

Cuba: will Castro back rent policy?



From left to right: Ramsey Clark, former US Attorney General; Ricardo Alarcón, President, National Assembly of People's Power; Michael Hudson, President, Institute for the Study of Long-Term Economic Trends; Ted Gwartney, Executive Director, Robert Schalkenbach Foundation

HAVANA – European Union and US governments are attempting to persuade Cuba to abandon its planned economy, which would involve changing the nation's constitution. Attempts to court Fidel Castro have failed, as Thomas Donohue, President of the US Chamber of Commerce, discovered when he paid a pioneering visit to Cuba in July. The "agreement of understanding" he signed fell short of what it will take to persuade the U.S. to lift its 37-year-old embargo. The issue is complicated by the political clout exerted by Batista-era "exiles" in Florida, who want to "buy back" 60% of Cuba for \$17 billion.

An alternative bid to encourage reform has been initiated by former U.S. Attorney General Ramsey Clark. He led a delegation to Havana on July 19 to promote public finance as the central plank for the economy, if and when it becomes more open to foreign trade and investment. The proposals would avoid the excesses of corruption that were challenged by Castro's revolution. If the US were to reimpose its own version of a "new" system on Cuba in the post-Castro era, observers fear that the Cuban people might respond with another civil war.

Clark's team included Dr. Michael Hudson, President of Institute for the Study of Long-term Economic Trends (ISLET), and Ted Gwartney, Executive Director of the Robert Schalkenbach Foundation, both based in New York City. Accompanying them was Dr. Cornelia Wunsch, an economist from the former East Germany.

In a two-hour meeting with Ricardo Alarcón de Quesada – President of the National Assembly of People's Power, and author of the Foreign Investment Law – the case was put for the adoption of a land-charge system of public finance. Mr. Alarcón suggested a follow-up visit to discuss the principles of land-charges within the context of a planned economy. The delegation suggested that relevant insights could be found in the "land for the people" philosophy of Henry

George, the world-famous 19th century social reformer.

At a meeting with the President of the Association of Cuban Economists, Dr. Roberto Verrier revealed that they were familiar with Henry George through the influential writings of the Cuban reformer Jose Martí, the guiding light behind Cuba's constitution. The Cuban economists explained that, like George, Martí was working and writing in New York as a journalist in the 1880s, where he read George's *Progress and Poverty* and popularized its ideas throughout Latin America.

At a briefing session with Elena Alvarez, Director of the Economic Planning Institute – the Instituto Nacional de Investigaciones Economicas – it was made plain that the government was intent on retaining the value of Cuba's land and natural resources for the Cuban people, and that this principle was written into its constitution.

THE MAJOR problem encountered by the visitors was a pessimism that the hostile U.S. trade and tourism blockade would not be lifted in the foreseeable future. The nation has not planned for the prospect of land prices rising as prosperity spreads, as it inevitably would do if the U.S. ended its punitive sanctions.

Esther Aguilera, Secretary General of the Association of Economists of Latin America and the Caribbean who is organizing an economic conference on globalism next January, invited the delegation to make a presentation. Aguilera is eager for a description of how a land-charge system could protect the nation's natural resources from foreigners.

According to property assessor Ted Gwartney, who has worked in Russian cities on the problem of levying public land charges in the absence of a market economy: "The prospect of Cuba signing deals with Spanish, Canadian and other developers in anticipation of more normalized relations gave a particular urgency to our discussions.

"Cuba clearly wants to use market pricing for tourists and investors. While real estate exchanges are infrequent – people live rent-free in the same house that they were born in – some exchanges do occur and involve a bonus payment (land rent) for the superior location.

"I promised to help with the redesign of the land cadastre. Even if they don't replace socialism with a total market pricing system, we could construct a 'relative values' model of the kind we developed in Russia, drawing on market-based experience. This would give them a working system in which payments by users varied according to the differential benefits they received. We hope to discuss this further when we meet Mr. Alarcón in New York in September, when he goes to the United Nations."

Wall Street analyst Dr. Hudson reported: "Cuba already is the landlord as well as the tax authority, so it is in a position to collect the land's rental value directly. This was confirmed in meetings with tax officials at the Ministry of Finance and Prices. They made it clear that their intention was to collect the land's full rental value".

Dr. Wunsch signalled the dangers in inviting foreign corporations as partners in profit-sharing agreements. Global corporations no longer declare profits – they expense their interest charges, depreciate (and re-depreciate) their properties, charge phantom management fees to offshore companies in tax havens, and in general report profits only in tax-evasion centres. Dr. Wunsch warned that foreign companies were mainly after land-price gains, and the correct policy response was to collect the land's full rental value.

According to Dr. Hudson, Cubans recognize that "globalization" is largely a combination of real estate grabbing and an attempt by international creditors to extend mortgage lending. This loads down real estate with debt. The Cuban officials, he reported, appear determined to retain this rental value domestically.