

# 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.<sup>1</sup>

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.<sup>2</sup>

*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.<sup>3</sup> 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.<sup>4</sup>

## Intuitionist Economics

### ● Cont. from P.85

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.<sup>2</sup> 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."<sup>5</sup>

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).<sup>6</sup>

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.<sup>7</sup>

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."<sup>8</sup>

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.<sup>9</sup> 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!

## REFERENCES

1. Leszek Kolakowski, 'Not bad – catastrophic', *The Sunday Times*, 17.8.80.
2. Hella Pick, 'Poland strains to alter system without disturbing Kremlin', *The Guardian*, 30.7.80.
3. K. Marx, *The Poverty of Philosophy*, Moscow: Progress Publishers, 1955, pp. 134-144.
4. For a full treatment of the deficiencies in Marx's approach, see Fred Harrison, 'Gronlund and other Marxists', in R. V. Andelson, *Critics of Henry George*, Rutherford: Fairleigh Dickinson UP, 1979.
5. K. Marx, *The First International and After*, Harmondsworth: Penguin, 1974, p.341.
6. Cited by J. Wilczynski, *Socialist Economic Development and Reforms*, London: Macmillan, 1972, p.37.
7. *Ibid.*, p.185, n.2.
8. *Ibid.*, p.184.
9. T. Khachaturov, *The Economy of the Soviet Union Today*, Moscow: Progress Publishers, 1977, p.95.

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*.<sup>3</sup> 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.

## REFERENCES

1. One official exception was allowed. A municipality could waive its right to appropriate rental income, providing the land user agreed to invest the money in socially-useful projects such as new factories or urban infrastructure.
2. In 1972, about 360,000 acres of prime agricultural land stood idle in one region alone, the Vojvodina, Yugoslavia's granary. This would not have been possible if the tax system recovered the full annual value of agricultural land for the benefit of the community.
3. Henry George, *Progress & Poverty*, 1879; centenary edition published by the Robert Schalkenbach Foundation, New York, 1979.

## 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.