

RENT AS KEY TO POST-COMMUNIST SOCIETY

# Now the synthesis!

THE SOVIET Union is on the verge of one of the most momentous political decisions of this century: whether to privatise the land and natural resources owned by one of the biggest empires in history.

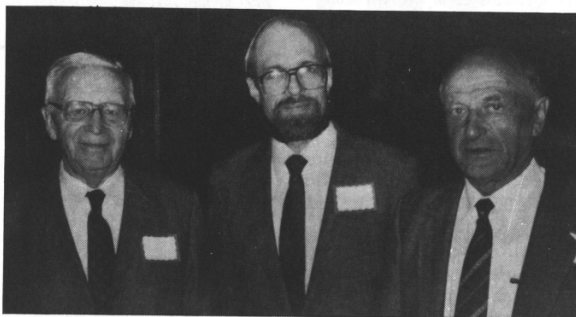
President Mikhail Gorbachev, who wants to secure the benefits of the market system, is flinching at this prospect. So he wants to transfer responsibility to the citizens, who - he says - should decide by referendum.

If the vote is "Yes", a programme of alienating communally-owned property will eclipse the mass marketing of state-owned assets under the premiership of Britain's Margaret Thatcher, who has been the most active advocate of privatisation in the 1980s.

But if the decision is "No", the Soviets - without knowing it - would embark on a course wholly different from the one travelled by the first industrial nations. History would come to show that this one decision matched in its epochal significance the awesome spectacle of last year's collapse of communism.

The tragedy for social evolution is that the Soviet people have not been informed of the sophisticated alternative before them. Their political leaders are still talking in the language developed by the conflicts of the 19th century - a choice between private or state ownership of the means of production.

But the allocation of *private use rights* to land need not mean the negation of society's legitimate claims over natural



• East meets west: from left to right - Dr. Alexander Meyendorff (Moscow), Dr. Nicolaus Tideman of the United States, and Academician Mikhail Bronshtein of the University of Tartu, Estonia.

FRED HARRISON  
reports from New York

resources. This sophisticated third way forward in property rights and production processes ought to be elaborated before people cast their votes.

How the new social system could be built on this synthesis of the best of both capitalism and communism - market efficiency and social equality - was the problem addressed by leading western economists at a conference in New York in August. *Most of them concluded that it is possible to have your cake and eat it!*

The solution, for Mikhail Gorbachev, is simple in practice and elegant in the way it resolves the tensions of philosophy and history: the privatisation of use rights, associated with a very high tax on the rental value of land and natural resources.

That concept was, in fact, embedded in Soviet law earlier this year, but the bureaucratic will to implement the legislation has been missing. This suggests

the need for a massive effort in public education, but time is running out for Gorbachev.

There is a grave danger that the Soviet Union will commit a serious error in its bid to break the hold of the command economy over the welfare of its citizens by substituting one form of economic tyranny for another.

IN THE last two years, many distinguished economists have confessed that their theories - as they have been applied in the imperfect markets of the West - are unable to help the ex-Socialists in their experiment in transformation.

This expression of helplessness rests on the fact that, without a pricing system, the process of allocating resources cannot function. The absence of full-cost prices has been used as an excuse for recoiling from the immediate problems associated with the transitional phase between socialism and capitalism.

As a result, western advisers

are resorting to the most unimaginative solution: telling Eastern Europe and the USSR to ditch what went before and copy what they see in the West. This crude formula invites severe dislocation of the economy and protracted suffering of the people, and for what?

The Coke capitalism of the West is about to collapse into one of the deepest postwar recessions - a symbolic reminder of the conditions that stimulated the fevered mind of Karl Marx in the first place.

It need not be so. It is possible to take existing institutions and processes and redirect them towards the new goal. The land market is the most fruitful starting point for this strategy. Sensible policy decisions over the use of land - the factor that can sidestep those market disciplines that guide labour and capital - would immediately stimulate the appropriate reforms in the rest of the economy.

Why start with land? Well, the process cannot start with capital: there's not enough of it, and a major problem is to encourage investment from abroad. Bureaucratic initiatives are not known to attract foreign entrepreneurs!

Why not start with labour, then? Because people now remember what happened when Joseph Stalin wagged his finger at the workers.

So that leaves land, the least controversial of all factors of production and the one most amenable to public policy. Somehow, the bounty of nature has to be made to work in everyone's interest. It has to generate revenue for governments facing demands for infrastructural investment. And in our view, it can serve as a school for budding entrepreneurs who want to learn the art of taking risks.

