Advice to Underdeveloped Countries —Don't Do As We Do

THE former U.S. Undersecretary of State, Chester Bowles, recently sold some of his woodland in Essex, Connecticut and made a notable discovery which he passed on to readers in India through The American Reporter, a widely read newspaper there.

He paid such a surprisingly modest tax on the profit from the sale of his land that he immediately realized this was out of line with the heavier taxes levied on those who build new factories, give employment to workers and thereby contribute to national development. He concedes that perhaps a wealthier nation can afford such an expensive and unjust economic contradiction, but the developing nations of Africa, Latin America and Asia cannot.

He observes in fact that the order of tax priorities should be reversed. Generous incentives should be provided for individuals who invest their savings in economic development, while those who simply buy and sell land with no benefit to the economic growth of the nation, should be penalized with higher, not lower, taxes.

In most developing countries too, profits from the sale of land or commodities are nearly free of taxes, or where a tax law exists it may be so complex that payment can easily be avoided. Since these speculative deals are taxed lightly the mainstream of the capital flows into the less risky areas instead of into creative production. And the greater the diversion of capital funds into speculation the more unbalanced the economy becomes. The answer is not in more direct governmental controls however. Rather it is in a tax system which sharply penalizes speculative profits while easing the tax burden on those who invest in factories which employ workers.

We learn from Mr. Bowles' report to India, that some developing countries have applied this doctrine to urban land speculation. Others have used it also to accomplish a peaceful economic revolution in the villages. Rural holdings too large for one family to till are taxed heavily, while a tax moratorium is provided for investors in small rural industries.

Taiwan's program of land reform and registration is designed to discourage land speculation and to reward the small entrepreneur and cultivator. To curb land speculation and direct capital into productive enterprises Taiwan banks refuse to accept real estate as security for loans.

Uganda has inaugurated a simple tax and land assessment system which provides incentives to small farmers and rural industries. Other developing nations are also experimenting with progressive taxes on large land holdings and sharply reduced taxes on small farms.

These tax policies help to persuade a large landholder to sell his excess land. Thus the small farmer, with the help of low interest credit, is able to acquire land. A man's stability and stake in the economy rise sharply as soon as he becomes the owner of the land he tills. At the same time, the former landlord is encouraged to invest in nearby industries desperately in need of capital.

Any developing nation which tolerates the old unbalanced system will deprive a large segment of its population and pay a price in slower economic growth rates, says Mr. Bowles. But he does not suggest that diverting capital from the get-rich-quick speculative schemes to creative nation building industry is easy.