integrity of his tax, decided that the solution was to twist the knot around the necks of the peasant even further. In 1722, he decreed that serfs could not leave the land without their landowner's written permission. Thus came into being the internal passport, a document that was to be used to physically control people's lives throughout the Soviet era.

We can now begin to see how the tax system distorted both society and the lives of the individual citizen. The landowner, as the collector of the poll tax, was bound closer to the fate of the state: indeed, he became a state functionary. To assist him in discharging his tax-collecting duties, he was provided with the protection of the army. Peter the Great's legacy, then, was not only the palaces of St. Petersburg, but also the most exploitative system of taxation of any country in the West.

The landlord, if he knew what was in store for his descendants, might not have so readily conspired with the state to administer the poll tax, which historically had caused peasant uprisings in Europe.[6] For the autocratic state had now boxed itself into such a tight corner that it lost all capacity to respond to the wishes of ordinary people. This problem can be analysed in terms of the economic need to deconstruct the autocratic power base bequeathed by Peter.

On civil liberty

To employ the new techniques and technology that would raise living standards, people required an increasing measure of liberty. Russia's autocrats apparently understood this principle. Historians tell us that every monarch from Catherine the Great to Nicholas I favoured the abolition of slavery, but they "hesitated and retreated from taking the fateful step".[7] The single most vexatious problem, from the 18th century onwards, was how to handle the problem of the emancipation of the peasantry. But if we are to understand why the czars failed - despite their absolute authority - we have to ask why the people of Russia were enslaved in the first place. Only then can we identify the elements of the solution. The issue, in great measure, comes back to public finance.

We can characterise the problem in terms of the need to find a working balance between the state, an administrative middle class, and the peasantry.[8] There was no satisfactory institutional way for those at the bottom to transmit their discontent to the top; and the state had no social mechanism for sensitively monitoring, and responding to, the needs of those at the bottom. Any expression of discontent was perceived by the landowners as a direct threat to their rent-seeking interests, and were therefore treated as a challenge to the vital interests of the state itself. The state, in consequence, lacked the institutional wisdom that is necessary, if there is to be a constructive response to people's heartfelt needs. Public policy, therefore, was cramped in favour of preserving the status quo.

Steps in the direction of change were taken, in the 19th century, but they were painfully hesitant. In 1803 the right to manumit slaves with land was granted; in 1816-19, in the Baltic region, peasants were emancipated, but without land. A succession of government committees produced a variety of proposals, none of which provided the czars with the courage to push through a fundamental reform of the social system. Why? Because the state was still feudal: power over people was exercised through the state's direct control over land. People who talked of change, therefore, were forced to think in terms of overthrowing whichever czar was on the throne. This was a recipe for social

ossification, a condition that persisted up to 1917; and, in fact, continued up to 1991.

The inspiration of 1848

The French Revolution became the inspiration for the young bloods who frequented the literary salons of Moscow and St. Petersburg. This is not surprising. In appreciating that there was no possibility of progressive reforms, Russia's small class of intelligentsia became excited by the possibility of revolution. The rationale was provided by Friedrich Hegel, whose philosophy of an unfolding history provided them with a balm with which to sooth consciences that were haunted by the condition of the exploited peasantry.

The outstanding voice of this period was that of the socialist polemicist Alexander Herzen (1812-70). He saw in the mir, the traditional Russian village commune, the happy balance between individual liberty and social cohesion. In Herzen's view, it was the social nature of property rights in land which promised the peace and prosperity for which his people yearned. How this combination of reality and vision could be translated into a modern socio-economic system, Herzen did not say; he lacked a practical programme that met the dual need to liberate economic activity (as reflected in the freedom of the individual) while preserving a sustainable social system.[9]

The result was infatuation with talk of assassination. The snag with killing czars, of course, is that they have heirs; and armies and a compliant bureaucracy to preserve the throne of the heirs! In other words, the state would remain in control.

This talk of assassination invited the inevitable response: a defensive retreat into harsh forms of authoritarianism. Where the state did decree change, it was not change to the system as such (the private appropriation of the rent of land), but in merely seeking to expand the number of people who shared the rent. This was not a principled strategy that favoured everyone, equally, through a modernised version of the ancient system of taxation. In former times, the surplus value of the resources of nature (rent) were shared through public expenditure on socially-necessary services. The result was a confusion of policy on property and taxation which preserved a rigidity in the social system that would one day snap: it happened to the Romanov Dynasty, and it happened to the Communist Party.

