

World harmony set up by LVT

IN PART I of his analysis, the author proposed a mechanism for reallocating land in the socialist economy which also incorporated the principles of private enterprise and market pricing. He proposed the introduction of land value taxation (LVT), with rents being set through a system of auctions. In Part II he develops the case for this fiscal policy with the claim that LVT provides a solution to political problems associated with relationships between nations. This addresses the goals set by President Mikhail

Gorbachev for international cooperation. Looking at the wider context of ecological exploitation, it is now recognised that we live in an interdependent world; LVT provides the motive power for redefining rights and responsibilities, without which the prospect for global harmony (both between sovereign nations and between Mankind and his ecological habitat) must remain seriously imperfect.

Part Two of a report by FRED HARRISON

DISPUTE over the control of natural resources is intrinsic to all military conflicts. This is inevitable, because the spatial dimension is the key defining characteristic of the nation state. This pre-determines a military posture – the ability to defend a clearly-demarcated geographical area.

But cross-border disputes usually originate over conflicts that stem from an unequal distribution of rights of access to natural resources within given societies. In a land-surplus world, populations expanded in a relatively peaceful way (as with the Russian mirs), though not always (as with the appropriation of aboriginal lands in the New World and Australia). Today, every corner of the world is staked out by nations claiming absolute rights of ownership. Fresh colonisation is impossible; without cooperation.

How does the land value taxation model help to resolve these problems?

THE USSR is a union of 15 republics. Daily, it is confronted with new demands for improved living standards and job opportunities from ethnic minorities

within individual republics; and demands for greater autonomy by republics which believe that, economically, they can fare better by themselves. How can these demands be satisfied, while providing the republics with a solid reason to remain united under the umbrella of the Union of Soviet countries?

The USSR should establish a Development Fund into which each republic would contribute an annual sum based on the value of its natural endowments. Some republics are rich in high-value minerals; their contributions would be proportionately greater than the contributions from, say, republics that are principally agrarian.

This Fund would serve both *symbolic* and *developmental* functions. The resources of the Fund would be used to alleviate short-term distress (natural calamities, such as famine) and to finance the economic development of poor regions.

Because the citizens would see that they were contributing to this humanitarian Fund,

through their republics; and that the money was controlled and allocated democratically, on the basis of need, the sense of a direct and personal identification with the goals of *perestroika* would be shared by everyone. There would be an acceptance that the resources of the USSR were being mobilised for the benefit of everyone, equally.

In the short-term, the richer regions would be the net "losers", but this would not be at the expense of the development of their economies: for this republican "tax" would fall exclusively on the rental value of natural resources, and would not, therefore, undermine capital investment or job creation anywhere in the union (which is what happens with other forms of taxation).

As the disadvantaged regions grew in prosperity, the monetary value of their natural resources would correspondingly increase. This means that their contribution to the Fund would consequently increase, thereby tending to equalise the contributions

from all the republics.

Financing the Development Fund out of existing taxation would be ineffective:

- Symbolically, it is necessary to develop a recognition of the rights – and obligations – of individual cultural entities *within the framework of the union of republics*. If the Fund was financed out of general taxation, either from individuals or enterprises, this identification with the Fund based on culture and geography would not be established; and

- Economically, it is generally agreed that the only frictionless fiscal policy is the tax on land values. The USSR, which now has to establish a new basis for raising governmental revenue, has the opportunity to create the first wholly rational system of taxation in the world. The only lesson to be learnt from the Western tax system is what to avoid.

Capitalist societies levy their exchequer revenues from earned income, consumption and profits, which contradicts the purpose of the economy: growth and general prosperity! It would not make sense to replicate the historic errors of the capitalist economies.

The USSR, if it adopted the auction system for reallocating land at the micro-economic level, could build on that philosophy and fiscal system to harmonise living standards, political relationships and psychological expectations between republics within the Soviet Union.

MIKHAIL Gorbachev wants to place the Soviet Union's internal changes into a global context – as with, for example, the statements about "our common European house".

This notion seeks to go beyond the concepts and in-

'Missing' land tax charter for vandals

THE World Resources Institute, and the International Institute for Environment and Development, in collaboration with the United Nations Environment Programme, have published a report involving ecological vandalism. It proves that in the pursuit of commercial profit it is inextricably associated with the absence of a tax that appropriates the full economic rental value of natural resources.

