Poverty on World Bank agenda

A DRAMATIC shift in economic policy as it affects the poorer countries is about to be engineered by the World Bank. The money-lending institution's policies have not worked. What is known as the Structural Adjustment Programme has failed to raise living standards. But economic wisdom is not likely to go beyond methods for reducing outstanding debts. Without a fundamentally new economic philosophy, there is no chance of re-aligning the prospects for the hundreds of millions of people living on the edge of subsistence, *writes Ian Barron*.

The poverty of the World Bank's philosophy is repeated in its current development report which lays out its preferences for economic reform in the former socialist countries.[1] The document is replete with fine sounding concepts such as efficiency and equity, and is bold in its proclamations in favour of the market economy. Absent from the analysis is any indication of shortcomings in the market process.

The World Bank, as one of the most powerful advocates of conventional economic wisdom in the world today, is continuing to retail an implicit philosophy which, by its own standards, is consistently failing to achieve its targets. It is easy to show that the market economy is more efficient than the command economy. But why is there an absence of any audit of the market economy to judge whether it could be performing far better under modified conditions?

The World Bank exposes the shallowness of its analysis in its treatment of property rights. In preaching the virtues of private property, the Bank simply takes as axiomatic that private ownership is more desirable than public ownership. This presumption has had a fatal effect on the character of the privatisation programmes in the former socialist societies. No attempt has been made to analyse the unique characteristics of different forms of property: land and capital are treated as one and the same thing.

The way in which the philosophy of property and the market process are linked is through the assumption that the only way to secure the benefits of a market economy is for assets to be bought and sold. Thus, says the World Bank, "for property rights to become fully effective, it is especially important that they be tradeable and free to evolve".[2]

This is not good economics. Nor is it good anthropology or philosophy or sociology. It is crude prejudice in favour of the dominant ideology which takes for granted that the only way to optimise the benefits from the allocation of resources is for people to own assets which can then be priced and privately sold to new owners.

The spurious basis of the assumption is revealed in the labour market. People sell their services in the market for a flow of income based on their contribution to current production. Not since the termination of slavery have we capitalised the wage-earning powers of people into a selling price. We used to believe that people were tradeable assets: no longer.

If we now take for granted that labour is a distinctive factor of production, why should we not entertain the possibility that there is a difference between land and capital? Whose interests are best served by blurring any distinctions that may exist between man-made capital and the free gifts of nature?

In fact, there is a world of difference, but it is a difference to which the World Bank turns a blind eye. Land has to be treated in the same way as capital, and one justification is the claim that market efficiency requires that property rights should be tradeable. If this were true, then by the same token the World Bank would have to argue that the greatest efficiency in the capitalist economy would be achieved if we were still buying and selling people on the quayside in Jamaica. But such a proposition is absurd with respect to labour; and the same holds true for land.

Land is uniquely different from capital in ways that are so well established that we need not waste space itemising them here. Unfortunately, those who insist on the difference have failed to elaborate the institutions and processes by which land could be treated as uniquely different.

For land to be tradeable you have to have a selling price: this is the capitalisation of the annual rental income. How can we derive all (in fact: more) of the benefits of the free market by eliminating the trade not just in labour but also in land? There are no practical difficulties in creating arrangements where people bid for the right to rent land; and there is no efficiency reason why that rent has to go into private pockets rather than public coffers. In fact, don't we have such a system today? Don't land owners seek the highest rents from tenants? Is this not done in a market milieu? Why can't this partial mechanism be generalised into a full blown system based on a reform of property rights that yield even greater efficiencies and justice than the present perverted form of market economics advocated by the World Bank?

The World Bank notes that in some of the former socialist countries "many buildings and plots of land, for example, have been restored to pre-communist owners who are neither willing nor able to care for them". This is an example of the failure of the prevailing philosophy of property rights. But while the neglected buildings may fall down and lose all their value - for which there would be no necessary negative consequences for the community (the buildings can be replaced) - the same is not true for the land. Vacant land will continue to rise in value; and while held out of use by its owners, a heavy price is paid by the community.

The solution is not to be found in the bureaucratic control over such assets. The market solution favours the use of fiscal policy to drive owners to achieve optimum results in the free market. This means no taxation on capital and the full recovery of the rent of land for the benefit of the public. In a moral society we can compromise on the efficiency goal, but there can be no compromise with justice.

REFERENCES

1. *From Plan to Market*, World Development Report 1996, New York: Oxford University Press 1996.
2. *Ibid.*, p.49.