## Controlled sell-offs

**SELLING** the state's assets is a dangerous alternative, as Prof. Mason Gaffney of the University of California emphasised. He said:

"You cannot sell off an entire nation quickly at other than fire-sale prices. A massive sale is a giveaway. Normal turnover in the US land market is well under 4% of parcels, and much less than 4% of value (small parcels turn over faster).

"Dumping 100% in any short period would immediately soak up all available capital funds, leaving no purchasing power for the rest, let alone to finance development and working capital."

He proposed a controlled strategy that would launch the process of establishing current market values for land - data required for a system of land value taxation - and release sites for new users. Each state agency, he suggested, should

be required to sell a minimum 5% of its land. At one stroke, this would establish the value of other - comparable - sites, and create the market itself by providing a supply of land.

The beauty of this model is that the current land holder would not be tempted to under-value the land for sale in a bid to try and beat the tax man over his liabilities for the other sites.

For if he did so, he would lose revenue from the sale of 5% of his land. Similarly, over-pricing would also be avoided; for the asking price sets the benchmark for the tax liability on the owner's other sites.

This is the creative thinking that is absent from the advice now being offered by bankers and free market economic consultants at seminars staged in the capitals of eastern Europe.



• Joseph Stalin

MOST OF THE East European countries still have a sense of what land is worth, in rental terms. On the face of it, this is not the case in the Soviet Union. Appearances are deceiving.

Rents do have to be measured, if a market is to be established. This is not as horrendous a challenge for the USSR, as some people would have us believe. For true costs and benefits are recognised on a daily basis by citizens, even if they are not formally measured in a marketplace. Take the case of the

residential sector.

Prof. C. Lowell Harris, of Columbia University, pointed out that someone in the Soviet Union was enjoying the benefits of economic rent, even if he was not paying for them: "It is my impression that people as occupants in apartments are enjoying what we would call rents in the form of occupancy costs that are far below market price."

For example, families that have less distance to travel to work (because their apartments are conveniently situated near city centres) are reminded daily of their good fortune.

This example illuminates the ethical, as well as economic, problem now facing the Moscow bosses who are determined to give away apartments to current occupants. This action seems humane, but is it fair?

The prime-site city dweller

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• Representatives from the Soviet Union at the conference. The delegation included Victor Shcheglov, Head of the Department of Economic and Social Research at the Central Scientific Research and Design Institute for Town Planning, Moscow, and Mr. N. Borkhunov, of the All-Union Research Institute of Economics in Agriculture.

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would receive a windfall value far greater than the benefit granted to the family that occupies a similar apartment at the end of the commuting line.

Yet the Moscow mayor need not sacrifice social justice for the sake of expediency. One day, he

will have to create a new system of local taxation for the capital. By adopting a tax based on the imputed rent of land, the well-located family would share its good fortune with the family that was not occupying the strategically well-situated apartment.

That one fiscal reform would

immediately concentrate the minds of the workers about the relative value of jobs in the labour market, and would also begin to force the first capitalists in Moscow to think about whether they were getting an acceptable return on their capital. *At a stroke, the competitive system would be up and running, the whole operation triggered by one simple fiscal device.*

## MUTUAL GUILT

THE CHAOS in the Soviet Union will take a long time to resolve, but the straight thinking on basic issues like the rent of land is available to shorten the period of trauma.

Ted Gwartney, the senior appraiser for a Californian bank, has constructed a simple, practical protocol for assigning rental value to land which he believes could be quickly put in place in the Soviet Union. A more sophisticated solution was described by Prof. Nicolaus Tideman, of Virginia Tech. University.

Other papers available at the conference demonstrated an acute sensitivity to the problems of the former socialist economies. Prof. Karen Brooks of the University of Minnesota St. Paul submitted a study based on Lithuanian farm data.

Then, armed with opinions on her work, in September she trav-

elled to the USSR as a member of the first World Bank/IMF mission. She was one of the experts to whom questions of land valuation and the collection of rent were addressed.

The ex-socialists are thirsty for information that will help them with their reforms, but they are racing against the time it takes to queue for bread and sausages.

We in the West have betrayed these reformers, like Mikhail Gorbachev, by our failure to publish studies that were ready to hand when the time came for the collapse of communism.