The report, *World Resources 1988-89*, (New York: Basic Books 1988, esp. Ch. 12), shows with well-

documented examples how users of natural resources who are allowed to appropriate economic rent are consequently induced to

- Destroy the ancient forests
- Debase the growing powers of the soil,

- denude the hillsides,

- deplete the supply of water,

- pollute the rivers, and

- turn the skies into acid baths.

This propensity is traced out in both the industrialised regions

and the Third World.

These acts of destruction are not just condoned, but actively encouraged, by governments; the tragedy is that most political leaders are unaware of the process which they legitimize by the laws which they pass and the fiscal policies that they employ.

The process of degradation of the environment would be reversed the instant a government decided to restructure its tax system in favour of one which valued and taxed natural resources on the basis of current market values.

stitutional arrangements that can be encompassed by existing international treaties. From the outset, Gorbachev identified environmental issues as intimately related to the process of establishing new global relationships. Chernobyl was a savage reminder that nature does not recognise the territorial boundaries drawn by the nation-state. Errors in the Soviet Union exposed Welsh sheep to radiation and changed the eating habits of people in Britain.

Here, then, is a grand opportunity to unite nations behind the notion that Earth is the common home for Mankind. But this concept is meaningless unless it is articulated within a practical framework with which nations can identify. How can the ecological reality be given a political and economic expression?

A neat case illustrating the

possibilities of trans-border cooperation is the new US-Soviet National Park and wilderness reserve which straddles both sides of the Bering Strait. Scientists from both countries will monitor the ecology of the area, the two countries will jointly protect the environment, and the aboriginal population, the Inuits, will be free to traverse the border without producing visas.

But isolation of this area makes the cooperation easy: how can the concepts of cooperation, and of a common natural heritage, be extended to the more difficult cases of sharing resources in areas that are densely populated.

We offer one solution: a Global Fund for Conservation and Development. The starting point is a recognition that the benefits of Earth are not dis-

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VALUE IGNORED

NATIONS fail abjectly to value natural resources for national accounting purposes. They measure the rewards of labour and of capital, but generally ignore land.

This defect in the national accounts needs to be remedied. The justification for this action does not rest purely on ethical considerations, or even on the imperatives of a rational approach to restructuring the nation's economy.

It is a precondition for the success of any programme of resource conservation. We stress that an assessment of the rent of land, and its taxation, at the rate

of near-enough 100% of its market value, is not an optional extra for the world today, but the starting point for any serious attempt to deal with the economic processes that inflict grievous damage to the ecosystem.

The objective facts prove that the absence of a proper resource accounting system *and fiscal policy* is at the heart of ecological devastation today. A practical method for valuing national resources is available (see Ronald Banks, *Costing the Earth* (London: Shephard Walwyn/Centre for Incentive Taxation, 1989).

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tributed or used equally, between nations. There are two major reasons. First, there is an unequal distribution of resources. Some countries are rich in gold and petroleum; others are poorly-endowed by nature. Second, the degree of ecological exploitation is a function of the productive capacity of, and the technological processes employed by, a nation.

These two differences can be equalised into a solution that unites sovereign nations, politically, behind a programme of assisting the economic development of disadvantaged nations, and ecologically, behind a strategy for conservation and the creation of sustainable systems.

A global fund should be established to assist economic development and solve ecological problems. The financial rewards of a successful programme of action are great. For example, the UN estimated that the loss of agricultural productivity from desertification was \$26 billion in 1980, a figure which "does not even begin to

reckon indirect costs," notes the World Resources Institute. If the desert can be turned back, the living standards of many people would be raised, and the pressure to expand on to other people's territories would be reduced.

The *Global Fund for Conservation and Development* should be financed on the basis of an Environmental Use Tax; and a National Land Value Tax, which would be a levy on the rental value of natural resources at the command of each nation.

The sums that are needed are considerable. For example, the UN Food and Agricultural Organisation estimates that \$1 billion is needed to rehabilitate the upland watersheds and semi-arid lowlands in 10 countries (in 1987-91).

The **Environmental Use Tax**. This, more accurately, is a user fee, or charge. It should be tailored to measure a nation's use of *common* resources. A formula can be devised for levying the "tax" on the basis of a nation's use of that part of the environment which is shared internationally: the sky (into which waste is expelled); rivers that run between, or cross over,

two or more nations; or the oceans.

Environmental impact studies on a country-by-country basis would add to existing knowledge of global land use and determine the relative size of each country's financial obligation to the Fund. This levy would probably be characterised as a Pollution Tax. The ultimate effect would be to encourage nations to reduce the damage they inflicted on the environment; this would diminish their fiscal liability to the Fund.

