‘The prestige accorded to modern economists, especially in politics and financial markets, shows that medieval alchemists were barking up the wrong tree. Base metals cannot be turned into gold by incantation, but people can get rich in financial markets and powerful in politics by propounding false theories or self-fulfilling prophesies.’

– George Soros

So how do the charlatans get away with it?

Virtual Economics & Closed Minds
EDITORIAL

Dreamland

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Russia's ex-premier backs land strategy
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HISTORICAL turning points are viewed either as revolutionary (Marxism) or social crises that need to be contained (Conservatism).

They might more usefully be characterised as synoptic moments. This draws attention to the public's need to engage in a debate about the nature of their predicaments, to fathom the direction in which they wish their communities to move.

Issues which are normally excluded from public discourse intrude into the collective consciousness. Notably, this is the case with respect to the vexed question of the ownership and use of land and natural resources. We should not be surprised, for the modern era has displayed an irrational determination to exclude a permanent solution to people's natural rights to land; so "the land question" must feature as an intrusive element in synoptic moments.

THE WORLD is currently in the midst of such a moment.

One of the architects of this moment is Mikhail Gorbachev, who as head of the Soviet Communist Party realised that "we couldn't go on living like this". He adds in his memoirs: "This understanding was the starting-point for everything. And one should not imagine it as a 'sudden revelation'. . . I won't claim that I entered my new office with a detailed action plan in my briefcase, but I had a pretty clear idea of the first steps to be taken."

Post-Cold War introspection exposed the flaws in the command economy. But capitalism was not to enjoy its triumph for long. Conventional market economics had no answer for the long-running disaster in Japan, the Asian implosion, the Russian collapse and this year's crisis in Brazil.

For most of the time, the people responsible for the market economy are not willing to acknowledge that the primary reason for the persistent failure of public policy is the unwillingness to accept that the market in land and natural resources is the major destabilising force.

We believe that the following statement could withstand the forensic examination of scholars: the primary constraint on civilisations over the past four millennia has been the diversion into private pockets of the net income that is needed to underwrite the full development of arts and sciences.

Culture has been impoverished because publicly created value - what we today call the rent of land and natural resources - is hijacked by a small number of people. The outcome has been the perversion of culture, the suppression of latent human potential and the contortion of societies into systems driven by the logic of conflict.

To preserve this disgraceful state of affairs, language and laws were fashioned to lull people into a semi-comatose state. Periodically, however, a fortuitous convergence of events drags people out of Dreamland and into the crystal clear pools of time that encourage deeper reflection.

IN THE PAST it was the political establishment - the landowning class - which curtailed discussions about property rights in land.

As a class, landowners no longer exercise direct power over the legal process. Nevertheless, late 20th century society is still not able to disentangle itself from the legacy of the 18th and 19th centuries.

But buried deep in our collective unconscious is the knowledge inherited from our primordial past. Once upon a time we did take for granted the right to enjoy the use of land. This use right was codified to ensure survival over tens of thousands of years of human evolution.

The principles of social fairness and ecological efficiency were embedded in the customs of the clans, before being betrayed with the onset of what we call civilisation.

The central challenge for reformers today lies in the excavation of those codes and their reformulation to meet the needs of people in the 21st century.

Manchester sociologist Simon Miller has noted the significance of synoptic moments. It is at these points in time that societies seek to modernise.
In the past, synoptic moments were allowed to glide into history without fulfilling people's expectations.

The opportunity of a substantive reconstruction of France in the 1790s was missed. Similarly, the Founding Fathers failed to construct a constitution consistent with the need for a sustainable society in the New World.

The past two centuries have seen valiant attempts as articulating the set of rights to land which corresponded to the new economy based on the factory mode of production. The most notable effort was in the British Isles (1880-1910). Hopes were dashed in every case.

But, if we learn the lessons, we can now redeem the past.

There are distinctive qualities about society at the turn into the 20th century, notably globalisation and the transformation of workplace practices initiated by the micro chip. But we should not be deceived by external appearances. The underlying realities remain constant. People need to work and eat; they need to occupy a space and they yearn to enjoy freedom without interference from others. They continue to harbour the psychic need to enjoy the landscape of their birth and to share in the rewards that come with participation in civic institutions.

The philosophers of the Enlightenment saw that the challenge was to correctly define the relationship between the individual and the community; and the individual and the environment. That challenge remains valid to this day.

- We still have to formulate the mechanism that enables every citizen to know that he and she has not been deprived of the equal right to enjoy the bounty of nature.
- We still have to define the terms under which both the individual and society may use the natural environment to fulfill current needs while preserving similar opportunities for future generations.

These issues will not be resolved until we determine the character of the society that we want. It is premature to dismiss visions as romantic just because they are articulated by marginalised groups who seek to define an agenda that challenges the interests of those who control the social system.

The rebellions of land rights activists remind us that existing laws are deficient.

The sacred documents tease the mothers of Africa and South America who cannot put enough food into the bellies of their children. Article 3 of the UN's Universal Declaration of Human Rights says that "Everyone has the right to life, liberty and security of person." This is a corruption of the natural rights philosophy formulated by John Locke who knew that life and liberty were "pre-civilised" peoples to evolve cultures in all their rich and resilient varieties.

