

The intrinsic problem, however, is a political one.

Ultimately, the landowning elite is able to shape the political decisions that affect their vital interests. This is why the municipal taxes in Colombia collect a fraction of the revenue to which the community is *legally* entitled.

In theory, municipal and state land taxes could take up to 50% of the annual value of land. "On paper this is one of the stiffest tax systems in the world," reported Mr. Penalosa. "In reality it doesn't work, because there is no reliable land price estimates. Land is registered at 20% of the real value."

Owners know the value of their land, of course. Prospective buyers are also enlightened, and between the two, prices are agreed in the market. Economists in the civil service, however, do not monitor the results. Why? This is not an intractable technical problem: it is one of political will.

It therefore seems unfair of Mr. Penalosa (and hardly conducive to sound policy-making) to declare: "The benefits of the capitalistic market are dubious."

The market, if framed correctly, can be more efficient than bureaucratic administration. It is – or *ought* to be, and *can* be – neutral as between the competing demands of people who seek to use it to serve their interests. All that need be done to create that neutral framework is to impose and enforce a stiff *ad valorem* tax on the annual value of land, which simultaneously destroys monopoly power and achieves the goal desired by Mr. Penalosa: the community must "receive all increases in land value due to normal growth of the city."

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WHEN land is "socialised", speculation is – in theory – not possible: the community owns the land, so it ought not to be possible for individuals to gain by trading in it.

About 85% of rural land in Yugoslavia is privately owned. There are legal limits to the size of holdings, ranging from 15 hectares for arable land up to 70 hectares on poor-quality land in hilly areas.

Owners of land on the periphery of urban centres have been replacing their farming activities with the inert role of the speculator, according to Dr. Janić, the Director of the Yugoslav Institute of Town Planning & Housing. They are dividing up their holdings and selling off parcels to town-dwellers.

The compensation paid to owners for land from urban areas, irrigation public sector purposes is calculated on the basis of free market values. In theory, that part of land value which can be attributed to natural or social factors – such as the existence of infrastructural installations, the demands for land from urban areas, irrigation, works, etc – are deducted from the compensation. If applied consistently, this would mean that the whole of economic rent would be removed, leaving the farmer with the value arising from his capital and labour investments. In practice, however, the farmer does enjoy the right to retain part of Ricardian rent.

THE URBAN economy fuses socialist planning principles with the unique Yugoslavian system of self-management and individual incentives.

Proprietary rights in urban land, however, were nationalised in 1958. The law applied to 860 towns and various industrial, mining and tourist centres. By 1980, nearly 50% of the population lived in the country's 510 major municipalities.

The policy aimed to supply land to users at the right time, at the right place and at the right price, taking into account both social and economic criteria. In theory, there was no room for private appropriation of economic rent.¹

The municipality levies the monthly rental charge – a land tax – to redistribute the surplus value between

UN silence on 'sensitive' issue

THE United Nation's Habitat conference at Vancouver recommended that increases in land values should be captured for the benefit of the community. Over 140 nations backed nearly 70 resolutions, seven of which were on land. That was in 1976. Since then, however, there has been official silence from the UN. Land is excluded from the agendas of post-Vancouver conferences. Why? An explanation was offered by Dr. Peter Oberlander, Director of the Centre for Human Settlements, University of British Columbia, Vancouver. He said that the UN was unwilling to discuss the matter because land was a "sensitive" issue.

● The World Congress on Land Policy was sponsored by the Lincoln Institute and the International Centre for Land Policy Studies. Pictured below are Arlo Woolery, Executive Director of the Institute (left) and Prof. Nat Lichfield, Executive Director of the Centre.



RICARDO & INTUITIONIST ECONOMICS

YUGOSLAVIA recognises market incentives, but she has a socialist constitution. Her policy-makers are trying to fuse their political principles, derived from Marxism, onto a modified market economy. This hybrid system, straddling halfway between the models of the East and the West, will ultimately fail. The incoherence of the strategy is illustrated by an examination of the land market. The data for this article draws heavily on the papers by, and an interview with, Dr. MIODRAG JANIĆ. The opinions expressed, however, are those of the author, FRED HARRISON.

all citizens. This ethic is egalitarian, but does it work in practice? No. The failure arises not from the philosophy but from the inadequacies of the structure of the socialist economy.

