

New social paradigm is vital after Marx

MOST ANALYSTS, in commenting upon the recent events in Eastern Europe, seem to take it for granted that two alternatives only are on offer: "capitalism" or "socialism".

There has indeed been a certain amount of speculation that new forms of economic organisation might emerge, but these, it is assumed, would be pick-and-mix systems, favoured, perhaps, as a means of easing the transition from socialism, by societies fearful of exposure to the full rigours of capitalism raw in tooth and claw.

Liberals in the West, hoping that something better could evolve in the post-communist world, might envisage a system like that in Western Europe, but with a higher proportion of "socialism" in the cocktail.

Not everyone would agree that Marxism is finally and unequivocally discredited. It remains a powerful force in Africa and Latin America. Ideologically, the African National Congress appears to be committed to Marxism and Nelson Mandela has declared he is in favour of widespread nationalisation in South Africa.

Elsewhere, Marxists are attempting to retrieve their intellec-

By HENRY LAW

tual position by claiming that what has been happening in Eastern Europe is a perversion; if only the doctrine had been followed as laid down by Marx himself, all would be well.

Marxists, therefore, are urged to hold fast to their faith and await a fresh opportunity to put his ideas into practice.

THE MARXIST project was an attempt to remedy the evils of "capitalism", a system of economic organisation which led to exploitation of the masses. Although Marx tended not to be explicit in defining his terms, this understanding of what is meant by "capital" and "capitalism" is almost universally accepted.

Like most economists since, Marx appears to have conflated capital and land, and seems not to have regarded land as an entity in itself.

Crucial to Marxist economics and social theory are two hypotheses. The first is Marx's

Labour Theory of Value, which asserts that the value of an object was directly related to the labour that had gone into its production. The second is the belief in the perfectibility of human nature: given an ideal environment, humans would be naturally good.

Both ideas are seriously



• Nelson Mandela

flawed. Take the labour theory of value. Objects which no-one wanted could be very valuable merely because they had taken a great deal of effort to produce.

Although it is common experience that the value of an object is usually proportionate to the labour that had been put into its production, the labour is not in itself the cause of the value. Labour and value are indeed related, but the *value of an object is the labour which someone is prepared to give in order to acquire it.*

Marx's labour theory of value allows of no mechanism for the direction of production. Instead of markets, production has then to be managed by "the community" - in practice, by bureaucrats.

The Marxist belief in the per-

Scholars invited to write about Henry George

SCHOLARS interested in writing learned papers on the works of American social reformer Henry George are invited to submit proposals for a conference to be held at Lafayette College, Pennsylvania, in June 1991.

"This is an opportune time to increase in the academic community a knowledge of George's works," says Prof. Jerome Heavey, one of the organisers.

"That is the primary purpose of this conference. We invite pro-

posals for papers which provide a scholarly analysis of George's written works and their significance and impact in the history of economics and the other social sciences."

The papers will be published in a book, to mark the first of what is hoped to be a continuing series of conferences.

Scholars who would like to participate should write to Jerome F. Heavey, Dept. of Economics and Business, Lafayette College, Easton, Pa. 18042, USA.

fectibility of human nature poses even greater difficulties. Let us accept, for the moment, the idea that in a perfect society, people would be naturally good. But the only people available to create such a society are the imperfect humans of our present society, and how could such imperfect creatures produce the ideal environment? The Christian notion of Original Sin encapsulates this predicament.

This does not leave us in a situation that is without hope, but makes it essential to acknowledge that people attempt to satisfy their desires with the least effort and, as a corollary, that they will not exert themselves unless some desire is satisfied in doing so.

People might climb mountains, but they will travel to the foot of the mountain by the easiest route. On this view, the best economic organisation which could be achieved would be one in which people stood to gain as little as possible from being dishonest.

IF CAPITALISM has succeeded in delivering the goods, it is because it has allowed the market mechanism to operate relatively freely. Prices act as a signalling device, directing both production and consumption, and allocating productive resources in ways which most closely satisfy human desires.

Of course, not all desires can be satisfied by the market mechanism. It would not be possible to construct a decent society by relying solely on the market, which, of its nature, is unable to produce what might be termed "public goods". It is not within the power of any individual to purchase a road, a frequent train service, a sewerage system, clean air, universal access to the law, and so on.

Nor can the market be relied

upon to deliver goods such as education for the poor or care for the dying. At this point, the market mechanism fails, and hence capitalism also. Undiluted capitalism does not deliver public goods.

But recall our definition of "capital": "man-made goods set aside for future production", "land" is a separate entity.

To recognise land as distinct from capital provides a useful analytic tool, as it becomes possible to discern a further element in the economic systems of the



• Karl Marx

West, related to the institution of land ownership.

Although, in most countries, the use of land is governed by limitations such as planning control, the allocation of land is, broadly speaking, governed by the market. Farmers grow crops to suit their soil, and the most intensively used land is that in the centre of cities. To this extent, the market promotes the most efficient use of land as a productive resource.

