



• Gorbachev

## SOVIET UNION'S UNIQUE CHANCE

# *The socialist economy — a model for change*

MIKHAIL Gorbachev has defined change within the USSR as one that raises living standards by releasing creative talents, while preserving the harmonious social relationships that spring from a strong sense of community.

The Soviet President recognises that internal transformation cannot be approached in isolation from the rest of the world; that the venture would be compromised if sovereign nations continued to adopt aggressive postures across their territorial borders; if the natural environment was damaged beyond repair.

A practical solution has to embrace these imperatives. There is a programme of action that would simultaneously solve both the Soviet Union's internal material needs and define the framework for international cooperation to meet the needs of Mankind and the biosphere.

The Soviet Union should start by learning from the mistakes of Communist China.

THE PRODUCTION and distribution of food is the most urgent problem in the socialist countries. Relating people directly to "their" piece of land is the most efficient way to produce food. China sensibly re-established family-sized farms.

She divided up collectively-worked farms. The State retained legal ownership of land, but granted 50-year leases to the peasants. The mistake was to provide the land at a price (rent) below the "market" level. The predictable consequences have now materialised.

With part of the rent added to the wages of the leaseholders, a new class of rich people has been created that is causing discontent in the countryside.

Agitation by the leaseholders for outright ownership of the land stems largely from the distortions arising from the

bureaucratic regulation of prices, which have deterred farmers from optimising the output of food. Instead of freeing prices, China agreed to amend the law to allow children to inherit the land. This does nothing to stimulate production, in the face of an unrealistic pricing policy, but it does serve to harden a class structure based on unearned income.

If the market was allowed to determine the price of food, this would not only encourage an optimum output but would also maximise rent. Holding prices below their market levels limits the rental income, but this is a very inefficient way of affecting income distribution. The introduction of a 100% tax on the full market-determined rental value of land synchronises the needs of farmers and consumers and balances the distribution of income.

*This formula entails no more than the payment of a full rent*



• **The Soviet Union can initiate a transformation that would serve as a model for Third World and capitalist countries. The historic conditions now exist for change to produce a unique socio-economic system that would solve the enigmas of poverty alongside progress; of conflict when people long for coexistence; of ecological despoliation when the natural instinct of Mankind is to revere and conserve his habitat. At the heart of the conditions that produce these paradoxes is the way in which we use, and define the rights to, the resources of nature. Once that fact is recognised it becomes possible to visualise a richer, safer and sustainable global system. This outcome, claims FRED HARRISON, is contingent on the adoption of a simple — single — fiscal policy: the taxation of the rental value of natural resources.**

*for the secure possession and use of land (which is what tenant farmers in the West pay, today, for the right to use land).*

THE USSR, in seeking to create an enterprise economy, has to accomplish two things. It must provide the means of production to individual users, and it must encourage the risk-taking that leads to innovation and the optimum use of resources.

The Soviet leaders do not have much time at their disposal: that is why they need a programme which both achieves quick results and reassures citizens that the plan is bold enough to lay the foundations for achieving medium-term goals.

• **Auctioning use rights.** The State should auction the right to use parcels of land held by collective farms. Farmers, by having to bid a rent for the right to possess and use the land,

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would set the first benchmarks of a new mechanism.

Farmers and not the bureaucrats would determine the level of rents payable to the State. This is the only effective method for measuring the commitment of individuals to use land in an optimal way, one which produces the highest financial surplus consistent with ecologically-sound methods of farming.

Provision would have to be made for dealing with mischievous bidders who might try to force rents up to levels that legitimate farmers could not match. Participants in the bidding process would be liable for a penalty if they offered a price that deterred legitimate farmers from obtaining land. For example, bidders would be legally required to pay the rent they bid, even if they did not take possession of the land.

The auction system serves to differentiate the workforce. It identifies those who wish to remain as employees from those who wish to become risk-takers. It enables potential business leaders to come forward.

The auction room becomes the focal point for establishing the legitimacy of competition

## Why Third World failed

THE IMPORTANCE of the opportunity now confronting the USSR can be highlighted by noting the failures of developmental economics as applied to Third World countries.

For over 30 years, well-meaning attempts to assist under-developed countries to transform their economies and raise living standards have failed for the following reasons:

- The dependence of former colonies on the metropolitan countries. Strings are always attached to foreign aid, which tie the recipients to the inappropriate ideology

and inappropriate technology of capitalist economies, whose export sectors are always given priority consideration; and

- The political influence of multi-national corporations. These nurture links to the local elites to ensure that their corporate interests are protected.

This, then, inhibits significant reforms to the system of taxation and property rights, which would undermine the commercial

interests of the foreign-owned corporations.

Significantly, a large part of the valuable natural resources of a developing country is owned by foreign corporations!

When combined, these two circumstances actively retard the growth of living standards (profits, for example, are expatriated, rather than reinvested locally), and prevent the introduction of a rational fiscal policy: a tax on the rental value of the country's natural resources, which ought to underwrite the development of the local economy.

and the pricing mechanism.

It is important to stress that, in this economic model, there are *no losers*. *This is a win-win arrangement, for farmers who fail to secure use rights to land would nonetheless know that the rental income bid by their competitors was going into the government exchequer to finance socially-necessary expenditures.*

- **A Learning Process.** The auction method of reallocating

land becomes a vital learning process for the urban sector. It is crucial for winning acceptance of the need for individuals to take risks and to bid a price for productive resources on the basis of what they believe they can afford (given their awareness of both the produce to be provided, and their assessment of the existence of a market).