OFFICIALLY, there is no market in urban land. Rents are determined according to bureaucratic criteria, which are arrived at on the basis of "intuition". These criteria include location, availability of infrastructural facilities and recreational amenities, environmental attractions and the general quality of urban life.

The urban area is divided into residential and commercial zones, and the monthly rental payments are computed on the basis of so many dinars per square foot of floor space. The dinar rate is uniform throughout the zone, irrespective of variations in the characteristics of individual plots within a zone which influence land values.

The result of the application of the subjective intuitions of bureaucratic planners, however, is that the rents actually paid are less than the true economic value of land. Consequently, the belief that there is no market in urban land values is a constitutional fiction: a black market has emerged to enable the possessors of land to speculate in economic rent!

THIS IS what happens. Urban land users own the buildings – homes, shops, and so on. In the residential market, each individual can own two large or three small apartments.

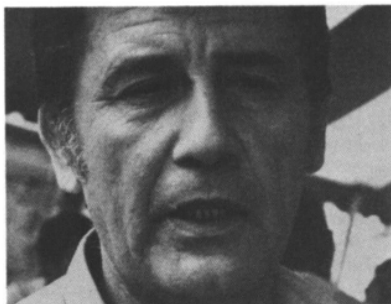
When they decide to sell, they add a premium onto the price of the building. This premium is the capitalised value of that part of economic rent that is not appropriated by the municipality.

The premium represents the value of the land as perceived by the prospective occupiers of the site. They know how to put a cash value on the attributes of the land, and they do so on the basis of competing with other prospective users.

The highest premium that this black market is able to realise represents economic rent, after discounting for the monthly rental payments.

The value of land in Belgrade rose rapidly in the 1960s, but the municipal authorities, having to rely on their intuitions – rather than those of the potential land users who were willing to back their judgements with money! – were not able to track the upward movement.

The available statistical data was wholly inadequate for the purpose of taxation. As a result, the municipalities were not able to efficiently adjust their rental charges upwards.



● Miodrag Janić

Had their land tax risen in line with real values, the selling price of land would have been zero (the constitutional theory). In fact, individuals and institutions had to pay considerable sums of money (in the form of premiums) to get the land they needed for commercial and manufacturing activities (the economic reality).

FOUR deficiencies in the Yugoslavian land model can be highlighted.

1. The intention behind the socialisation of urban land has not been achieved. People in favoured locations are able to retain significant portions of economic rent. Given that this income is socially-created, we have, therefore, in a socialist economy, the institutionalisation of economic inequality based on the failure to use market principles! An increase in municipal land taxes

would enable Yugoslavia's economy to grow faster, through the reduction in income taxes. This would meet what Dr. Janić called "The absence of a market for many urban goods and services."

2. Inequities exist between land users. Because the monthly rental payments are based on a crude calculation, they fail to take account of all the factors that, in a free market, are brought to bear by individuals. This can be illustrated by reference to the costs of transportation. People in favourably located residential areas pay lower travel costs to get to work. Others, in outer areas, have to bear these extra costs of transportation. The latter, in a free market, would be taken into account when determining rental payments. But this is not adequately handled by the bureaucratic method used in Yugoslavia. There is, then, official discrimination in favour of the privileged! Again, this is an unintentional byproduct of the system for determining land values.
3. The land tax is actually a general property tax. The monthly rental payments fall not just on land, but also on capital improvements. Rent is calculated on the basis of so much per square metre of floor space in the building, and not by the square metre of occupied land. The result is a disincentive to physical expansion of premises, at the expense of improved productive capacity.
4. Scarce capital resources are not allocated as efficiently as they might be, because of the rigidities of the land market. People who occupy sites but fail to put them to their optimum use are under no fiscal pressure to take action. In fact, the longer they wait, the higher the premium they can eventually command for vacating their sites. There is, then, a positive inducement to inertia in the occupation of urban land. Potential users are excluded from desirable locations, and the overall result is an economy producing fewer consumer goods and services than would otherwise be the case.

BY THE turn into the 1970s, the municipal authorities grew alarmed at the way citizens were able to manipulate the land market.

Their remedial action in 1972 can be illustrated by reference to transactions in houses. The tax on the gains from the sale of residential

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Poland: Back to the

RICARDO'S theory of economic rent will ultimately destroy the Marxist approach to economics and cause the collapse of Moscow's hegemonic control over the East.