It is the presence of a community which gives value to land. Whenever people occupy land in a settled manner, rent arises, because everyone recognises that some sites are better than others. In the past, some societies have managed to even out the differences by holding the land in common and allocating it so that everyone had portions of both the best land and the worst. A similar result might be achieved by

collecting all the rents and sharing them out equally among all the members of the community.

UNDER THE economic systems of the West, the rent of land is privately appropriated. This leads to a partial failure of the market mechanism when it becomes advantageous to hold land out of use speculatively, as if it were a commodity.

This deprives everyone of its use. A variety of harmful phenomena follow as a consequence: boom/slump cycles, periods of large-scale unemployment, low pay, scarcity of housing and great disparities in living standards.

Indeed, most of the problems of concentration of power and claims on wealth can be attributed to the private appropriation of the rent of land - all of the evils of what is termed "capitalism".

It is significant that the greatest poverty is to be found in those countries that possess the richest natural resources. Natural resources give rise to rent, and if this is privately appropriated, those who claim it are in a position of great economic power.

IT IS particularly unfortunate that Marx, in his critique of capitalism, considered land and capital as a single entity. This served to obscure the nature of the "capitalist" system.

Marx was then forced to aggregate the wages of supervision, interest and rent, and regard them all as "profit" - surplus value, the fruits of exploitation. From this source, there arose also the Marxist confusion over the rights of private ownership of property.

If the two elements of "capitalism" - free markets and the private appropriation of the rent of land - are separate and distinct, it is possible to envisage

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Soviet land reform realism

A NEW law which will allow individual citizens to lease land will prove to be one of the most far-reaching of the recent Soviet reforms.

The law, passed on Feb. 28 by the Soviet parliament, has been described as a "compromise". It will not allow explicit ownership.

Land will be granted to people who want to carry out small-scale farming, build a cottage or engage in a traditional craft-based industry.

People will be allowed to pass land on to their children, but they will not be allowed to break up their holdings.

Individuals will have to pay a land tax or rent, to be fixed by the parliaments of the republics according to the quality and size of the plot.

The details remain to be worked out, and news reports have said nothing about the possibility of individual holding of urban land. But in essence, the scheme is sound. Soviet politicians have shown a grasp of fundamental issues which Western politicians

and economists have consistently ignored.

The Soviet scheme acknowledges that individuals should have security of occupation, whilst accepting the principle that since the land belongs to the community, the value of the land - its rent - should be returned to the community.

As it stands, however, the scheme presents a major problem: without a market in land, how can the rents and taxes be set at a level which accurately reflects the value of each site?

Where sites are undervalued, there will be a tendency for an unofficial market to develop; where sites are overvalued, holdings will not be economically viable.

The lack of a free market in land might not be an insuperable problem if, at the outset, potential owners were invited to bid for land by some kind of auction system, and holdings subsequently given up were then offered for open tender.

The absence of an established

valuation profession in the Soviet Union is a problem. If the scheme is to function efficiently, a crash training programme is going to be required.

The new land laws could have a beneficial impact far beyond the boundaries of the Soviet Union. Sooner or later, private land holding, subject to payment of a tax or rent, will be extended to urban land.

Rent from these sources would then, before long, leave the Soviet government in a similar position to that of Hong Kong, which, deriving considerable revenues from its Crown leases, is able to allow capital and labour to operate under a low tax regime.

Has the Soviet Union, perhaps unwittingly, taken the first step towards turning itself into a tax haven? If this were to happen, the country would quickly become a magnet for capital and labour - to the extent that, to retain their competitive position, Western countries would be forced to take notice and follow suit.

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an economy organised to permit the first but not the second.

It would not be any kind of mixture of "capitalism" and "Marxism"; such a concoction would be rather like being slightly pregnant, because, in the final analysis, Marx's Labour Theory of Value allows no place for markets.

From what has been said, it should be clear that, so far as economic organisation is concerned, capital and production should be privately owned and controlled. Markets deliver the goods that people want, which include many things that bureaucrats can never even begin to imagine.

Yet the private appropriation of the rent of land is something

which ought not to be tolerated, because the rent of land is created by society as a whole. The community dimension must be applied to land, which, in reality, belongs to the people. "Landowning" is, in any case, no more than a "bundle of rights" and a legal fiction.

So far as economics is concerned, the most important of these rights is the landowners' claim on rent. In this connection, it is of interest that, in Britain, the Sovereign holds the land on behalf of the nation, and freeholders are precisely that: "holders".

Formal public ownership of land is not required to put matters to rights, since the important thing is what happens to the rent. As much of the rent as the community desires can be

collected through the tax system.

The rent of land could, indeed, be the main source of public revenue.

The allocation and use of land is, on the whole, probably best left to the market, with an effective planning system to enable the community to intervene as it desires - which is, in any case, much more easy to achieve if a system of land value taxation is in operation.

Moderate levels of land value taxation are levied in a number of countries, and experience indicates that the higher tax, the greater the benefit and the more widely distributed the economic opportunities. The Hong Kong system of Crown Leases has, to some extent, achieved a similar result and is a major reason why the colony has prospered.