The process of bidding rent for land forces prospective

## JAPANESE LEAD FOR RUSSIANS

THE SOVIET Union's scope for action is not limited by old ideological debts or financial obligations to the West. She is resource-rich and the people mature. There is therefore no need to accept Western assistance tied to a directional change that drives the Soviet Union down the path already trodden by the imperfectly functioning capitalist countries.

The USSR is free to begin afresh. There is a precedent for this clean-sheet start: Meiji Japan.

In the 1870s, Japan adopted a set of policies designed to accelerate the transformation of a feudal economy into an industrial system that was strong enough to put it on

an equal footing with foreign trading powers. At the heart of this strategy was a fiscal policy intended to capture the economic surplus from the rural economy to finance the infrastructural and educational needs of the new system: land value taxation.

The land tax, because it falls on the *surplus* income after all the costs of production have been met, achieved two things.

- It freed the food-growers to raise their living standards in line with an increase in output.
- It provided an expanding tax base for the Japanese government. This removed the need to adopt the other forms of taxation which deter

the formation of fixed capital and the creation of jobs.

This fiscal strategy laid the foundations for the unique Japanese industrial economy. The tragedy is that, after 20 years, the landlords took control of the political process and started to reduce the share of government revenue derived from the surplus revenue (this story is summarised by Fred Harrison in *Power in the Land*, London: Shephard Walwyn, 1983: Chs. 11 and 12).

The USSR now has the chance to learn from Meiji Japan and provide herself with an even more vibrant springboard from which to raise her productive capacity.

entrepreneurs to calculate "the bottom line" of their enterprise. They have to work out how much they need for wages and to finance their working capital, and what their revenue would be (given the price they can charge in relation to the market they wish to service) before they can decide how much would be surplus to these costs of production — i.e., the rental income.

• *Spin-off benefits.* This model based on *land value taxation* (LVT) commends itself for additional reasons.

*Social integration.* A socially-significantly transitional phase is inevitably filled with uncertainties and fears. These can be minimised when the transformation is a rational one grounded on the consensus support of the population. The assurance that people are sharing the benefits of their common property — the natural resources — is a vital ingredient in this process; it assures people that they are not being abandoned, or disadvantaged, by the changes.

*Fiscal finance.* The economic challenge confronting the Soviet Union entails extensive financial costs, in terms of the provision of infrastructure (for example, roads and railways). The whole basis of research has to be changed in favour of consumer-oriented production, to provide entrepreneurs in the industrial sector with help to meet the needs of the people.

These costs can be financed out of the value of the community's natural resources. Land values rise as the productivity of the nation increases.

In other words, land values provide a buoyant tax base for the government out of which to finance the socially-necessary projects.

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News round-up from around the world

## AQUINO LAND CRISIS

**MANILA:** President Cory Aquino's land reform program has been struck by crisis, following allegations of corruption and obstruction by red tape. Last year, the government distributed 150,000 land titles covering 103,000 hectares. But critics say the program, expected to cost US\$10 bn., will be no more successful than the dozen previous attempts at land reform since the 1930s.

A plan to give landowners the option of establishing profit-sharing deals for workers in lieu of transferring titles has locked Mrs Aquino's family in controversy. The Aquino family chose this option for their 5,000-hectare sugar cane

estate in central Luzon. Implementation was suspended when it was discovered that the Aquino family had grossly undervalued their property.

In another case, the government was asked to pay \$2.9m for 1,889 hectares in Camarines Sur Province. The sale was blocked when investigators found the land was worth only \$142,857.

According to Jaime Tadeo, leader of the Philippines Peasant Movement: "If land reform means to set the peasant free from the political and economic domination of the landlord, which is the essence of a genuine agricultural reform program, then, on the whole, it failed to break land monopoly. What it gave were just crumbs, a few leftovers."

Even the new Agrarian Reform Secretary, Miriam Defensor Santiago (she got the job when her predecessor resigned amid scandal) calls the current land reform law "a hodge-podge full of inconsistencies".



• Aquino: Values underestimated

## Aussies' property swoop

**NEW YORK:** Despite crisis in the Australian economy, Australians continue to be major investors in US real estate. According to one estimate, Australia — with about \$1 billion invested in US land — is in the group of top five foreign countries that are investing in the American market.

**BANGKOK:** Land speculators in Thailand are being hit by the government's decision to urge the Bank of Thailand to introduce stricter borrowing require-

ments, especially for luxury condominiums. Speculation is identified as a major cause of the "over-heating" of the economy.

**LONDON:** The Metropolitan police are to rebuild their crumbling stations by leasing out derelict inner city sites to retail stores. The plan follows heavy criticism of the police by the National Audit Office for failure to make maximum use of their "extensive property resources".

## INDEPENDENT INDIANS

**VANCOUVER:** The Haida Indians, who live on a chain of islands off the British Columbia coast, have declared their independence from Canada and are now issuing passports. The Indians,

who have had a long-running feud with logging companies, are seeking to revive their aboriginal culture, which they say is inextricably linked to traditional patterns of land use.