This view of mine is pure speculation, at present. It hardly warrants the status of a scientific hypothesis. Slowly, however, supporting evidence is accumulating. The latest comes from Poland.

The periodic unrest among Poland's industrial workers – they have now won the freedom to establish free trade unions – stem from mismanagement of resources.

The country's 3.9m. farmers successfully resisted the collectivisation programme of the early 1950s, and now 75% of the land is farmed by peasants. Land in the rural sector is largely owned on a private basis.

The fight against the effects of Marxist economics, however, is still intense in the industrial sector. Here, the living standards of workers have been retarded by the structural mismanagement and inefficiency which characterise all socialist bureaucracies, according to Leszek Kolakowski, former professor of history of philosophy in Warsaw University until he was expelled and took refuge in All Souls College, Oxford.¹

But what is the reason for this poor economic decision-making?

POLAND'S leaders have not stinted in their capital investment programme. In fact, they have been over-generous: and that is the problem. For although not fixed in supply (like land), capital is nonetheless relatively scarce. It therefore has to be used wisely. Marxist economics, however, preclude efficiency. In Poland's case, the over-investment has left the country with a foreign debt of \$20bn.

According to Mr. M. Rakowski, a member of Poland's Central Committee and editor of the weekly, *Polytika*, "the national product during the last year had fallen by 2%; management practices often defy all logic; statistics are being manipulated." Productivity, he says is declining, waiting lists for flats growing longer, and industry and agriculture had failed to meet the people's expectations.

So the workers have mobilised themselves outside the framework of the channels controlled by the Communist

Edward Gierek has been replaced as Communist Party chief, and the workers have won the right to strike and form free trade unions. But what caused Poland's crisis? According to a remarkable confession by Henryk Kiesel, Planning Commission boss and former Finance Minister, "ineffective investments" were to blame. But how could a country—apparently determined to raise living standards—miscalculate on such a socially critical scale? Assessment by FRED HARRISON

Party. And this summer they told the party's chief, Edward Gierek, that they wanted to negotiate their own wage deals.

This is but part of a fundamental review of the economic structure. Some of Poland's leaders are now aware that change is inevitable, and they are beginning to study the Yugoslav model of "self-management" socialism as a possible alternative.²

Centralised socialism may be untenable, but the Yugoslav experience demonstrates that, so long as economic rent can be privately captured, scarce capital resources will continue to be misallocated.

Polish economists, therefore, need to re-examine the basic tenets of Moscow-sanctioned economics before they institute reforms. Otherwise, they will end up down another blind alley.

THE SOURCE of the trouble is that Marxist economists regard land as "free", and therefore – since it was not created by labour – had no value.

Marx himself poured scorn on rent as a category of bourgeois economics.³ Nonetheless, he saw that land contributed materially to the process of production. In agriculture, for example, soil fertility could produce unequal yields from two plots of land of equivalent size, in which labour and capital inputs were identical. Rental income, as a surplus, was determined by the market, in which competition equalised prices down to the costs of production.

The virtue of the competitive market model – upon which Marx heaped derision – is that it enables the decision-makers to calculate the relative contributions of various factors of production, and so maximise efficiency.⁴

Intuitionist Economics

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properties was increased to nearly 80%. Had a realistic 100% annual land value tax been levied, there would have been no financial incentive to speculatively postpone the sale of houses.² As it was, however, the owners of houses simply resisted the tax by declining to sell their homes!

The house market dried up. Owners were well aware, of course, that inertia would pay dividends in time. The value of the land that they occupied would continue to rise, along with the premium that they would eventually charge for moving out!

The municipal authorities are now

aware of the need to reduce the tax rate, to stimulate the sale of houses. The socialist land speculators – the ordinary home-owners – are winning...

ACCORDING to the Yugoslav constitution, land is a natural resource that has to be managed rationally in the social interest. The absence of effective market prices in the urban sector (which constitute economic signals based on the incomes and preferences of all citizens) thwarts this laudable principle.

In the early 1980s, the Yugoslav Institute of Town Planning & Housing in Belgrade set about promoting objective criteria for measuring

surplus income (rent).

