

# Economic Growth & Land Distribution

POLICY analysts at the World Bank have discovered an important fact about the dynamics of economic activity: both economic growth and the gap between the incomes of rich and poor people are positively related to the distribution of land.<sup>1</sup> Data collated by the Bank's policy analysts (summarised in the chart), show that there tends to be a faster rate of growth in those countries with the widest distribution of land. Countries with the widest distribution of land also enjoyed the narrowest gaps between the incomes of rich and poor people, writes *Peter Poole*.

These results stemmed from the search for answers to two questions:

- (1) Why did some countries develop more quickly than others?
- (2) Why was it that, during the initial

period of development, poor people tended to become even poorer?

The Bank plotted countries on the basis of the Gini coefficient. This is a statistical measure that is used to calculate a relationship (in a given area at a point in time or during a period). In this case the measure was of the extent to which actual land distribution differed from a hypothetical uniform distribution. Values range from 0 (absolute equality) to 100 (absolute inequality: one person or organisation holds all the land).

The World Bank economists found that trying to assess economic prospects on the basis of the distribution of income alone was not satisfactory. The initial distribution of land - data was available for 73 countries (1960) compared with 12 countries only for the initial distribution of income - was more sensitive as the indicator of a country's development potential (examples are given in the table).

The World Bank found that "initial inequality of assets, as measured by the distribution of land, exerts a significant negative effect on subsequent growth. Only

2 of the 15 developing countries with a Gini coefficient for land distribution in excess of 70 grew more than 2.5% annually during 1960-92".

From the viewpoint of neo-classical economics, as preached by the World Bank, the distribution of land was viewed as interesting because "it gives us a solid indication of asset distribution and thus enables us to make inferences regarding access to formal credit". But the use of land as collateral for bank loans is a two-edged sword:

\* The World Bank prescribes the

either 0 (perfect equality: every socialist citizen owned an equal share of the land of the USSR) or 100 (the state was the sole owner), depending on one's ideological bias! There is no point in pursuing such a controversy, for the Soviet experiment has been terminated.

In the present, the World Bank encourages the Federal Government to privatise land on an arbitrary basis. This (in the area of depletable resources) has already created monopolistic control. This could also be the fate of urban land, which is the single most valuable natural asset in

Russia. The outcome of the World Bank's policy preferences would not be to diffuse land to an optimum level consistent with both the raising of the lowest incomes while

Gini coefficients						
Distribution of Income			Distribution of Land			
India	}		63	Thailand	}	45
Indonesia	}	30s	55	Tunisia	}	40s
Korea	}		35	Peru	}	93

SOURCE: World Bank

diffusion of land holdings as a means to deepen the net of people who can borrow money (bankers want the legal right to dispossess people of their land if they default on their loans).

\* The World Bank warns that land redistribution - taking from the land-rich, giving to the land-poor - has in some cases in the past had a negative effect on investment incentives, and thus reduced economic growth.

The best outcome, in the view of the World Bank, is one in which there is a redistribution of assets that increases access to credit markets, which enhances people's ability to invest. The World Bank economists warn: "If countries want to implement redistributive policies, their ability to devise mechanisms that would at the same time maintain or increase investment incentives may well determine whether such policies help with poverty reduction".

In relation to Russia, what conclusions can we derive?

In the past, the location of the USSR on the Gini coefficient scale would be

aggregate growth rates.

Is there an optimum policy that embraces the lessons of the World Bank study, while avoiding the shortcomings of the prescriptions now coming from Washington? There is: it is a fiscal policy that is well-authenticated in the literature.<sup>2</sup> It prescribes the need to share not *land as a physical asset*, but to share the *flow of rental income from land* and natural resources (including oil and gas) through the public sector. This policy creates the optimum incentives for investment. This is particularly important for Russia's urban sector, where the renewal of public infrastructure and private capital is crucial.

Would this policy - of treating rent as public revenue - have a negative effect on

- \* *the ability to borrow from banks?* No. An efficient, profit-generating enterprise would attract loans even if it did not offer land as collateral. On
- \* *the incentive to invest?* No. By treating rent as public revenue, the government can abolish the taxes on wages and people's savings which inflict great

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## OPEN FORUM 4

### POSTBAG

Sir. Alas! Let's face it - the Single Tax will not be adopted in any nation in the foreseeable future.

We should treat reality as it is, not as it ought to be or as we want it to be. Right now there are only a few hundred of us, 6 billion of them. But right now we can win real-world victories at the local level via a gradual increase in the property tax rate (%). In America, this means a two rate building-to-land shift in the property tax which has resulted in about \$67 million in local land value taxation compared (so far) to the \$0 induced by the Georgists with a national-only focus. *Local Gradualism*, in addition, can provide the *only* statistical proof of the efficacy of the Single Tax.