It is incumbent on scholars to explore the past in order to provide a hard-headed assessment of the social processes that enabled "pre-civilised" peoples to evolve cultures in all their rich and resilient varieties.

Politicians must develop strategies for translating the eternal verities into the rules that would enable people to prosper within their confined space on earth. Romantic though they may appear from the slogans on their banners, the dispossessed will always be the first to recognise the moments in history when they can emerge from Dreamland to remind us that they have not abandoned their right to a place under the sun.
SCHOOLS of thought which divide economists reflect ideology rather than science.

In textbooks, economists say they search for scientifically valid truths about how income is created and distributed. They call this “positive economics”.

But despite the claim to objectivity, they have failed to develop practical tools to eliminate disturbances to the economy. Business crises are systemic breakdowns that cause widespread unemployment and prevent millions of people from working their way out of poverty.

Despite two centuries of development, economics as a social science is discredited in the eyes of the public. Policy-makers are boxed in by the boom/bust cycles, but they lack that independence of mind that would enable them to challenge the strictures from economic advisers. Although mega-salary economists in Wall Street and the City of London are treated in the media as gurus, governments cannot muster the wisdom to ensure sustainable growth.

So people are resigned to the culture of despair. We now expect the worst to happen; and build our lives around the mentality of siege and failure.

In the natural sciences, scholars embark on voyages of discovery. In economics, research fixates on failure, containment, the evil choices of trade-offs. This is not natural. Nor is it the progress that people want. How did it happen?

THE CRISIS in economics is regularly celebrated in books with titles like The Death of Economics. One insider’s account - by Alfred Malabre, Jr., economics editor of The Wall Street Journal - provides a wealth of documented evidence that justifies the cautious approach to pronouncements by economists.

One of the leading news journals - The Economist - devoted a cover story to what it called The puzzling failure of economics (Aug.23, 1997), which conceded that bad policies based on bad economics “remain too numerous to mention”.

Puzzling?

Fashionable schools of thought come and go, bequeathing a trail of ever-deeper mystification over something that ought to be easy to understand: a theoretical account of people’s everyday working lives. But instead of offering clarity, theoreticians embed themselves ever deeper into models that bear little relevance to what happens on Main Street. Economics has become so removed from reality that it is a discourse among initiates who have been inducted into the code of the Virtual Economy. As The Economist put it: “Economics is hard to teach well. To the uninitiated, its basic principles often seem surprising or odd”.

AS A RIGOROUS discipline, economics began in the 18th century with the philosophers of France.

Quarterly growth rate of US real GNP 1948-97

Their feet were firmly planted on the ground.

The Physiocrats knew that how wealth was produced, and how the income was shared, was no mystery. Their genius was in identifying the need for agreement over the role of the public sector. They sketched the rules that constituted the foundations of the holistic economy.

Adam Smith and other Scottish scholars joined the process of honing the concepts into analytical tools that classified the three factors of production - land, labour and capital. And they traced the appropriate policies for both the private and public sectors which, if adopted, would have produced a dynamic economy capable of withstanding external shocks and regaining stability.

The concept of equilibrium was central to the portrait of the economy that they articulated. There was no rational reason why people pursuing justice as well as workplace efficiency could not have adopted the policies that the classical economists identified to ensure a harmonious partnership between the public and private sectors.

It was not to be. The fault was not with economics, but politics. Branding the new discipline as the dismal science was the perverse displacement of responsibility by ideologists who declined to adopt the policies that logically flowed from the formative concepts of economics, particularly in the area of public finance. Resorting to smears against economics was the mark of the bad craftsman: someone who blames his tools rather than his skills. The outcome, in the 20th century, was the regressive deterioration in the relevance of economics to people’s everyday lives. The Age of Virtual Economics was upon us.

T HE EXPLOSIVE use of mathematics from 1944 did not help. But even the most distinguished practitioners were worried. Some of them warned the public.

Russian-born Wassily Leontief, who died last month, tried to alert the public. He had emigrated to the US where he refined the input-output method of analysing economics, for which he was to be awarded a Nobel prize in 1973. In his presidential address to the American Economic Association (AEA) in 1970 he warned that “the consistently indifferent performance in practical applications is in fact a symptom of a fundamental imbalance in the present state of our discipline”. Economics had been detached from its empirical foundations, and was becoming “speculative economic theory”.

Much theorising was reminiscent of the pre-scientific reasoning of the medieval scholars. They were preoccupied with abstruse problems like how many angels could dance on a pin-head.

Leontief reported “an uneasy feeling about the present state of our discipline” which had been growing among his colleagues, who “play the game with professional skill but have serious doubts about its rules”. Too many succumbed to the rewards offered by their university employers; segregating themselves from disciplines located in the real world - anthropology, sociology, demography.

The warning was not heeded. The deterioration continued until another mathematician, from the University of California, became president of the AEA. Gerard Debreu was awarded the Nobel prize for
in 1983 for incorporating new analytical methods into economic theory, and for his reformulation of the theory of general equilibrium. He, too, noted how economists trimmed to accommodate career prospects. Mathematical economics had grown to the point where the work was accessible only to those economists "who have access to the code".