1861: "Emancipation"

What appears to be a decisive break with the past occurred with the formal emancipation of the serfs in

1861. The tillers were allowed to retain part of their land, but they were burdened by heavy redemption payments over a long period of years.

Legal "freedom" did not liberate everyone; the social system was not now based on justice and equality. The rich - the landowners - grew richer, and the state - the ultimate landlord - grew stronger. Tibor Szamuely summarised this outcome as "Too little, too late."[10] Not only were the emancipated serfs burdened with debt; but, even more significant, the philosophy of property rights made no provision for the claims of future generations. The facts bear out this analysis. In 1905, the Ministry of the Interior published statistics which revealed that about 30,000 landlords each owned over 500 dessiatins (or 1,350 acres); whereas 10m peasants owned an equivalent amount of land, in total (70 million dessiatins).[11] Lenin was to note:

> It follows that on the average there are about 330 poor peasant families for each big landlord, each peasant family owning about 7 (<u>seven</u>) dessiatines, while each big landlord owns about 2,300 (<u>two thousand three hundred</u>) dessiatins.[12]

The result was a sclerotic, exploitative society based on land monopoly; a society ripe for revolution.

1905: political strikes

Social discontent was deep-seated, and it bubbled up into an attempted revolution in 1905, when the political strike came into its own. In that year the number of exclusively political strikers leapt to 1.8m people. The counter-revolution succeeded, however, but the disturbances persuaded the czar of the need to appear to take action. This came in the form of the Dumas (the consultative institution that was supposed to give people a voice in the affairs of state). The first two Dumas were a lamentable failure, and the way in which its members did not confront the problems of agriculture were symptomatic of the weakness of the political system.

Agriculture had to be reformed. It still relied heavily on the communal system, which had by now outlived the old rules by which it was governed. Unfortunately, once again, the political factions played politics with this most important of issues. There had to be reforms in the direction of a sharpening of individual possessory rights, and developments in the social mechanism for reallocating land. The communal system idealised by Herzen was no longer able to function efficiently. If the cultivation of food was to match both need and technological innovation, the medieval strip farming system had to be remoulded into a more appropriate pattern of land-use.

A peasant might occupy 150 strips scattered over several square miles.[13] Before any new redistribution could take place, however, a two-third support of the whole village had to be secured. Clearly, this social structure had become an unwieldy approach, and required reform. But up to 1906, no-one in public affairs felt bold enough to come forward with proposals for privatisation.

Once again, the workers were betrayed by those who might have fashioned sensible policy. Both the reactionaries and the revolutionaries conspired to preserve the operational traditions of the communes. Why? The reactionaries wanted to live in the past; and the revolutionaries resisted change because they viewed the commune as a route into modern socialism.

Public policy, therefore, was not to serve the needs of an evolving society; but would continue to suffer from the palsy of political opportunism.

The vacuum was filled with the convening of the third Duma, which produced something rare in Russian political life - decisive action. This was offered by Peter Stolypin, who was president of the council of ministers. He confronted what Pares, an English scholar and close observer of events in Russia at the time, described as "the thorniest of all questions".[14] Under the new leadership "great problems could be attacked. The most important of those now pending was the land reform of Stolypin, based on the principle of individual peasant property".[15]

Stolypin was determined to create a class of yeoman farmers who owned their land. To encourage this, his government invested in the infrastructural needs of those villages that favoured his reforms. By 1914 there was a yeoman population of 8.7 million property-owning households. There was a visible transformation of the countryside, in cultivation, planting and husbandry.

But the policy did not offer a comprehensive solution. Those who left the land went to towns, some carrying the money they received from the sale of their holdings. But the Stolypin strategy, far from broadening the basis of social consensus and harmony, merely deepened the class structure in the countryside and intensified the problems in the urban labour market. It was an unsustainable situation.3

The spirit of the commune had been destroyed, when it should have been harnessed through adaptation to meet the needs of new systems of production. There was no reason why that spirit of the commune could not have evolved into a new form. For as Pares noted: "No instinct is more in the genius of the Russian peasant than that of cooperation".[16] The practical solution was being actively commended to the czar by Leo Tolstoy.

