



Law 388: Not enough to buy off rebels

OVER 200,000 people have died in the civil war which has raged in Colombia since 1948. The most recent victims include 130 dead in the 3-day offensive on the eve of incoming President Andres Pastrana's inauguration on August 7, and another 60 two weeks later.

The president wants to negotiate a settlement with the guerrillas. The conflict is estimated to cost the country at least two percentage points in GDP growth every year. The loss of output is actually far greater. Colombia employs conventional tax policies which distort investment and productivity to a degree which has not yet been calculated. In material terms the losses, sanctioned by successive governments, far eclipse the damage inflicted by the war.

The financial arrangement that could maximise public welfare and private prosperity is one that draws government revenue from the rent of land and natural resources. It would play the leading role in enticing the rebels into a negotiated peace. Is Colombia heading in that direction? On July 18, 1997, Congress passed Law 388. This empowers mayors "to participate" in increases in land values which



A BOOM/BUST cycle in the urban housing market has featured in Colombia's big cities for years. Chronic inflation encourages investment in land, which is recognised as a good hedge against inflation by those who can afford it, including drug barons. Prices soar until they reach unsustainable levels. There is currently a huge glut of empty housing. Wage earners cannot afford homes because prices have yet to fall far enough and housing finance agencies cannot attract enough savings. The building industry is paralysed and urban unemployment is 15%.

surface when permission is given for a change in the use of land. The law enables municipalities to capture between 30-50% of the increase in value.

William A. Doebele, Harvard's Professor of Urban Planning and Design (emeritus), has offered a surprising assessment. He writes: "With this legislation, Colombia has enacted into national policy the basic premise of Henry George's writings: that the public has a moral right to recover socially created val-

ues...With the possible exception of Taiwan, few if any other countries have attempted to so directly incorporate Georgian principles into actual legislation at the national level".¹

In fact, there is a wealth of evidence to show that many countries have made - and continue to make - similar partial attempts at capturing what their governments regard as socially created value.²

Equally surprising is the claim by the professor that Law 388 reflects the moral philosophy of Henry George. For in *Progress and Poverty* (1879), the American reformer proposed to recover all but the small change of rent rather than a maximum of 50%. Another important difference is the mechanism for re-socialising the rent of land. The Colombian law authorises (but does not compel) a one-off capital gains tax on an owner who chooses to change the use of his land. George proposed a mandatory annual charge on the stream of income imputed to every possessor of land whose sites benefitted from the presence of a community and public investment, with offsetting cuts in taxation on people's earned incomes.

The difference in the fiscal tools matters. A vast body of historical evidence shows that one-off taxes distort property markets. Owners refuse to offer their sites for "higher and better" use. Acting rationally, they sit tight, awaiting a change in the law so that they can pocket the full proceeds. The sole efficient tool for collecting rent was the one which was proposed by Henry George, among other: an annual charge on land values as determined by the market, *in lieu* of other taxes.

The history of maladministration of land taxation ought to be carefully studied by land policy analysts before judgements are reached, particularly where these policies affect the welfare of nations. The damaging experiences in post-war Britain with socialist-inspired attempts at land laws similar to Law 388 ought to be publicised for the benefit of policy-makers.³ Another example is to be found in Colombia itself, which has sought to