Empirical research suggested that the turnover of commercial enterprises was a good indicator of urban rents, and could therefore replace the subjective criteria developed by the institutions of the bureaucrats.

This might tell us something about the prosperity of certain commercial areas, but it still leaves a big gap in the knowledge of the tax authorities – for example, the residential areas, for which comparable measures for surplus income have yet to be developed.

UNDER THE protection of the late President Tito, the people of Yugoslavia have shown themselves

drawing board . . .

Soviet economists, however, were happy to take their cue from Marx and conclude that only workers created wealth (a position developed by Marx in his account of the labour theory of value in *Capital*, Vol. I).

Marx, however, did not exclude land from the process of value-creation. His descriptive account of rent in Vol. III is a valuable contribution to economic literature. And in his *Critique of the Gotha Programme* he declared:

"Labour is not the source of all wealth. Nature is just as much the source of use-values (and surely these are what make up material wealth!) as labour."⁵

Tragically, however, the natural riches under the geopolitical influence of Moscow have been wasted because the orthodox view on land prevailed.

LAND, not being a product of labour, was held to have no value. Because it was socialised, its costs were not taken into account by the planners. So, for 60 years, there has been a profligate use of natural resources leading directly to the misallocation of capital and labour.

Investment decisions have been responsible for an unquantifiable degree of waste. According to calculations by Soviet economists, the annual losses caused by the maldistribution of buildings alone in the USSR amounted to 1,000m. roubles in the early 1960s (over 0.5% of national income).⁶

Extensive, rather than intensive, use of land, was the order of the day. Volume of output (rather than value of production, along with efficiency and quality) has been the guiding principle.

Planners, as we have seen in relation to the Yugoslavian land market (p. 84 above), relied heavily on their intuition. The role of intuition in the extensive investment of capital in the Polish iron and steel industry over 1961-65 has been studied. One-third of the investment projects was based on intuition or "guesswork", one-third was partly documented and no more than one-third was properly worked out and supported by documentation.⁷

Bad investment decision-making was due to the absence of those economic signals that, in the free market, are known as prices.

THE PROCESS of inefficient decision-making has been described by Jozef Wilczynski, a Polish-born Associate

Professor of Economics at the Royal Military College of Australia, in Canberra.

"The omission of land made the initial effectiveness of the investment outlay appear unduly high, because the increase in production seemed to be due only to this outlay, as if there were no contribution from land. Then, additional investment outlays on labour and capital appeared to lead to disproportionately low increments to production in the project in question. This only exaggerated the extensive approach to investment, because new projects on other land promised higher returns on paper."⁸

There are now signs that Soviet economists are awakening to the need to put a price on land, which can then be taken into account in decision-making.

Not surprisingly, the bureaucratic planner's method of accounting – rather than market-determined prices – are endorsed as the desirable system.⁹ The Soviet approach to socialised land, quite clearly, will continue to be such as to retard the optimum use of productive resources, and so will fail to raise the level of consumer satisfaction.

The West, however, will not finally win the ideological war until the free market economy has been reformed to remove the monopolistic obstacles to a completely efficient system. And that will not be accomplished until the leaders of the free world muster the courage to confront the most serious of those obstacles – land monopoly!

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able and willing to break away from Marxist orthodoxy dictated by Moscow.

Their experiments, however, have yet to evolve satisfactory solutions. They should not, however, uncritically absorb the Western model for land tenure. If they wish to combine social justice with economic efficiency, they will have to find a method that overcomes the deficiencies in both the Western and Eastern land models.

That solution is contained in one book: *Progress & Poverty*.³ Its author, Henry George, showed that the free market offers the only objective framework within which the subjective intuitions of people can be collectively and freely expressed to produce maximum individual satisfaction and

optimum use of resources. Add to this a tax to collect the full annual value of land (economic rent) and the Yugoslavs would accomplish their twin goals of equity and efficiency.

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Afghan land plan

THE guerilla war in Afghanistan has disrupted agricultural output. Now an advisory council, headed by President Karmal, is investigating means of reallocating government land held by former tenants, to "deliver it to new people so as to get revenue from such sources," according to Radio Kabul. Provincial officials have been asked to determine fair prices for the land, which suggests that it will be sold to farmers by the communist government. But at present insufficient information is available to assess the proposals, writes Ian Barron.