Tolstoy, who was close to the peasants on his own estate, had come to realise that drastic action was necessary. But the changes were not so much in the physical redistribution of the land, as in the sharing of the rental value of land. Tolstoy appealed to the czar, who turned deaf ears and paid the ultimate price. Tragically, alas, that deafness also exacted a price on the people of Russia.

1917: collectivization

Czar Nicholas II could afford to think that he had beaten the discontent, because social strikes slid away in number up to 1910, the year in which Tolstoy died. But then the political strikers began to reactivate themselves, again, their number rising to over 1 million for the first half of 1914. The world war then intervened, adding further unrest among an exhausted population, and the first revolution came in February 1917, when soldiers joined the factory workers. Power fell into the hands of the Social Revolutionaries, but they, too, did not prove to be any more imaginative in dealing with the land question, which remained at the top of the political agenda. Trotsky dramatised the issue by characterising the land question as "still more threatening".[17]

The Bolsheviks realised that the agrarian conflicts between February and October were directed not at capitalism "but against the relics of serfdom".[18] The absence of a coherent programme to deal with the land question was not something that the peasants would now tolerate. Trotsky says of those who had sought to wear the mantle of the czar:

> Their betrayal of agrarian democracy became clear in a few months. Under a government of Social Revolutionaries the peasants had to take the road of insurrection in order to carry out the Social Revolutionary programme.[19]

Such indecision could only foster more trouble. This came in October, in the form of the Bolshevik takeover.

V.I. Lenin, on the train from Germany to the Finland Station in St. Petersburg, took with him a clear awareness of the importance of the land question. He had written extensively on the subject, but there was a flaw in his analysis of the facts, as we shall shortly note. Here, we need go no further than to observe that the failure of the Communist Party to develop a practical programme - one that released the energies of the peasantry, enabling them to put money in their pockets and food in the bellies of the urban population - culminated in the destruction of entrepreneurial activity in the countryside under Stalin.

The horrors of Stalin's attacks on the kulaks, and his collectivisation programme, resulted in the deaths of millions, and the disruption in the lives of many more Russian families whose sole interest was the desire to meet the needs of themselves and their communities. To achieve these aims, the Communist state used methods of mass terror and arbitrariness every bit as barbarous as the instruments employed by the autocratic czars.[20] And so the system of direct state control over the lives of the population, through the use of the internal passport and the KGB, remained in use until Mikhail Gorbachev proposed the need for perestroika in the mid-1980s.

PART II

1992: conceptual confusion

The communist era came to an end when Boris Yeltsin stood on a tank outside the White House - the Russian parliament - and defended democracy. But on the central question of property rights in land, he was to become dangerously ambiguous.

At first he said - voicing the primaeval instinct close to the hearts of the Russian people - that "you don't sell your mother". But then, under circumstances which we have not yet been able to identify, he switched to the concept of "privatisation of land". Pro-Yeltsin politicians adopted this slogan. They did not have a clear vision of what the privatisation of land meant. This was reflected in the wording of the resolution on the ballot paper calling for a referendum, which was suitably ambiguous. It asked:

> *Do you agree that in the Constitution of the Russian Federation there should be an article allowing the private ownership of land, which means that it is the right of every citizen of the Russian Federation to possess, to use and to be in charge of land?*[21]

If the second half of this question defined the full extent of the meaning of "ownership" of land, then the Yeltsin government's concept of property was at variance with those of his western advisers. The problem was that nobody knew precisely what the president had in mind, when he then campaigned - in the winter of 1992/3 - for the question to be put to the popular vote.

In any event, President Yeltsin's land policy was a partial one. It was largely directed at three groups: private farmers; the urban dwellers who possessed dachas; and the families who cultivated small vegetable plots. The proposal to privatise land for these three groups was not viewed by Yeltsin's supporters as a

threat to the outcome of his economic reforms, but it was directly responsible for creating political tensions with the municipalities - especially the larger ones like Moscow and St. Petersburg - where the Soviets (councils) favoured the grant of land to users on the basis of 49-year leases.

Because of the uncertainty about the definition of the phrase "private ownership of land", the president was exposed to the charge that he wanted to reintroduce the system of landlordism that was last experienced under the czars. This confused the political debate about the structure of power, and over the division of authority between the legislature and executive.