The mystification served the interests of the exclusive sect, but did little to smooth the boom/bust cycles.

Maths turned economists into an intellectual elite. Ideology was allowed to intrude, Debreu conceded. Research by the mathematical economist was not driven by the needs of the real world. "The very choice of the questions to which he tries to find answers is influenced by his mathematical background."

Mathematics, as the medium, had become the message.

Failures were dramatic, such as the demise of a hedge fund in the US - Long-Term Capital Management - which had promoted its services on the backs of Myron Scholes and Robert Merton. They were awarded Nobel prizes in 1997 for their work on the management of risk in the financial markets. They were hired by LTCM, which then went on to lose $4.4 bn (£2.7 bn) last summer. The fund would have disappeared if it had not been rescued by a $3.5 bn bail-out organised by the New York banking system.

When economic theory collides with economic reality, reality wins every time.

ECONOMICS, claimed Prof. Debreu - unlike, say, physics - would never be able to develop a Grand Unified Theory.

On what basis could such a claim be made? Are people really so random in their behaviour, so detached from the harmonious regularities of nature, that it is impossible to unify human behaviour in an inclusive theory?

Paul Ormerod, who authored The Death of Economics, says unpredictability is an inherent part of people's behaviour. He has followed up his critique with what he hopes are constructive proposals for advancing his discipline. In Butterfly Economics, the former head of the Economic Assessment Unit of The Economist, and former Director of Economics at the Henley Centre for Forecasting, a prestigious British think-tank, Ormerod does not pull his punches. Charlatans, he calls many of the pundits who speak on behalf of financial institutions. And the flavour of the month - Real Business Cycle theory - attracts a fatal verdict: its models "completely fail to capture the key characteristics of the post-war business cycle in the United States" (see graph).

He does not try to retool economic theory. Instead, he embarks on an excursion into the food-eating habits of ants.

Understanding ants is treated as a short-cut to anticipating the "unforeseen adverse consequences" of humans, believes this former professor of economics at the Universities of London and Manchester.

One beneficiary of unpredictability - who prefers excursions into philosophy rather than the biology of ants - is George Soros. His quantum (a leap into Master of the Universe status - he is known as the man who once broke (well, nearly) the Bank of England - gives him access to the ears of presidents and prime ministers. He has now penned an instant analysis of the crisis of global capitalism, which includes a scathing attack on economists.

According to Soros, economic theory is dangerous because it still relies on the notion of equilibrium. There is no such thing. The problem, he says, is that we are locked into a psychotic state. "The behaviour of people, exactly because it is not governed by reality, is easily influenced by theories." This makes it impossible to use reason to anticipate behaviour.

But why are people dislocated from reality? Our ancestors would not have survived hundreds of thousands of years of evolutionary interaction with the natural environment if they had not developed the senses of reality. Collective unreality is a reversal of biological history. How did it happen? The search for the answer may be found in taxis and taxonomy.

Taxis is the skill of returning displaced parts to their natural place by means of manipulation. A surgeon who undertook this enterprise on a person's body without using the correct names of the limbs he was seeking to manipulate would soon get into trouble. He, and specialists engaged in all the other spheres of natural science, would hesitate to intervene in a working system without first calling....well, a spade a spade.

This identifies a distinguishing mark of economics. Economists tend to be cavalier in the use of their concepts. Taxonomy, the science of classifying phenomena, derives from the Greek word taxin - order. In economics, as everyone knows, disorder is the order of the day; and that is reflected in the concepts used by its practitioners, who are inconsistent in their application of what ought to be key words (such as inflation).

Most notably, modern economics has assumed that people exist in a disembodied (virtual) world of landlessness. The three factors of production identified by classical economists have been narrowed to two: labour and capital. That taxonomic sleight-of-hand was bound to yield a world of virtual reality, or what some excited theoreticians call the "weightless economy". How were people immobilized - detached from earth?

The physiocrats saw that, to liberate

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**BOX 1**

**Feet-on-the-ground Economics**

"Preoccupation with the standard of living of the rural population has led agricultural economists into collaboration with home economists and sociologists, that is, with social scientists of the 'softer' kind...demonstrating the effectiveness of a systematic combination of theoretical approach with detailed factual analysis".

This curious deviation from the historical trend needs to be explained. One possible explanation which warrants analysis: economists were not free to ignore the role of land in a sector where the resources of nature loomed large. The best statistics on land prices and rents are available in the agricultural sectors of all Western economies; such data is almost non-existent (in a usable form) for the commercial and industrial sectors.

So why this privileged empirical status? Agriculture extracts billions of dollars in subsidies from US taxpayers. Farmers are not dependent on consumers in the markets. Europe's Common Agricultural Policy directs 50% of the EU budget into farming. The average British family pays £1,500 to farmers in tax-financed subsidies. Who benefits? Not farm workers or the owners of capital equipment in agriculture, according to British farmer and Tory MP Sir Richard Body (a former chairman of the House of Commons Select Committee on Agriculture). The subsidies are converted into higher land values.

