

Racked by RENT

A grasp of *economic rent* is vital to understanding geoism and the path to social justice and environmental sanity. Short definitions are helpful but limited – the return to privilege; a free ride at society's expense; unearned increment; excess profits that monopolists reap in the absence of

competition; the income imputable to natural resources; the share in the wealth produced which the exclusive right to the use of natural capabilities gives the owner; or even the natural source of revenue for the community.

Sydney's **David Smiley** continues his series wherein he fleshes out the meaning of rent through a string of vivid historical examples.

TRANSITION RENT arises when an economy undergoes a major political upheaval, particularly when the rules governing property rights are being rewritten. From around 1978 China rewrote these rules, redistributing all rural land from communal control back to the individual peasant families. China's per capita GDP has grown ever since at an astonishing 8 percent per annum. However, in the public sector, corruption and inefficiency continued. In 1990 Murrell and Olson wrote a devastating account of a similar corruption that had slowly grown up within the government of the USSR. They called it an institutional sclerosis, a hardening of organisational arteries, leading to decline.

A year later, a Georgist named Nicolaus Tideman, with three Nobel prize-winners and a number of other economists, signed a letter to Mikhail Gorbachev advocating, as had Marx and Engels 150 years earlier, the collection of all land rent for public purposes.

"While the governments of developed nations with market economies collect some of the rent of land in taxes, they do not collect nearly as much as they could, and they therefore make unnecessarily great use of taxes that impede their economies – taxes on such things as incomes, sakes and the value of capital."

The letter then outlined the advantages of socialising the rent while at the same time freeing up markets, trade and enterprise. The letter warned explicitly against selling land (and its rent) outright at auction.

As is now well-known, the USSR did not follow the Chinese example, nor did it heed Tideman's advice, which would have led to an even greater level of productive efficiency than that achieved by the China land reforms.. Instead, with most of the land of the USSR up for grabs, massive rent seeking then drove that major political transition down into a depression from which it has still not emerged.