Equally fatal was the failure of Boris Yeltsin's advisers to provide the president with a macroeconomic analysis of the consequences of the privatisation of the rent of land. He therefore restricted his analysis to the political consequences; and in that sphere, he was probably correct to believe that his proposal would be viewed with favour by a large number of people.

The conceptual and legal dispute was not settled by the time the votes were cast in the referendum of April 25, 1993. The president, who had repeatedly insisted that the land question should be put to the ballot, had failed to persuade the Congress of Deputies to agree to his request. By the summer of 1993, therefore, the fate of the land of Russia remained in a state of uncertainty.

Breaking with the past

There is no mystery about why public policy was administered in a confused manner for over two centuries. The reason is to be found in the interests of the state. Trotsky characterised the essence of the problem when he referred to "The great landlord incarnate in the State".[22]

While the state might wish to ameliorate social problems, it could not do so unless it understood how to recalibrate the rights to property in the direction of social justice; but in autocratic Russia, it could not do this without undermining the power of the state itself! Repeatedly, the decisions that were taken were flawed by the need to preserve the power of "The great landlord incarnate in the State". Neither the emancipation of serfs in 1861, nor the Stolypin reforms, was a threat to the state; nor was the Bolshevik solution - through the collectivisation of the farms - any closer to protecting the individual from arbitrary interference by the apparatus of the state.

The lesson is clear. The office holders *within* the state, from czar to commissar, were willing to

undertake a measure of internal change, shifting power between people; but they were not willing to give up the ultimate power - that which derived from direct control over the land.

Russia in the 1990s has that rare historical opportunity: a second chance to accomplish what earlier leaders were not able to achieve.

PART III

The Japanese model

In the search for clues that might help Russia, can we examine any models - historical or contemporary - that point in the appropriate direction? The Anglo-European model was the one commended by western advisers to Moscow. In my view, however, the socio-economic system which Russia should investigate is the Japanese model.

The similarities in the evolving modernisation of Japan and Russia are striking. What Peter the Great set out to accomplish in the 1720s - the purposeful government-directed transformation of a feudal into an industrial society - was not to be repeated by any other nation until the Meiji Restoration of the 1870s. That was when Japan decided to embark on a similar exercise, as a response to the gunboat diplomacy of the United States. She did so by taking steps that were anticipated by Peter in Russia 150 years earlier: the public sponsorship of centres of learning in which to develop science and technology, the creation of a professional civil service, the establishment of a partnership between the public and private sectors to develop the industrial mode of production.

Had Peter's reforms succeeded, Russia would have beaten England to what is now called the industrial revolution. But while Japan was to succeed in achieving her goal, Russia did not; and if there was a single reason for this failure, it was the fateful decision to adopt the poll tax. For by choosing this measure to finance the state, Peter was obliged to tie people absolutely to the soil. This fiscal policy contrasts with Japan's decision to underwrite the massive costs involved in her industrial revolution by raising public revenue from the rent of land.[23] In making this choice, Japan was able to free the peasant to decide for himself whether to remain on the farm or work in the factory: labour mobility was a matter of personal choice. In contrast Peter, by choosing the poll tax, sanctified the process of enslavement. Not surprisingly, therefore, in Japan the latent talent of the people was fostered by the dynamic of the emerging market, while the genius of the Russian people was stultified by Peter's system of tax-and-tenure.

Is it futile to bemoan Peter's fiscal error? After all, he had imported the idea of the poll tax from France, where the Physiocrats had not yet written their tracts on land-rent as the soundest source of public finance. Can we blame him for not being abreast of an idea that had not yet been formulated in theoretical terms? Of course not. On the other hand, we should recall that, throughout the history of feudalism, the rent of land was the primary means for financing public services. In other words, had Peter been sufficiently diligent in scouring Europe for fresh ideas on how to improve government policy, he would have had no difficulty in identifying the system of taxation that would have best served the interests of his nation.

Lamenting the errors of the past is pointless unless it enables us to learn lessons. This is particularly so for Russia, today, which is back at the point at which Peter found himself in the early 18th century. To meet the challenges of the 21st century, Russia has to reindustrialise; she has to restructure her economy and the political system; she needs a new set of social values to reintegrate a badly ruptured society.

