

land from agricultural use and its conversion to urban purposes. But there were problems.

- Some owners objected to giving up large areas of agricultural land for much smaller areas of building land.

- It also became difficult to find suitable serviced land immediately available to grant in exchange.

- And some villagers were not always in a position to undertake development of the new land – an essential prerequisite laid down by Government on any grant of land.

TO MEET this situation, the Hong Kong Government created land exchange arrangements which have become known as the Letter B system – as distinct from Letter A, an earlier and less important scheme.

The Letter B is an undertaking by Government to grant land at some later unspecified date in return for the surrender of existing land titles giving Government immediate access to that land.

In view of the land requirements for social infrastructure and public utilities when agricultural land is urbanised – i.e. changed from a low to a high population density – it would clearly have been impractical to offer an *equal area* of building land for agricultural land surrendered, which is what the villager would have liked, whilst the villager was reluctant to accept an exchange basis on *equal value* which the Government had been happy to grant.

So a compromise was sought.

It was found that in a typical high-density urban development in Hong Kong, some 60 per cent of the land was required for public use (roads, schools, community uses, etc) leaving 40 per cent for development by private enterprise.

The Letter B therefore provided for the grant of 2 sq. ft. of building land fully serviced for every 5 sq. ft. of agricultural land surrendered and equal area for building land given up, i.e. land in the original villages disturbed by development. (More recently this arrangement has been modified to 1 sq. ft. of new land for every 5 sq. ft. of agricultural land in order to provide more land for public housing.)

In addition, to provide an equitable contract, the Letter B provided for the payment of a premium based on the difference in value of the land surrendered and the land granted, both valuations being deemed to take place on the date of surrender.

New market order needs land value tax says World Bank adviser

- CHINA is experimenting with a new market-orientated order.

One early feature is the abolition of communes and their replacement with new forms of economic organisation.

Pilot schemes were first launched in Sichuan, the home province of Deng Xiaoping which was under the control of his protegee, Zhao Ziyang, until he was made Prime Minister in 1980.

China's leaders still have much to learn from Western economics, however.

PAUL KNIGHT reports.

PREMIER Zhao Ziyang has launched a programme to quadruple China's economic output by the year 2000.

But such a programme ought to include land value taxation, according to World Bank consultant Bela Balassa, who is Professor of Political Economy at the Johns Hopkins University.

His conclusion is part of a report he produced after visiting Red China last May.

In the past two years, Chinese leaders have come to terms with the need to reintroduce individual incentives and free market pressures into the economy.

In agriculture, for example, household plots have increased from seven per cent to 15 per cent of the total. Under the Cultural Revolution, household plots were banned.

Food grown on household plots can be sold at market prices and without the payment of any taxes to the commune.

The professor reports: "The family-responsibility system has assumed increased importance, covering 60 per cent of the land area of the communes in Sichuan province, with family groups accounting for another seven per cent.

"In the same province, production on private plots, occupying 13.5 per cent of the land area, and sideline activities carried out by the family, reportedly accounted for 47 per cent of agricultural income in 1981."*

OUTPUT on private plots has far outstripped the yields from communally-owned land, for which procurement targets are set by the communes.

But this new market reality poses critical problems, says Prof. Balassa, and one of them is the threat of widening income inequalities.

"While income disparities owing to differences in effort are considered desirable, such disparities also result from differences in the quality of land.

To eliminate this source of inequality, it would be desirable to place increased reliance on land taxes while raising agricultural prices.

Land taxes should be fixed in amount but varied according to the quality of land, so as to absorb a considerable part of the rent element in agricultural incomes."

The present land tax (called an agricultural tax) accounts for only three per cent of the value of agricultural output in Sichuan province.

The professor identified an important advantage of a tax on land values compared to a progressive tax on agricultural incomes: the latter would reduce income differences but discourage effort.

The tax on land values, then, would meet the demands of the peasants, as articulated by the Minister of Agriculture, Liu Hujia.

In November 1981, he stressed the need to "further improve the various forms of responsibility systems in farm production with remuneration based on output, since they are welcomed by the peasants."

*Bela Balassa, 'Economic Reform in China', *Banca Nazionale Del Lavoro Quarterly Rev.*, Rome, Sept. 1982.

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OUTPUT ON PRIVATE PLOTS SOARS