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Land & Liberty Spring 1999
LAUCHLIN CURRIE was an early advocate of treating housing as a “leading sector” in the advance of under-developed economies. This was a rational proposal that was vulnerable to one fatal consequence: success incubates a self-destructing mechanism.

Under the property laws and tax regime employed by market economies, accelerated growth in construction encourages speculation in land to the point where growing incomes are channelled into the creation of a real estate bubble, which is foredoomed to implode and shatter the economy.

The negative impact of the land market is excluded from computation by economists, but there is no mystery about the theory. Lauchlin Currie described the problem in a background paper which he prepared for Habitat, the UN Conference on Human Settlements, in 1976. He wrote: “It is a striking example of our economic illiteracy that we have more or less quietly acquiesced in the private appropriation of socially created gains, letting fortunate owners and their heirs levy tribute or claim a share of the national income to which they have contributed nothing”.

The case for capturing “all or a large portion of the pure monopoly gain of rising urban land has been impaired by failure to distinguish between land and capital in general, between land and building, and between the rise reflecting inflation and that traceable to pure scarcity”.

Currie proposed the capture of 75% of the stream of income going to land for reinvestment in public infrastructure to support the private sector’s capacity to produce wealth. This fiscal policy follows logically from pure theory. Currie noted that capturing rental income does not distort the use to which land is put: it is the neutral tool for raising public revenue and for disciplining the land market to serve the interests of everyone. Without this policy, as happened in Bogota, Colombia, urban expansion generates huge increases in land values which “will largely accure to a relatively few and be a prolific source of large fortunes”.

By treating rent as public revenue the state plays its part in providing incentives to work and a balanced growth in the urban environment, including a reduction in the costs of commuting and the conservation of green fields.

The policy was also necessary on moral grounds. Currie explained: “The rise in land values (and, to a small extent, building) that results from the growth in numbers and income of a community is a reflection of pure scarcity. It arises from the community and should belong to the community. It does not in any way arise from the work or saving of an individual owner and does not provide any incentive to work or save, since the supply of land is fixed.”* 


A macro-economic failures: government failure to collect rents generated by public investment influences investment in favour of land speculation, which prices entrepreneurs out of business. This explains why governments could not maintain equilibrium in the 19th century industrial economy: they pursued policies that had the opposite effect! Even so, the theoretical concepts were related to the real world. People were located on land, and they used their labour in conjunction with capital to produce wealth. All policy options remained open.

Then, at the beginning of the 20th century, something remarkable happened: economics was systematically detached from reality.

An explanation has been advanced by a professor of economics from the University of California. Mason Gaffney argues that the neo-classical school took root to neutralise the progressive politicians who were making a serious attempt to capture socially-created rent for the public purse. One technique used by leading economists in the US and Britain was to vaporize the concept of land: it was subsumed into the category of capital, done away with as a special factor with its distinctive internal logic. This closing of people’s minds helped to ensure that publicly-created rent remained in private pockets.

If Gaffney’s thesis is correct, modern economists may have a lot to answer for. Are they prevented from wrapping their subject-matter into a unified theory because of the recalcitrance of unpredictable people? Or because of a wilful failure to conform to the requirements of empirical science?

Consistent with Gaffney’s thesis, we need to note the curious exception to the regressive detachment of economics from reality. According to Nobel laureate Leontief, agricultural economists continued to locate their work in the real world (see Box 1, p.5).

The neo-classical school dominated the first half of the 20th century. Helpless governments were perplexed by the Great Depression of the ‘30s, but economics was not to blame. Economists could propose policies for rescuing the markets. The fate that befell one of them illuminates the way universities supported by grants from the major rent-appropriators manipulated the social science for private benefit.

Canadian-born Lauchlin Currie (1902-94) argued that, by applying scientifically valid principles, it was possible to fashion tools that would help government to haul the US out of the depression. The price he paid for his independent turn of mind was high. Currie lost favour at Harvard University, where he was teaching, because he proposed an increase in public spending. He was to be rescued by his competence as an economist. He moved to Washington, where he was to become the architect of the Federal Reserve Bank as the first true central bank of the US. He was also to become the first professional economic advisor to the White House: he was appointed by Franklin D. Roosevelt in 1939. He played a leading role in the Lend-Lease programme to China during the Second World War, but fell victim to McCarthyism when he was falsely accused of being a Soviet spy.

Currie devoted the last 40 years of his life to helping developing countries. One of his
Russia’s economists have had a taste of how economics as a social science can fall foul of high politics in the West.

The story started with the publication in Moscow of Reforms as seen by American and Russian Scientists (1996). The editor was an elder statesmen of the Academy of Sciences, Prof. Oleg Bogomolov. The book critically examined the early Yeltsin years and signposted some new directions for an experiment that was going painfully wrong.

The book was a hit with the governors of Russia’s regions. They decided to foster public debate by launching the book in the Council of the Federation (parliament’s upper house). They wanted as their guests the eminent contributors from America, including the winners of Nobel prizes whose expertise could help to formulate new policies.

The professor designated to invite the US authors was Alexandr D. Nekipelov, co-ordinator of the Russian side of the Economic Transition Group. He told Land & Liberty: “I contacted the most eminent members of the group, James Tobin, Kenneth Arrow, Robert Solow and Lawrence Klein.