This is a historic opportunity. Russia can either repeat the past errors, by preserving a system of tax-based exploitation; or she can engineer a decisive break with the past, and work towards a new level of prosperity. The outcome will be determined by the way in which the people of Russia resolve the challenge of taxation and the tenure of land. The solutions will be shaped by the vision of liberty; and on that, they have much to learn from Leo Tolstoy.[24]

Two faces of freedom

Debate about the nature of liberty, and of an efficient economic system, are so much hot air, *until* there is agreement on the minimum practical conditions for material and spiritual liberty. The state of freedom is not one of anarchy, which presupposes no government. That is why Leo Tolstoy, in the end, was not an anarchist: he recognised that, for society to function on the basis of equality, land-rent had to be socialised, and spent by the community, through its social institutions, on behalf of everyone. Social institutions have to be coordinated; which invokes the need for a minimal government.

In Russia, Tolstoy alone recognised how personal liberty and the integrity of society were destroyed by the privatisation of the rent of land. Drawing on the works of Henry George (*Progress and Poverty*, 1879), he was able to propose a practical mechanism for resolving what would otherwise be an incompatible system of relationships between property rights and political aspirations.

Tolstoy saw how there was no synchronisation between the appropriation of rent, in a society that regarded land as the property of the whole community, and the use of land. His solution bridged what was to become the contrast between the socialist model of land nationalisation, which gave the state the power of the autocrat, and the private ownership of land, which gave a minority class of people the power of monopoly over the material basis of life itself.

By socialising rent, Tolstoy observed that it was possible to equalise the benefits of the possession of parcels of land; and efficiently allocate land between different uses; while providing society with the financial means to discharge its duties to the individual. This was the model that economists of all political persuasions agree would yield the maximum individual and social welfare. It was the one on offer to the czars of Russia, and to the Bolsheviks. They all rejected the option. But while it may not be reasonable to expect the Romanovs to destroy the basis of their autocratic power, a similar explanation is not available to those who claimed to be revolutionaries.

One of the bewildering questions for historians of the next few decades will be why the Bolshevik challenge failed. Why was it necessary to abandon the socialist's search for a new social system, a system that was supposed - according to the dialectics of history - to be an inevitable outcome of the contradictions in capitalism? I believe that the answer has to be sought in Lenin's failure to understand the consequences that would flow from the socialisation of the rent of land. In presenting the argument for this case, we have the fascinating opportunity to examine the rent thesis in what has now become a profoundly important experiment in change in Communist China - the return to the market economy based on the private ownership of capital, and the creation of a wage-based labour market.

Our analysis can start with Sun Yat-sen (1866-1925), who studied in Europe and the United States before returning to China to lead the revolution that would depose the Manchu dynasty in 1911. Lenin's analysis of Sun Yat-sen's strategy for creating a new society is fascinating for what it tells us about the ideological prism that distorted Lenin's thinking.

Sun Yat-sen, in an article he contributed to a Belgium newspaper when he was provisional President of the Chinese Republic, spoke of his reforms which, in his assessment, would lead to an "economic revolution". Lenin offered a critique of that programme; he was scathing about the claim that it would lead to a "revolution". This is how he put it:

> It amounts to the transfer of rent to the state, i.e., land nationalisation, by some sort of single tax along Henry George lines. There is absolutely nothing else that is <u>real</u> in the `economic revolution' proposed and advocated by Sun Yat-sen.[25]

Sun Yat-sen argued that a qualitatively different kind of society would result, if the rent of land were socialised. (*Despite* Lenin, this tax-based strategy is *not* the equivalent of "land nationalisation": the policy of rent-as-public-revenue excludes the physical appropriation of people's land by the state; it is compatible with secure private possession of land.)

The society that Sun Yat-sen envisaged would be neither communist nor capitalist, but a unique system. This Lenin could not accept, and the way in which he reported Sun Yat-sen's words exposed his ideological prejudices.

"China is on the eve of a gigantic industrial development," wrote Sun Yat-sen. Lenin, in reporting this sentence, added, in parenthesis, after the word "industrial", an explanatory word. Now the sentence read: "China is on the eve of a gigantic industrial (i.e., capitalist) development." And again, he added a parenthetical explanation when he noted Sun Yat-sen's statement that in China "trade (i.e., capitalism) will develop to an enormous extent".