For most of us, that collapse was historically inevitable. But if we critics of unreconstructed capitalism had a vision of a better society, why did we not lay out the theoretical foundations in time for the men and women who now have to create a new social system from the wreckage of Marxism?

BUT HOW does the state break up the large industries and farms that have retarded productivity?

Soviet farmers are reluctant to take land and incur risks. Why become an independent farmer when you cannot obtain the inputs you need? Why give up the security of the collective farm?

Governments need to take the first risk - the bold step of offering the private farm to any individual who would use it. The quickest way forward is to adopt a simple auction system for allocating the first plots of land. It needs only one adventurous spirit - shades of the *kulaks* - to establish private farming.

In view of the uncertainties, one pioneer farmer may bid a low rent in exchange for a secure

lease: he is bound to make a profit initially, because his returns would include part of the rent of land. His example would quickly be followed by others. But now, the competition for the most fertile tracts would lead to a realistic bidding of rental values (= taxes) for the leases.

The community need not forego much of the rent. Lease terms could include regular rent reviews, based on the prices being bid for comparable farms. Alternatively, government revenue from the rents bid at auction could be supplemented by a tax designed to garner the additional rental income as it was realized, as the market started to mature - a point emphasised by Prof. Anthony Clunies-Ross, of Strathclyde University, Glasgow, in his discussion on the principles for collecting the rental value from exhaustible natural resources.

The important point is not to over-tax rent, for that would mean appropriating part of the earned income of labour and capital - which, as western economists almost unanimously acknowledge, is a brake on capital and wealth.

RESURRECTING the concept of rent in Russia is a painful business, as Dr. Alexander Meyendorff of Moscow recalled.

Under Stalin, talk of rent was dismissed as scholastic (and for some, it led to death in the gulags). When Dr. Meyendorff attempted to revive the concept in the early 1960s, he was violently attacked as talking nonsense.

Calculations of land values and rents were made. "But the special crime perpetrated through these years was that the economic concepts were distorted. These efforts were mostly based on false premises." And, added

Dr. Meyendorff: "This game of discussing irrelevant things continues now."

Efforts were now being made to calculate rent, but this was an exercise in propaganda "to placate the authorities," he insisted - and he accused one of the Soviet delegates at the conference of being a party to this deception. The agricultural sector, in particular, was ill-served by advisers who did not know what they were talking about.

And yet, the legislative framework for fruitful development built around the concept of social ownership of land linked to individual possession, through the leasing system, is now in place.

The leasing law came into effect last February, which stipulated that land could not be sold. "Tenure holders and users of land are to pay land tax or rent determined in accordance with the quality and location of the land plot," explained Dr. Meyendorff.

But two of the authors of the legislation have since complained that the law was not being implemented, and they

accused government bodies of brazenly refusing to lease their enterprises to employees or other users.

Dr. Meyendorff said: "Those employees who insist are fired. Plant departments are reorganised to get rid of lease enthusiasts. The idea of leasing is being discredited."

Similar tactics are being employed in the farming sector, with conservative opponents claiming that the leasing system would not work because it would be too costly, in terms of capital investment, to equip farmers with independent units.

Some republics have even refused to adopt the laws on land and leasing. This has led to the chaotic economic conditions in the USSR, which has encouraged the Supreme Soviet to favour Stanislav Shatalin's 500-day plan - telescoping action into a dangerously short period.

"Leasing should be an important part of the new mechanism of management," warned Dr. Meyendorff. "But the problems of assigning and collecting rent have so far not been solved."

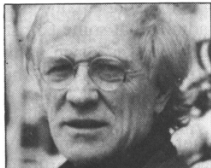
## SOBER FORTUNE

**WHEN he brought his hell-raising days to a close, in the 1970s, movie star Richard Harris thought soberly about what to do with his earnings from films like Camelot and - with Richard Burton - The Wild Geese. And this is what he did:**

**"I went to live in the Bahamas, which is tax-free, and with the 50 or 60% I saved in taxes I bought land - estate after estate after estate in California.**

**"Then I sat back and forgot about them. And of course they've doubled and quadrupled and whatever the other words are.**

**"One house I bought for \$400,-**



• Richard Harris

**000, I've just sold to Barbra Streisand for 6.5m".**

**Speaking to a reporter from The Independent On Sunday (July 1), Harris - who was starring in a West End play - added: "I couldn't spend my money in five lifetimes."**