Countries should be free to decide whether to recover the monies from the corporations or citizens who were directly responsible for using the common natural resource (factories emptying waste into trans-national rivers, etc). To the extent that this cost was transferred onto the users/polluters – this is the current philosophy of Britain's Conservative government – there would probably be a trend towards reducing ecologically unsound methods of production.

People would perceive this Environmental Use Tax as socially and ecologically fair. It thrusts the world towards a new eco-politics. Sovereign nations would be united behind a common fiscal policy based on the need to harmonise the distribution of the resources of nature, and of persuading users to limit the damage to the environment. This dynamic process integrates the political and economic dimensions and the ecological imperatives that flow from the interdependence of nations.

The **National land Value Tax**. Complementing the "negative" Environmental Use Tax should be the "positive" policy based on contributions to the global fund from the value of the resources at the command of each nation. To be implemented,

resources would first have to be valued on the basis of their current rental value.

Nations would be invited to contribute a percentage of their marketable natural resources to the Global Fund. Those rich in resources, or advanced in their economic development (whose surplus income - rent - is therefore relatively high), would contribute more than resource-poor, or under-developed, countries. In the short term, the latter would be the main beneficiaries. As they developed economically, and their national income increased, the rental value of their land would rise as well; so their contributions to the Fund would increase.

This, then, is not an arbitrary formula for sharing the resources of nature. It is an objective acknowledgement that the accidents of history should not leave some peoples disadvantaged, just because their cultural centres are located in, say, semi-arid regions - while others live on top of gold mines. It leads to a development of new international relations based on *reciprocity and mutuality*, on the need to *share and conserve* resources, and on the recognition of the ecologically-oriented interdependence of sovereign nations.

WITHOUT these reforms, it will not be possible to satisfy the desire for the devolution of political and economic power to regional and local levels.

The enhancement of rights of the individual and of ethnic minorities has not been fully realised anywhere in the world because this conflicts with the logic of national sovereignty. The military imperative militates against the weakening of central control over society; nations consider it vital to maintain a powerful command over their capacity to mobilise armies

GEORGISM WITH LIMITED CHEER

WHEN Henry George wrote his classic *Progress and Poverty*, it would seem that there were plenty of people with both the patience and the time to work their way through 400-odd pages of serious reading; for the work had an immense and deserved success, sowing the seeds of genuine land reform in various parts of the world.

There are comparatively few such readers nowadays; so the need has arisen for labour-saving digests if the same results are to be achieved again. *True And False Economics, And The Political Implications*, by the Australian W.A. Dowe, is one of the most recent of these.

The first half of this book is devoted to basic economics, not of the official kind, as Mr Dowe is careful to explain, which is biased towards justification of the *status quo*, but simple and straightforward, such as will lead to a firm grasp of what is happening in the real world of production and exchange.

The division into short numbered paragraphs is calculated to give the novice plenty of breathing spaces to absorb unfamiliar but self-evident ideas, and so convince himself that he too can be an economist.

The foundations having been so laid, Mr Dowe proceeds convincingly to show the relevance

By David Redfearn

of the theory to social problems such as unemployment and poverty, and demonstrates at the same time how the application of the only effective solution, namely the use of rent for communal purposes, is hindered by various popular and learned superstitions and confusions. Its relevance to the problem of war, however, deserves fuller treatment.

It is also a pity that Mr Dowe omits to cheer his reader with accounts of the successes that have followed in places where some rent has been put to its natural use, though the section "*Great Witnesses To Social Truth*" affords some compensation.

The book is to be recommended for its clear, unambiguous and forceful presentation of the essentials of Georgism, which includes ethical and religious considerations as well as economic ones, though Mr Dowe is careful to distinguish between them.

There is a minor correction that will need to be made in subsequent editions. Swift's satire on scientists is to be found in *A Voyage To Laputa*, not in *A Voyage To The Country Of The Houyhnhnms*.

against perceived external threats.

Our model for sharing global resources provides the single most important thrust in the direction of the liberation of the individual, and of local communities; in favour of emancipation at the level of "human-scale" organisation, by re-establishing the self-sufficiency of communities on an organic basis. Cultural and ethnic differentiation is respected within a wider political framework ground-

ded on collaboration and interdependence.

The new order that would emerge would be founded on the twin planks of ethical behaviour and economic efficiency. These find their simultaneous expression in a single fiscal philosophy - the taxation of the value of natural resources. This philosophy yields a potent solution to the causes of *fear and deprivation*, which are the principal obstacles to freedom.