“I explained to them the possibility of the meeting and that they were invited to come to Moscow. They all answered positively. We fixed the approximate date in March or April 1997 and we collected funds. An excellent programme was compiled.

“Then, suddenly, when everything was nearly ready, we began to receive messages from our American counterparts that the situation had changed and they couldn’t participate. Some mentioned they had obligations in universities. But then we received information, which I checked out, that when the book was issued in 1996 we published a declaration by all the authors in a newspaper which the President’s team was not happy about. Some publications treated this declaration as support for the Communists, though it was not, of course”.

Professor Nekipelov was informed that Boris Yeltsin’s privatisation supremo, Anatoly Chubais, contacted Lawrence Summers, the US Government’s Deputy Treasury Secretary with special responsibility for economic relations with Russia. He is Kenneth Arrow’s son-in-law. “Mr. Summers called his father-in-law to say it was not a good thing to participate in this event. The reaction from Kenneth Arrow was strong, that he would participate, but then they were somehow told they should not. So they had to obey, as we understood it. They were not happy to admit this. They said they were called, but declined to come to Moscow for other reasons,” recalled Professor Nekipelov.

He was able to confront Dr. Klein and Dr. Tobin at a conference in Boston in December 1997. “They felt uneasy about what happened and tried to convince me that this was just a coincidence. They didn’t deny that they were called and asked not to come, but they tried to convince me that this was not the only reason.

“It is interesting that we had an agreement to pay all their expenses, but they all later found reasons to cancel. Tobin had originally said he would like to come if his wife was also invited, because he was not a young man. We resolved this problem. And then he said it was too difficult for him to travel.”

The pull-out of the Nobel laureates ruined the launch of the book and damaged the Russian economists’ reputation with their sponsors in Moscow.

Chubais was relieved. The US economists did not turn up to lend their authoritative support for the dissenting Russian economists, which would have embarrassed President Yeltsin. The Kremlin team continued to control the terms of the economic debate, which favoured a monetarist strategy. That policy was bankrupting the government, enriching the Mafia and resulted in the debt default in August 1998.

Chubais was the key player during the wild years of asset privatisation. Among those with whom he worked was financier George Soros, who wrote about his association with Chubais in his new book. Soros was part of a consortium bidding to buy a state enterprise. One of Moscow’s financial “oligarchs”, Boris Berezovsky, felt he had sweetened his way to the purchase of the enterprise at a knock-down price. Soros won. In his anger, Berezovsky threatened to spill the beans about his deals with the Kremlin. This “vicious quarrel damaged Chubais, who had acted as campaign manager for Yeltsin and had received illegal payments from the oligarchs, which were now disclosed”, Soros reports.

Most important contributions was to identify the net income-increasing impact of government expenditures and revenues, and how to assess the role of balanced budgets in economic development. He originally outlined this theme to the AEA in 1936. The strategy was governed by two golden principles:

1. Government must focus spending programmes on projects that increased people’s private incomes.
2. Government must employ methods of raising public revenue which did not decrease people’s incomes.

These twin disciplines, properly applied, would liberate the private economy by achieving two results:

- Maximising the public contribution to the private creation of wealth, and
- Minimising or neutralising the damage inflicted by taxes. The second rule would also prevent the collateral damage caused by the privatisation of rent.

Currie, in other words, wanted to take economics back to its classical roots; but to put the policies into action, he had to go into exile in Colombia (story: p.6).

Economics as conceived by the classical theorists was elegant to the scientist and accessible to laymen. But it suffered from one defect: it challenged the basis of private power - land monopoly - which was intertwined with public power.

By explaining that the market economy worked most efficiently if public finance was drawn from the publicly-created rents of land and natural resources, the classical economists were throwing down the gauntlet to the class that enjoyed the privileges of a leisureed life.

This put economics as a social science at odds with the centres of political power. One, or the other, had to admit defeat. Economics lost. Examples of how this defeat manifest themselves in the world every day are not difficult to find: one example is the way in which the US government saw fit to interfere with the advice...
Economic prediction and the Asian crisis

Ron Ward

The Oracle at Delphi had stores of wealth from Greek states. A sort of world bank of the day, maintained by mystical figures providing advice which it was considered very unwise to ignore. Entails examination and astrology were used in the West in classical times. I am told that the last university course on astrology was dropped in the West only in the middle of the last century. Astrology is still used by many people in the West only in the middle of the last century. Astrology is still used by many people.

Prediction is also part of the scientific method. Hypotheses are tested by predicting outcomes of experiments. Failure usually means you have to rethink your hypotheses. In the observational science of astronomy, prediction of the motions of planets was possible from early on, but the theory and mathematics of that form of prediction has, since it was accepted that the earth rotates round the sun, been much simplified. The Ockham's razor principle is applied.¹

The hypotheses behind the predictions of economic events have not been as ruthlessly discarded, revised or simplified. This “softness” has resulted in a proliferation of theories in which any failure is justified by the unforeseeable intervention of rogue forces. A typical recent example is the Asian crisis and its domino effect on non-Asian nations.

