

LAND HUNGER PLUS UNDERDEVELOPMENT SPELLS MURDER

TENS OF THOUSANDS of people died in the tribal conflicts of Rwanda and Burundi in the last few weeks, following the deaths of the presidents of these neighbouring countries in central Africa.

To viewers of the news on television, it looks like an orgy of slaughter without sense. Thomas Hobbes, the English philosopher, would have called the unfolding events a prime example of "the state of nature" in action. His solution: the need for the coercive power of the prince to impose peace, without which people are disposed to slaughter each other.

In fact, the logic behind these events are banal in their familiarity. The explanation starts with a primary impetus, and then leads to a secondary cause.

FIRST, the tragedy has to be seen against the historical canvas. New York Times correspondent Jerry Gray captured the essence of the problem when he wrote that the conflict originates with "a competition for land unlike anywhere else in Africa".

Whether this competition is really different from the political dramas elsewhere in Africa is debatable (see Land Hunger: page 5). But land hunger is, indeed, the root of the problem, which has led to an inability on the part of the majority Hutu and the minority Tutsi to get along with each other.

Hundreds of years ago the cattle-owning Tutsi came to dominate the Hutu. Then, in the colonial era, the Belgians moved in to make their fortunes out of the primary products of central Africa, in places like the Congo and Zaire. They plundered the resources of nature, and returned little except education and bureaucratic advantage to the Tutsi, which were exploited to advantage during the post-colonial era in what were to

become Rwanda and Burundi.

In beating their hasty retreat, the Belgians did not leave a legacy of infrastructure or communications on which the new nations could build. The ancient territorial bonds and practices had been destroyed, and the new civil societies did not have a historical template on which to fall back for guidance. It was a scramble for survival outside the realms of traditional tribal values. So violence was the medium by which disputes were resolved over the past quarter of a century.

This introduces the second problem, one that characterises most of Africa: poverty located in an economic system that relies on the export of commodities onto the world markets.

According to the World Bank, since 1980 developing countries have lost \$100 billion as a result of a drop by more than half in real terms in average commodity prices. The 35 countries that are classified as low-income commodity producers have an average GDP per capita of \$420. Twenty-six of those countries are African.

These countries are characterised by deep-seated poverty (they contain 31% of the world's population but contribute only 3% of total output). The social despair makes them ripe for social turmoil. They are vulnerable because, as incomes rise in the rich countries, people spend proportionately less on things like food, and turn to products that draw increasingly on synthetic substitutes.

ON THE FACE of it, then, primary producers appear to be doomed to a permanent state of impoverishment. Confronted with that prospectus, old enmities become excuses for blood-letting.

It need not be so. The commodity

producing-countries have to diversify their economies, but the literature on economic development has not produced a viable model capable of guiding the transition to industrial and commercial activities. What do these countries need to do?

A sufficient step would be reform of public finance. To encourage capital formation and improvements in productivity, people need to keep their wages and profits. One legacy of the colonial era, however, has been a fiscal philosophy that undermines such a strategy. Taxes are imposed on wages and profits, at the points of consumption and production.

Public revenue, if it came from the rental value of land and natural resources, would create the optimum conditions for investment and economic growth. That fact is crystal clear in the economic literature; the policymakers, however, are not encouraged to translate theory into practice. One reason: multi-national corporations continue to exert the influence that was formerly exercised by governments from the metropolitan countries. And much of the "profits" declared in Brussels, London and Paris are, in fact, the rental value of natural resources extracted from Africa.

IF THE AFRICAN countries adopted the rent-as-public-revenue strategy, all else would fall naturally into place. For example, they would quickly realise the benefits of opening up their economies.

In the post-colonial era, protection for "infant industries" was thought to be a necessary ingredient of a development strategy. Result: inefficient, high-cost economies, in which the incentive to diversify into new activities has been low. A fiscal-led

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will be neglected. This will, in turn, influence the flow of investments into city real estate.

3. From a political point of view, refusing to recognise private ownership of land means that one of the fundamental rights of the citizen that is mentioned in the new Russian Constitution is not recognised. It is important to remember that the promise to introduce private ownership of land was one of President Yeltsin's main declarations; should this promise not be fulfilled, it will automatically mean that the reform programs are discredited.

