

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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