In early July 1998 there was a growing realisation expressed by economists, journalists and politicians that the consequences for New Zealand of what had been seen earlier as a major catastrophe for a minor trading partner, were to be much worse than those predicted.²

The Treasury was accused of taking a rather haughty attitude to the research. Budget estimates of Treasury were found to be considerably in error. Resignations were asked for, but ministers, the Reserve Bank and some economists defended the Treasury on the grounds that it used generally accepted methods which could not have foreseen the outcome. In an article in the influential N.Z. Herald (7 July 1998), respected economist Brian Easton cut through the heavy political veil covering the issue and made two telling comments on the state of economic prediction: “All forecasters work from incomplete and inaccurate data, even if by the time the data reaches the newspapers and politicians it is treated as perfect...Yet we cannot entirely discount Treasury responsibility for the forecasting problems. But it is not the Treasury Dr Bollard heads.³ Over a decade ago the Treasury and the Reserve Bank cut back on the public funding of macro-economic research (especially to anyone who disagreed with them). The result has been a steady deterioration in the economic profession’s competence to forecast the economy.”

Can’t we devise reliable quantitative or even qualitative early warnings of events like the Asian crisis? One hypothesis postulates that land values are a good indicator of macro-economic trends, and a number of people are working in several countries to generate econometric methods to demonstrate the seminal position of land prices in recessions and depressions. Their work would be much easier if nations published each year a national indicator of their land values (LVs).⁴ That does not mean that all other statistical measures relating to predicting the economy would be redundant. Events generated by observable poor government (which is in theory controllable and predictable) will never be the only force in economic well-being; nature itself is not used to treating humanity as its sole concern.

New Zealand has published national LVs for the last century. It would be useful to know the reason.

The complicated, litigious and inefficient English system of land transfer contributed to the search for a better way of doing things in New Zealand.⁵ The outcome was the Torrens system, devised in Australia and adopted in New Zealand in 1870⁶ and also in Canada and several parts of United States. That resulted in clearly separated guaranteed titles for each land holding. This was very helpful in identifying those responsible for land taxes. In New Zealand there has until recently been a long history of political interest in LV taxation and “unimproved” LV rating (local taxation).⁷ To implement such taxes, at each change of ownership, sale or exchange, prices were required as part of change of ownership registration. The sales data was used by the government’s valuers to assist in the assessment of value for taxes. Since the perception of taxes is no longer in terms of economic incentive (though the economic disincentive of some are still commented on from time to time) Land Tax at the national level has been dropped. Only local rating systems retained a significant element of land value taxation.

This means that, until recently, comprehensive LV data was on a computer and could be aggregated with relative ease. The future is another story because the job of valuation is now being devolved to local authorities who may use other agencies to carry out the valuations formerly done by Valuation Dept.

As capital value (CV=Land and development) rating was, with little justification, recommended for all reconstituted local governments recently, the need for separate LV is in question for many local authorities. Some local governments have remained with LV rating; a few others also did not accept CV as suitable for their areas, but the remainder merely followed the misguided direction of a local authority commission that ignored the original rating systems that had been accepted by referenda of the past.⁸

In order to publish a national annual figure, the periodicity of valuations carried out in any individual Valuation District (at least every five years in NZ, but public opinion requiring yearly assessments is loud) results in the need to make interim estimates of value movements for valuation districts that were not assessed in any reference year. This is called “equalisation.”

Technically, a “land price index” which is often thought to be the answer to our problem is not an easy matter to construct. Price indexes work with full market transaction prices collected over a period of about six months. Many ownership changes are not the result of full market sales and can not be used.⁹ A necessary and significant degree of geographical stratification creates further problems. Even worse, the quality mix of land sold in any six-
month period will not necessarily match that in subsequent periods.

One of the solutions (in NZ) uses price/valuation ratios. There are lots of assumptions required in using such methods which increase the overall error of estimates. Rental equivalent methods are adopted in other countries as a means of assessing value or price changes, but (for example) fluctuations in the percentage of rentals in the total market and the difficulty of defining a market rental as well as the high number of changes in the rental population itself make the system hideously complex, expensive and crude in the extreme.

Real estate agents often produce comment on the state of the market; their market. There are several obvious reasons why, even if they had comprehensive and recent sales data as a basis for their analysis, this could not form a reliable indicator for prediction of the economy in general. You may need to think about this, but for the sake of brevity I will comment no further on this line of investigation.

Investigators should evaluate what useful data may exist in other countries. Too much work carried out has had to make do with data that has had to be massaged to such a degree that the assumptions made along the way become the target for internal and external scepticism.

Statistical agencies should be targeted: ask them to produce data they may otherwise fail to publish, because they are unaware of any market for it. My own experience is that, particularly in larger countries, the costs may

**‘Land values are a good indicator of macro-economic trends’**

sometimes prove quite reasonable, providing the data finds an identifiable and sufficiently wide group of users, or at least well funded ones. The shifting of research expenditure from the mathematical phase to the statistical phase will not only reduce the overall costs, it will make the results comprehensible to the non-mathematician.