Lenin was locked into the Marxist dialectic of history. He could not accept that the Georgist strategy - the solution to the land question by treating rent as the primary source of public revenue - would produce a qualitatively different system to that which Marxists label "capitalism". Lenin could not accept this, for the simple reason that capitalism *had* to be the next stage after the feudalism that was coming to an end in China. Such were the stages of social evolution, as detected by the "scientific socialism" of Karl Marx. Thus, ideologically, Lenin was compelled to dismiss as utopian Sun Yat-sen's expectations about the development of his society, based on the Single Tax strategy prescribed by Henry George.

Lenin was wrong. If he had paid closer attention to the words of Sun Yat-sen - and, closer to home, the similar vision offered by Leo Tolstoy - he would have been able to project the revolution of 1917 along a unique path of social evolution which might have lasted for more than 70 years.

But Lenin could not conceive of a set of social relationships under which the exploitation of the working class, in the 19th century, need not have materialised in China - or Russia - in the 20th century. And yet, he did have the objective opportunity

to think through this process. The basis for such an evaluation was provided by the analysis of none other than Marx himself. Marx explicitly observed that, by neutralising the monopoly power of the landlord, a completely new social situation would arise. This is how he identified the supreme importance of land:

> The nationalisation of land will work a complete change in the relations between labour and capital.[26]

There is no ambiguity in this conclusion. He was saying that if you neutralise the monopoly power of the landowner, you remove the exploitative power of the capitalist! This was precisely the analysis from the pen of Sun Yat-sen; and, before him, Henry George.

Marx used the phrase "nationalisation of land" because he wanted to centralise the power of the land. Henry George had explained, in *Progress and Poverty* (1879),[27] that the claws of the landlord would be removed by the simple expedient of socialising the net benefits of land - the economic rent, which was socially created, and which ought to be used to finance the public sector. The power of the land was a malicious power, when placed in the hands of one class; a most benevolent power, when the rent of land was socialised through the tax system (for this one policy, in one fell swoop, banished both the tyranny of landlordism and the taxation on the private fruits of people's labours).

Marx could not have disagreed with the thrust of this philosophy, for he went on to note that, if you neutralise the power of the land, you "do away with the capitalist form of production, whether industrial or rural".[28] Again, note the clarity of this statement: the exploitative power stemming from the private ownership of capital equipment is a derivative power: it rests exclusively on the privatisation of the rent of land. Thus, if you abolish the malignant power associated with land monopoly, which is specifically associated with a particular system of tenure-and-taxation, you "do away with the capitalist form of production".

This is what Sun Yat-sen was saying, but which Lenin failed to comprehend. Yet from the point of view of public policy, it is probably <u>the</u> key insight in the whole of economics, an insight that was fully documented by Marx in his analysis of the economics of colonialism.[29] From this one step flowed all the good things that Marx sought: class distinctions would disappear, along with the arrival of a benign form of political and economic organisation.

Because this prospectus escaped Lenin's mind, what happened in Russia after 1917 can be summarised by

reversing a dictum offered by Engels. He said that "What formally may be economically incorrect, may all the same be correct from the point of view of world history".[30] Thus, for Lenin, what was economically correct (the Georgist Single Tax) was *incorrect* - for Lenin - "from the point of view of world history". He could not accept the correctness of Sun Yat-sen's analysis, because it contradicted the Marxist dialectics of history!

Is there an objective way of testing our Georgist thesis? We believe so, and in, ironically of all places - China! Today, China is transforming her economy, with great success (an economic growth rate in 1992/3 of over 12%). She is doing so by privatising capital, but retaining land in public ownership! Potentially, the communists of China will now prove that Henry George's economics strategy was correct.

Unfortunately, correct legal formality is an insufficient solution. Georgist analysis demonstrates that the crucial variable is the possession of the rent of land - not the land itself. This policy is not being applied on a consistent basis in China, where the Politburo failed to socialise rent as part of its strategy for reintroducing market economics.[31]

Thus, Russia can learn from China's fatal mistake - one that will haunt that country for decades if it is not quickly rectified. The solution is for China to apply the remedy proposed by Henry George and his students, Leo Tolstoy and Sun Yat-sen. Their insights, I believe, would lead to a historically unique socio-economic system. And if it were to be implemented in Russia, today, it would, I believe, go down in the pages of history as the Russian paradigm.

