

Now top economists advise Mikhail Gorbachev:

SOCIALISE THE RENT

Mikhail Gorbachev,
President,
Union of Soviet Socialist
Republics

Dear Mr. Gorbachev,

The movement of the Soviet Union to a market economy will greatly enhance the prosperity of your citizens. Your economists have learned much from the experience of nations with economies based in varying degrees on free markets. Your plans for freely convertible currency, free trade, and enterprises undertaken and managed by individuals who receive the profit or bear the losses that result from their decisions are all highly commendable. But there is a danger that you will adopt features of our economies that keep us from being as prosperous as we might be. In particular, there is a danger that you may follow us in allowing most of the rent of land to be collected privately.

It is important that the rent of land be retained as a source of government revenue. 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, sales and the value of capital.

Social collection of the rent of land and natural resources serves three purposes. First, it guarantees that no one dispossesses fellow citizens by obtaining a disproportionate share of what nature provides for humanity. Second, it provides revenue with which governments can pay for socially valuable activities without discouraging capital formation or work effort, or interfering in other

• **THREE** of the West's top economists – Nobel prize-winners Franco Modigliani, James Tobin and Robert Solow – are among the signatories to an open letter to Mikhail Gorbachev. The economists urge the Soviet President to retain land in public ownership, and to raise government revenue by charging rent for the use of land.

• The advice from the economists could be crucial in strengthening Gorbachev's hand, whose authority is now being challenged almost daily. He believes land should remain in public ownership. Under pressure from Gorbachev, the Congress of People's Deputies decided, on December 24, 1990, to stage a referendum on the issue. The vote could rescue *perestroika*.

• The proposal to raise the greater part of government revenue from the rent of land is a policy most clearly associated with Henry George, the American economist whose *Progress and Poverty* (1879) continues to claim the attention of social reformers. In Russia, the most ardent advocate of Georgist economics was Leo Tolstoy.



ways with the efficient allocation of resources. Third, the resulting revenue permits utility and other services that have marked economies of scale or density to be priced at levels conducive to their efficient use.

The rental value of land arises from three sources. The first is the inherent natural productivity of land, combined with the fact that land is limited. The second source of land value is the growth of communities; the third is the provision of public services. All citizens have equal claims on the component of land value that arises from nature. The component of land value that arises from community growth and provision of services is the most sensible source of revenue for financing public services that raise the rental value of surrounding land. These services include roads, urban transit networks, parks, and public utility networks for such services as electricity, telephones, water and sewers. A public revenue system should strive to collect as much of the rent of land as possible, allocating the part of rent derived

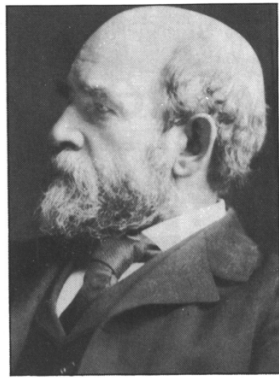
from nature to all citizens equally, and the part derived from public services to the governmental units that provide those services. When governments collect the increase in land value that results from the provision of services, they are able to offer services at prices that represent the marginal social cost of these services, promoting efficient use of the services and enhancing the rental value of the land where the services are available. Government agencies that use land should be charged the same rentals as others for the land they use, or services will not be adequately financed and agencies will not have adequate incentive or guidance for economizing on their use of land.

Some economists might be tempted to suggest that the rent can be collected publicly simply by selling land outright at auction. There are a number of reasons why this is not a good idea. First, there is so much land to be turned over to private management that any effort to dispose of all of it in a short period would result in an extreme depression in prices offered. Second, some persons who could make

excellent use of land would be unable to raise money for the purchase price. Collecting rent annually provides access to land for persons with limited access to credit. Third, subsequent resale of land would enable speculators to make large profits unrelated to any productive services they offer, resulting in needless inequity and dissatisfaction. Fourth, concern about future political conditions would tend to depress offers. Collecting rent annually permits the citizens of future years to capture the benefits of good future public policies. Fifth, because investors tend to be averse to risk, general uncertainty about the future will tend to depress offers. This risk aversion is sidestepped by allowing future rental payments to be determined by future conditions. Finally, the future rent of land can more justly be claimed by future generations than by today's citizens. Requiring annual payments from the users of land allows each year's population to claim that year's rent. While the proceeds of sales could be invested for the benefit of future generations, not collecting the money in advance guarantees the heritage of the future against political excesses.

The attached Appendix provides a brief technical discussion of issues of the duration of rights to use land, the transfer of land, the assessment of land, social protection against the abuse and subsequent abandonment of run-down property, and redistribution among localities to adjust for differences in natural per capita endowments. While these issues need to be addressed, none of them present any insoluble problems.

A balance should be kept between allowing the managers of property to retain value derived from their own efforts to maintain and improve property, and securing for public use the naturally inherent and socially created value of land. Users of land should not be allowed to acquire rights of indefinite duration for single payments. For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local



• Henry George

government, equal to the current rental value of the land that he or she prevents others from using.

Sincerely,

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