The graph traces New Zealand land values based on the so-called “gross equalised” figures. Gross, because they include the value of land which was in the past exempt from local and national taxes (eg national parks). Without a similar set of timely data from a country’s trading partners may it still be difficult to predict events like the Asian crisis?

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**Virtual Economics**

- continued from page 7

does The Economist, which is puzzled by the failure of economics, manage to smother its subject by trying to intimidate those who favour rational public finance.

THE FLAW, it appears, is not with economics as a social science, or the diversity of human behaviour. The problem is with the pervasity of government policy and the refusal to re-root economic thinking.

Intractable problems that defeat governments stem from laws and institutions that cause poverty, homelessness and social degradation. Governments have the power to alter laws and reshape the institutions. They consistently fail to do so. Determined intervention by an informed public is required.

Social reformers need a theory of government malpractice. One index would be based on public finance, over which governments exercise absolute control. When the rent of land is not claimed in return for the provision of public services, government is derelict in its duty. For by not charging rent, governments allow individuals to pocket a flow of income that they do not create.

The costs of this negligence can be measured. Government invades private incomes. This burdensome taxation costs US citizens more than $1 trillion a year in lost output of goods and services. Britain loses more than £430 billion every year, according to the calculations of two US economists, Nicolaus Tideman and Florenz Plassmann.

Such evidence helps to formulate an empirical theory of government malpractice as an institutionalised process. By indicting government in the course of democratic debate, people are re-engaged with the real-world solutions to problems that have defeated Virtual Economics.

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THE THIRD annual general meeting of the Highland Land League at Briar Bridge in 1886 saw representatives arrive from Cornwall and Wales to join the Scots in demanding a major change in favour of the landless and dispossessed. Co-operation between Parnellite Irish Land Leaguers and the visit to Skye of Michael Davitt had cemented a belief in land reform and Home Rule and a pan-Celtic mindset on land issues.

But one of the agitators who had pioneered Scottish Irish understanding was absent. John Murdoch's *Highlander* newspaper had staggered from financial crisis to crisis from 1873 to 1880. His work as a gauger, or exciseman, in Ulster, Lancashire and Scotland had opened the way to a Celtic Alliance. He had adopted a more radical approach by chairing and organising the campaign for the Single Tax, a land tax which was promoted by Henry George, the American land reformer, in 1884. Relations with the Land League deteriorated even before the compromise Crofting Act was passed in 1886, in the parliament which brought down Gladstone over the first Irish Home Rule Bill.

However, the resonance of Murdoch's idea directly affects the land reform debate in Scotland today, and as small nations search for ways to protect themselves and strong local markets in a world of uncertain global forces, we should look anew at land taxation as a way to control the unearned income of landowners of whatever origin.

Back to Henry George *The Oxford History of England* soberly noted the progression of ideas in the 1880s as part of the awakening of socialism to confront the dominant age of imperialism. This progression, wrote R.C.K. Ensor, "started as a rule from Henry George's *Progress and Poverty*. George was not a socialist, but an American land reformer; his gospel was the Single Tax. But upon his catch-word unearned increment, much more than on Marx's surplus value, the thinking of the English socialist movement was based."¹

Indeed, the land value tax (LVT) which George proposed was to produce the most thorough challenge to orthodox views of taxation on income and wealth. It led to legislation setting out rateable values for Britain as part of the great Liberal reforms which came to grief under the coalition government that was increasingly dominated by the Tories after 1916.

Nevertheless, both Liberal and Labour traditions championed LVT or its local government alter ego, site value rating (SVR), into the 1930s before another totalitarian war introduced the Welfare State. This was only a palliative financed by taxation and social security deductions from wages and salaries, which aimed to remove the worst features of poverty.

Marxists quickly criticised "the fallacies of Henry George's programme as obvious", for "the levying of ransom on capitalists is possible only so long as they are willing and able to pay".²

However, these fallacies are far from obvious or proven in today's free market capitalist triumph over authoritarian socialism, which has created the global market. Neither meets the social, economic or environmental needs of the majority. So we should fast rewind the progression of political ideas to review the missed opportunities of the land value tax and other taxes which do not penalise work.

Misrepresentation as a rule Henry George was a land reformer. His arrival in Glasgow on February 25 1884 was slap bang in the middle of the great Highland land agitation.

A year when the Highland Land League was formed in London and after George's meeting in Glasgow, which was chaired by John Murdoch, the Georgist Scottish Land Restoration League was also formed.

Murdoch, prior to 1880 one of the few land agitators north of the Border, had published from 1873 till 1880 his cash strapped newspaper...
ign to unite the Celts
its association with land taxation, writes Rob Gibson

The Highlander. His firsthand experience of the Irish national movement’s championship of land reform led him to encourage his compatriot Gaels in Scotland to link radical land reform and home rule. Yet his ideas were far more advanced and less popular than the demand for a Scottish equivalent of the successful Irish Land Act of 1880 which enshrined the three Fs (fair rent, free sale or fair compensation and fixity of tenure) in the programme of the Highland Land League.