Landmarks

- 1961** Land Reform Institute (INCORA) created but failed to eliminate concentration of land; 1m peasants were landless. INCORA advanced most of its funds to big landowners.
- 1971** Census revealed 4.3% of landowners held 67% of land, while 73.1% held 7.2% of land in lots under 25 acres, more than half of which were insufficient to meet minimum needs of a family. President Dr. Lleras Restrepo claimed his administration's reform programme was obstructed by the great landowners.
- 1972** Attempt by Congress to pass law to place a tax on land so that owners would be forced to sell rather than keep sites vacant. Extensive poverty and malnutrition co-existed even though "Colombia has at present sufficient land to support her rising population.... It is possible to see large areas of uncultivated land which could be put to better use", reported *Financial Times* correspondent (2 2 72).
- 1973** National Statistical Office reported that 90% of employees received an income of less than \$85 a month. Over half the population of Bogota lived in shanty towns and slums.
- 1979** Proposals to legalise growing of marijuana opposed by US. Liberals and Conservatives accused each other of using drug money to finance electoral campaigns for Congress.
- 1991** New trade laws open up Colombian markets to foreign goods. US food exports leap from \$121million to \$616 million (1996). No provision made to enable peasant farmers to improve their capacity to meet consumption needs of Colombia's 42 million people.
- 1998** Right-wing para-military "head-cutters" link with army to implement their style of land reform - killing and expelling *campesinos* from land prior to presidential elections. Reported *The Observer* (London, June 21): "[M]ore than a million Colombians [have been] driven from their homes by an ugly coalition of army, para-militaries and the men who fund them - drug traffickers and the landed elite. Their official crime is collaboration with the left-wing guerrillas. Unofficially, they have been driven out because these *campesinos* are in the way of mining and agricultural schemes being pursued by the landed elite".

capture rising land values via a "valorisation tax" levied on a piecemeal basis, such as when there is a big increase in land values adjoining road-widening schemes.

COLOMBIA is a classic case of a resource-rich country trapped in arrested social development by its land tenure and tax laws. Violence has become the overt way of expressing discontent. Successive governments have gone through the motions of introducing land reform, to no avail.

By the mid 1970s, 93% of the labour force received 44% of the national income, and 7% received the remaining 56%. Despite attempts to develop the rich oil and coal seams, income distribution remained seriously skewed. The state, however, remained complacent. A report in the *International Herald Tribune* in 1980 noted: "Guerrilla groups pose no real threat to the state. In the countryside they have their origins in violent conflicts over land".

The "safety valve" for peasants is the trade in narcotics. Marginalised peasants earn incomes by growing coca bushes in remote locations to feed the heavy demand for cocaine in the US. But this, in turn, has disrupted the lives of the landless who sought refuge in the towns. Billions of narco dollars were laundered through real estate in Bogota, Medellin and Cali, which pushed up land prices beyond levels affordable to urban workers. For example, between 1977 and

1979 house prices rose by an average of 75% a year - more than double the inflation rate.

Despite the boom/bust in the land market of the 1970s, the lessons were not learnt. The 1980s was a decade of missed opportunity. The government regarded housing policy as the "principal bonding element that links together the present administration's objectives for a reactivated economy and socio-economic change". The millions of jobs that were supposed to be created in the construction sector did not materialise. This played into the hands of the guerrilla groups whose allegiances were to Moscow and Cuba. But they were not able to produce proposals that would ensure full employment and sustainable growth. They emphasised land occupation rather than fiscal reform. A spokesman for the second largest guerrilla movement (M-19) said: "If you say to people, we're socialists, it doesn't mean anything. Most people are illiterate. They want land, health facilities, food, and housing. We say we're trying to build a real democracy".

Land occupation was not a dynamic solution serving the interests of the whole population. But grabbing unused land offered a symbolism that was not provided by politicians, who failed to propose reforms that would enrich all sections of society. The result was protracted warfare between rebel groups and the army, which turned Colombia into what Dr. James Busey, the editor of a Latin American guide, described as possibly "the

most dangerous country on earth".⁴

One president (Dr. Carlos Lleras Restrepo) declared in his last message to the nation in 1970: "A country cannot use its armed services to combat with force the cries of dissent which come from hunger, wretchedness and neglect". But the failure to define and implement an effective programme of land and tax reform meant that Colombia was destined to fight it out to the death.