Results count, not promises or effort.

Let us Georgists practice acerbic-free discourse. By all means, we should support Local Gradualism because it is all we can reasonably hope to achieve in the foreseeable future, but that doesn't mean that we shouldn't continue defending and explaining the Single Tax; it is our beholden duty to do so. We can favour both Local Gradualism and the Single Tax. They share the exact same goal.

Many people define insanity as doing what we have failed to do and expecting success. We've been promising success for 118 years; now let us support results. Results always trump promises and effort-expended. Let us not reject success.

Let us think globally, but act locally. Let us finally get some land value taxation and prove that it works.

The Single Tax will never become known and popular among the voters until it becomes a politically viable alternative, and that cannot happen until we get widespread Local Gradualism. Besides, the land value tax should first be collected locally with revenue from it passed up to regional and national governments.

Steven Cord,  
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Sir, Dr Michael Hudson provided his perspective on actions taken by the Henry George School board, by George Collins and by me during his period of employment with the School (L&L Spring 1997). Dr Hudson asks readers to accept his assertions as factual. And, sadly, he makes unfortunate

attacks on the character and motives of people acting in their authorized capacities.

Dr Hudson was appointed as Director of Research while I served as President of the Board. While President, I recommended that the School undertake the research he proposed. However, support for utilizing the School's resources for macroeconomic research was far from unanimous. What the Board approved by close vote, and what was presented to Dr Hudson, was an offer to employ him for one year - with a second year considered based on subsequent evaluation of the results (but also the School's overall programmatic objectives and finances). His challenge was, therefore, to win over by accomplishment those who questioned the value and appropriateness of the School's involvement in his work.

Dr Hudson provided no information to the Board on his need for computer equipment or other support services. Only after he began his work did he convey the need for enhancing his computer system. After working with consultants on the creation of a data base and generation of graphical output, Dr Hudson requested that the School purchase an entirely new MacIntosh system. This request was declined, but only after I solicited input from other professionals who assured us the PC was fully up to the task if adequately powered and equipped with the necessary software. Thus, this was a benefit/cost decision.

Dr Hudson asserts the "contract included \$20,000 for expenses." This amount was explicitly described in the employment agreement with him as a maximum, and the Board assigned to George Collins the responsibility for reviewing and approving in advance any expenditures requested. Dr Hudson took the position that any oversight or review of his spending was invasive. Time revealed that his view of necessary and appropriate expenditures differed considerably from that of the Board. Over these differences, a good deal of time was lost. Moreover, the manner in which he proceeded consumed a good deal of time and energy on the part of George Collins and the School's staff than had been anticipated. The modest level of support from the Board began to dissipate.

Dr Hudson states that George Collins "forbade" his "research summary to be published in the Henry George News." The reason was that Dr Hudson's paper contained

a number of inaccuracies and unsupported assertions that would have certainly embarrassed not only the School but him as well. This decision was made with my concurrence and that of other trustees. In my view, Dr Hudson's own concerns for credibility were protected by this decision that he characterizes as obstructive.

The references Dr Hudson makes to the Walter Plotch report are hardly relevant to the fact that the board's confidence in his ability to complete the research work promised - and work collaboratively with the School - was disappearing. The decision was made not to renew his employment contract for a second year. Dr Hudson concludes that this decision was directed against the thrust of his research and was engineered by Steve Cord and others. This is just not the case. The Board reluctantly came to the decision that although the research work had potential, the School was (a) not really equipped to support this type of work, and (b) that a productive working relationship with Dr Hudson was not possible given his desire for virtually full independence of action.

Dr Hudson believes that the actions of certain trustees were self-serving. He is entitled to his opinion. Others believe the School ought to be engaged in one type of activity or another, or ought to redesign its programs in some manner or other. The Trustees are continuously engaged in discussion on these issues. Over time the composition of the Board changes and different people introduce new views. The primary purpose of the School is education - to teach courses in political economy using the writings of Henry George as texts and the perspectives he offered as the essence of what is taught. How this is accomplished and how we measure our effectiveness are matters for constant review.

I have been troubled by the degree of acrimony Dr Hudson has attached to his association with the School. The relationship started off poorly and deteriorated over the course of the year; yet, he accepts no responsibility for this outcome. I would hope that Dr. Hudson will take the time to reflect on what I have written above, in part because I am a Georgist who believes that the thrust of his research is extremely important work that ought to be supported.

Edward J. Dodson  
Trustee (and former President)  
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