

would set the first benchmarks of a new mechanism.

Farmers and not the bureaucrats would determine the level of rents payable to the State. This is the only effective method for measuring the commitment of individuals to use land in an optimal way, one which produces the highest financial surplus consistent with ecologically-sound methods of farming.

Provision would have to be made for dealing with mischievous bidders who might try to force rents up to levels that legitimate farmers could not match. Participants in the bidding process would be liable for a penalty if they offered a price that deterred legitimate farmers from obtaining land. For example, bidders would be legally required to pay the rent they bid, even if they did not take possession of the land.

The auction system serves to differentiate the workforce. It identifies those who wish to remain as employees from those who wish to become risk-takers. It enables potential business leaders to come forward.

The auction room becomes the focal point for establishing the legitimacy of competition

Why Third World failed

THE IMPORTANCE of the opportunity now confronting the USSR can be highlighted by noting the failures of developmental economics as applied to Third World countries.

For over 30 years, well-meaning attempts to assist under-developed countries to transform their economies and raise living standards have failed for the following reasons:

- The dependence of former colonies on the metropolitan countries. Strings are always attached to foreign aid, which tie the recipients to the inappropriate ideology

and inappropriate technology of capitalist economies, whose export sectors are always given priority consideration; and

- The political influence of multi-national corporations. These nurture links to the local elites to ensure that their corporate interests are protected.

This, then, inhibits significant reforms to the system of taxation and property rights, which would undermine the commercial

interests of the foreign-owned corporations.

Significantly, a large part of the valuable natural resources of a developing country is owned by foreign corporations!

When combined, these two circumstances actively retard the growth of living standards (profits, for example, are expatriated, rather than reinvested locally), and prevent the introduction of a rational fiscal policy: a tax on the rental value of the country's natural resources, which ought to underwrite the development of the local economy.

and the pricing mechanism.

It is important to stress that, in this economic model, there are *no losers*. *This is a win-win arrangement, for farmers who fail to secure use rights to land would nonetheless know that the rental income bid by their competitors was going into the government exchequer to finance socially-necessary expenditures.*

- **A Learning Process.** The auction method of reallocating

land becomes a vital learning process for the urban sector. It is crucial for winning acceptance of the need for individuals to take risks and to bid a price for productive resources on the basis of what they believe they can afford (given their awareness of both the produce to be provided, and their assessment of the existence of a market).

The process of bidding rent for land forces prospective

JAPANESE LEAD FOR RUSSIANS

THE SOVIET Union's scope for action is not limited by old ideological debts or financial obligations to the West. She is resource-rich and the people mature. There is therefore no need to accept Western assistance tied to a directional change that drives the Soviet Union down the path already trodden by the imperfectly functioning capitalist countries.

The USSR is free to begin afresh. There is a precedent for this clean-sheet start: Meiji Japan.

In the 1870s, Japan adopted a set of policies designed to accelerate the transformation of a feudal economy into an industrial system that was strong enough to put it on

an equal footing with foreign trading powers. At the heart of this strategy was a fiscal policy intended to capture the economic surplus from the rural economy to finance the infrastructural and educational needs of the new system: land value taxation.

The land tax, because it falls on the *surplus* income after all the costs of production have been met, achieved two things.

- It freed the food-growers to raise their living standards in line with an increase in output.
- It provided an expanding tax base for the Japanese government. This removed the need to adopt the other forms of taxation which deter

the formation of fixed capital and the creation of jobs.

This fiscal strategy laid the foundations for the unique Japanese industrial economy. The tragedy is that, after 20 years, the landlords took control of the political process and started to reduce the share of government revenue derived from the surplus revenue (this story is summarised by Fred Harrison in *Power in the Land*, London: Shephard Walwyn, 1983: Chs. 11 and 12).

The USSR now has the chance to learn from Meiji Japan and provide herself with an even more vibrant springboard from which to raise her productive capacity.