4. The introduction of the proposed reform of taxation will put Russia outside the international system of investment, because foreign capital will be double-taxed. In Russia, investors will pay the full tax which will be called "Land payments" and at home "profits/income tax". If the taxation systems in countries are similar, there are agreements between States about mutual recognition of tax liabilities.

5. There is no other way to determine land rent (if it is possible to do so at all) than to determine the revenue received from the property and to try to separate land rent from the total revenue. This is done when assessing the land value according to the income from real estate. But as in any case everything is based on income, which is the base for determining profit, debating whether to tax profit or to collect land rent is more an argument of terminology than an issue of substance.

6. The transfer from taxation of profits to collection of land rents is fantastically labour-intensive, if possible at all. It is well-known that a lot of enterprises disguise their profits, but at any rate, procedures to register tax payers and their profits exists, and it works. The question is how to register rental income when the majority of legal entities are not the direct land-users, only renting a part of a building and very often not at their legal address, and sometimes illegally. There are no renewed registers which include, at least, official users of buildings, or full land cadasters of direct land users. At any rate, this is the case for the majority of cities. Besides, it is quite obvious that if land payments depend on the incomes of enterprises (and this is, as we see it, the basic idea for extraction of land rent and systematic review of rental payments), it means that enterprises will disguise their incomes as they are doing now with profits. This is the bookkeeping technique.

7. The example given by Georgists of the construction boom in the U.S. cities where taxation of buildings was abolished and they are only paying land tax, can perhaps be interpreted the following way: advantages rarely appear, and then only in comparison with surrounding cities which preserved the former system. But it is possible to imagine that such a reform took place everywhere, as it is proposed for Russia, then the effect resulting from this difference in conditions will disappear. Besides, not long ago, there appeared evidence that if we will fulfil exact econometric analysis, results of the well-known Pittsburgh experiment can be explained only to a small degree by changes in the taxation of real estate.

That is why we have to determine the clear criteria for evaluating the results before we start an experiment on any scale, and these criteria should be analysed by independent experts, perhaps international.

8. Nowhere in the world do they manage to collect the full land rent. This is recognised by Georgists themselves. The full realisation of this idea will possibly destroy the advantages of the centres of cities and their attractiveness to investors. For Russian cities it will be disastrous because centres are in particularly poor condition.

9. Regular review of land rent, for example annually, will of course discourage investors. Obviously, in the course of time, this problem will be sensibly solved. Authorities of those cities who will be especially active will gradually understand that they are losing investors. But now, when there is no experience of sensible land policy, and the cities need urgent investment, such orientation of local politicians can be especially harmful.

Arguments given here confirm our opinion that there are no reasons to adopt the programs of Henry George followers for payments from the land. More than that, we are worried that Russia will start once more to experience new, practically untried ideas. The country once followed this way in 1917 and the results were rather poor.

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strategy would soon persuade new entrepreneurs that lower trade barriers would afford them greater benefits.

Unfortunately, the international trade agreements that are now proliferating on the international circuit reveal not the slightest awareness that the fiscal option would resolve most of the geopolitical tensions that are now encouraging people to turn to the gun for relief.

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An illustration: the government has guidelines designed to preserve the green belt. So who does it appoint as its chief planning adviser (he's paid £28,000 a year for a 2.5-day week?) David Lock, a consultant to development companies which are trying to override the government's green belt policies. On behalf of one of his clients, Professor Lock represented a company that bought green belt land for about £2,000 an acre and sought to get it redesignated as building land, which would produce a profit measured in millions of pounds!

Nothing wrong with redesignating land, if that's what the community wants. But could it be that the enormous increase in the price of land has something to do with pushing the price of houses beyond the means of many people? Might this not contribute to homelessness? And isn't the government charged with the duty of dealing with such a scandal?

The Prime Minister's Pontius Pilate performance on the homeless brings disgrace on himself and his government. Unfortunately, it is also a disgrace on Parliament. But that is something which does not appear to cause him discomfort.

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