REFERENCES

[1] Robert K. Massie, *Peter the Great*, London: Abacus, 1982. p.780.

[2] We know from the structure of the property tax in countries as far apart as the United States and Australia that the economy is more industrious if public revenue is drawn from the rental value of land alone, rather than from the income from both land and buildings. A statistic from South Africa illuminates this reality. In the 10-year period 1974-84, in those cities that levied the property tax on both land and buildings, the rate of growth of the value of capital investment on the land was 189%; in those cities where public revenue was from the rental value of land alone, the rate of growth in the value of improvements to land was 413%. Godfrey Dunkley, *That All May Live*, Roosevelt Park, South Africa: A. Whyte Publishers, 1990, p.124, Table 1.

[3] The tax was implemented in 1724, and abolished in 1887.

[4] The 1722 census counted 5.79m male "souls". Peasants paid 74-114 kopeks per annum. The poll tax produced half of the State income. Massie, *op. cit.*, p.781.

[5] This was certainly what happened when Australia and North America were colonised: free land meant that the owners of capital could not exploit workers, as Karl Marx was to acknowledge (*Capital*, Vol.1, Ch.33). We can assume that wages in Russia rose during the mid-16th century, after Ivan the Terrible conquered Kazan and Astrachan; this led to massive colonisation of the black earth country by hundreds of thousands of northern peasants, which shifted the "labour market" in favour of workers.

[6] The most recent example of civil strife fostered by the poll tax was in Britain in the 1980s. Like Peter the Great, Margaret Thatcher switched from the property tax to the poll tax; but extensive street riots and civil disobedience encouraged John Major's government to abandon the tax in 1993.

[7] Tibor Szamuely, The Russian Tradition, London: Fontana, 1988, p.183.

[8] As late as the mid-1850s, over 93% of a population totalling 74 million lived in the countryside.

[9] While living in exile in Putney, south-west London, from where he wrote his polemical denunciations of the czarist regime, Herzen continued to live off rents from Russia.

[10] *Op. cit.*, p.184.

[11] 1 dessiatin = 2.7 English acres.

[12] Lenin, *The Land Question and the Fight for Freedom,* Moscow: Progress Publishers, 1965, p.21. Lenin's emphases.

[13] Bernard Pares, *The Fall of the Russian Monarchy* [1939], London: Cassell, 1988, p.113.

[14] Ibid., p.112. Pares was attached to the Russian Army in the First World War, and to the British ambassador in Petrograd in 1917.

[15] Ibid.

[16] Ibid., p.114.

[17] Leon Trotsky, *The History of the Russian Revolution* London: Pluto Press, 1977, p.221.

[18] Ibid., p.871.

[19] Ibid., p.872.

[20] Robert Conquest, *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine*, London: Hutchinson, 1986.

[21] Fred Harrison, "The `Mafia' and the Land of Russia, *Land and Liberty,* London, Jan./Feb. 1993, p.3.

[22] *Op cit.*

[23] Fred Harrison, *The Power in the Land,* London: Shepheard Walwyn, 1983, Ch.11.

[24] David Redfearn, *Tolstoy: Principles for a New World Order*, London: Shepheard Walwyn, 1992; Russian edition, Moscow, 1993.

[25] *The Land Question and the Fight for Freedom, op. cit.*, p.26. Lenin's emphasis.

[26] "The Nationalisation of Land", a newspaper article written for *The International Herald* in 1872; in Marx & Engels, *Selected Works,* Vol.2, Moscow: Progress Publishers, 1969, p.290.

[27] The 1910 Russian edition was reprinted in Moscow in 1992.

[28] Marx, *op. cit.*

[29] *Capital*, Vol. 1, Ch.33. See Fred Harrison, "A Russian Paradigm" (1993), the section on "The theory of exploitation", pp. ??.

[30] Engels's preface to the first German edition of Marx's *The Poverty of Philosophy* (Moscow: Progress Publishers, 1955, p.9).

[31] The Peking politburo has not realised that the state, on behalf of the people, must socialise the whole of the economic rent, rather than just a part of it. To retain land in public ownership, under the leasehold system, is insufficient: this legal relationship does not abolish the prospect of a rise in the annual rental value of land in excess of what the leaseholder has to pay for the right of occupying his site. This leads to the privatisation of part of the rent, which exacts a price every bit as evil as if the land were in private ownership.