Last July the second largest rebel group, the National Liberation Army (ELN) met 42 representatives of Colombian society on neutral ground in Germany for peace talks. Proposals for an effective land and tax reform were not on the agenda. It is therefore difficult to see how the new administration can hope to curb the drugs trade in favour of an expanded economy. The projected fiscal deficit of 3.5% of GDP will lead to spending cuts and an increase in conventional taxes which, cumulatively, further weaken the fragile social base.

REFERENCES

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- 3 V.H. Blundell, "Flawed Land Acts 1947 - 1976", in Nicolaus Tideman (ed.), *Land and Taxation*, London: Shephard-Walwyn, 1994.
- 4 James L. Busey, *Latin American Political Guide*, Manitou Springs: Juniper Editions, 1995, p.78

The Vatican and the land question

THE GREAT Jubilee of the year 2000, proclaimed by John Paul II, has inspired the Pontifical Council for Justice and Peace to issue a document in an attempt to confront the problem of land hunger, writes *Julia Bastian*.

The Henry George Foundation of Great Britain responded with a submission and have written to the President of the Council, Roger, Cardinal Etcheagaray, to welcome the fact that they have identified the inequitable distribution of land as a major cause of poverty.

In commenting on the Vatican's policy proposals the Chairman of the Foundation, Norman Slater, offered some major criticisms. He wrote:

"Chapter II confirms God's provision of the Earth to all mankind and the world needs reminding again and again of each individual's right to share in this provision. However, in a later section you appear to contradict and deny this right. Surely ownership of the earth by individuals deprives those who do not have the right of access and denies them the means of sustaining their own life. This is the basic cause of all the poverty, yet you defend it. This is because you describe land as "goods". We entirely agree that man is entitled to own and dispose of those goods which, by his own exertion, he has created. We do not accept that what God has created, i.e. the land, can morally be owned by anyone. It is vital to make this distinction. Failing to distinguish between God's creation and man's produce or products perpetuates the gross injustice from which mankind suffers so grievously.

"It is true that man has the right of 'possession' of that land on which he has laboured - the right to reap where he has sown. But he must also, in justice, recompense his fellow man for the privilege of possession, for it must be acknowledged that his possession deprives others of the use of such land. A rent paid to the community or state based upon unimproved value of the land so possessed satisfies this moral requirement and relieves the population of any taxes which might otherwise be required by the state for community purposes. Such other taxes are usually levied upon labour, confiscating from the worker a part of his personal property, and constitutes robbery by the State."

Mr Slater explained how and why the introduction of annual collection of land rents would end land speculation and enable funds to become available for investment in productive activity. He wrote:

"Those Third World countries where major concentrations of peoples exist, for example in India, Brazil, Mexico, have major conurbations where land values are enormous. These values are the result of the presence of and the investment made by the community. The value is in no way created by the landowner and, in justice, ought to be collected as public revenue. This public revenue would finance state education, fresh water supplies, health care - and much else."

A further criticism of the document pointed out that it is directed solely at the problems experienced by developing and under-developed economies, and

in particular the farming sector. The injustices discussed, however, are as much a feature of urban and rural economies. The Foundation agreed that developing countries do manifest many of the worst aspects of unequal land rights, but believed the matter to be one of universal concern.

The Henry George Foundation recommended the following policy proposal to The Pontifical Council: "To directly tax the annual rental value of land and use the fund collected as a primary source of public revenue in order to finance social investment." The Secretary of the Council replied that the Foundation's letter "would deepen the issues confronted in the document."

□ This debate raises issues that challenged the Vatican in the 1880s. Father McGlynn, who supported the work of Henry George in New York, helped to form the Anti Poverty Society. On being summoned to Rome by the Pope, he was asked to explain his activities, whereupon he was excommunicated. It was not until 1892 that McGlynn was re-examined by Mgr Satolli, who later confirmed that the land policy espoused by Father McGlynn was not contrary to the Christian faith or Catholic doctrine. Father McGlynn was restored to the Church.

* *Towards a better distribution of land: The Challenge of Agrarian Reform*, The Pontifical Council for Justice and Peace, Vatican Press.