From our point of view a century later, where Scottish land reform has once again a Highland cutting edge, we have been ill-served in judging Henry George’s ideas by historical analysis of both the crofting communities’ and labour movement’s struggles. With the new appointment of James Hunter to chair Highlands and Islands Enterprise, we need to check out an unwitting misrepresentation of George and his ideas in Scottish history.

James Hunter, in his essay on the Politics of Highland Land Law Reform 1873 - 1895, wrote that “The [Highland Land] league had no connection with organised labour and was intensely suspicious of the quasi-socialist or Georgist solution to the land problem canvassed by groups like the Scottish Land Restoration League …dedicated to the state ownership of land” (sic).3

Two years later, he made a single reference to Henry George in The Making of the Crofting Community. George was portrayed as “the American propagandist to land nationalisation seemed the obvious panacea for all social and economic ills”.4 There is no reference to Progress and Poverty in its extensive bibliography.

In 1986 Hunter returned to the subject in his essay in which he introduced the writings of John Murdoch. He noted Murdoch’s opinion that the Irish farmer and the Highland crofter should be in the position to make good their traditional claims to the land on which they lived, and he continued:

These convictions, which were shared with Michael Davitt, led Murdoch to identify himself increasingly with ideas developed by the American social theorist and political reformer, Henry George - whose contention was that all inequalities in wealth and opportunity could be traced to the fact that the ownership of land, humanity’s basic resource, was concentrated in the hands of a small but highly privileged minority. George’s views were to influence a whole generation of late nineteenth century and early twentieth century radicals and socialists.5

Hunter’s interpretation was echoed in the work by socialist historian James D. Young, who wrote in his Roaring of the Scottish Working Class that George’s “agitation for the nationalisation of land had an explosive impact on Scottish politics”.6 So between the prime historian of land reform and the firebrand champion of the Scottish working class, the significance of Henry George was less than fully understood.

Hunter had previously noted that the Scottish Land Restoration League attacked the Highland Land League’s policy as “a miserable, unscientific compromise” with landlordism, while the league dismissed land nationalisation as “a delusion, an impossibility”.7

Harnessing unearned increment The recent republication of William Ogilvy’s essay, which was written secretly in 1782 in an era of Tory repression, re-emphasises a major Scottish philosophical contribution to the philosophy of land value taxation.8 Yet this tradition had been virtually wiped out of the contemporary debate on land reform. While the LVT Campaign and the Green Party soldiered on in the 1960s, it was the property boom in the late 1980s which encouraged Liberal Democrat leader Paddy Ashdown to review site value rating.

The SNP’s Scottish Land Commission noted the force of financial incentives and penalties in the context of land taxation in its 1996 report. A series of conferences such as the annual John MacEwen Memorial Lecture and the 1998 New Labour government consultation Land Reform - Identifying the Problems, have all rekindled the LVT flame.

Ironically, John MacEwen did stand for land nationalisation with unequivocal fervour, but the tide is now running in favour of a revival of LVT, supported by evidence from the long-term and successful application of SVR in Denmark, South Africa, some Australian states and in a number of cities in Pennsylvania, USA with beneficial results.

Scottish democracy Today, the major difference with the debate earlier this century is two-fold: first, the instability of the global market, second, the increasing global warming which the Rio and Kyoto environmental conferences have belatedly addressed.

At the Scottish level, the election of the first Scottish Parliament for nearly 300 years makes tax and land reform a strong possibility. Other European examples such as Sweden suggest that up to 95% of local spending can be collected locally with the resultant local job creation and local accountability of councillors a major bonus. It is high time such an analysis was conducted in Scotland, since the SNP and LibDem parties both believe in stronger local government delivering more local services. Indeed, the SNP is committed to the constitutional principles of autonomy for local government and a power of general competence. The possible replacement of Council Tax with LVT must be seriously addressed.

The time is ripe for LVT. It is not only fundamentally just, it could mean smaller tax bills, less bureaucracy and a more efficient land market which outlaws land hoarding in towns and countryside. The public charge on rent is fair (based on the capacity to pay), difficult to avoid, and it promotes sustainable economic development.

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- Henry George

Land & Liberty Spring 1999
Tax roulette challenged by Primakov

- Boris Yeltsin’s economic reforms crashed with the rouble in August 1998. This saw the return to favour of academic economists who proposed a radical tax reform which favours investment in productive activity instead of wheeling-dealing on the money markets.

The tax reform proposed in Russia on December 16 involves reducing the profits tax, the payroll tax, and the value added tax, and increasing the taxes on land and natural resources, which are beneficial or at least potentially beneficial taxes.

Measuring the impact is a complex challenge, partly because the net effect on revenue is uncertain. If government revenue falls while spending remains unchanged, it is possible that more money will be printed, leading to additional inflation.

Government revenue depends on the mix of taxes, the output of the economy, and the extent of tax compliance. It may be possible to secure greater tax compliance, but one of the consequences will be reduced incentives to produce. Widespread tax cheating imposes special costs. When widespread, only those who are willing and able to cheat are able to survive in business. This limits the field of potential business owners. I have not undertaken a quantitative analysis of these complexities.

I have analyzed the proposed changes in tax rates as if they were the taxes that people will actually pay. I assume that, as of January 1, 1999, the following tax changes will occur:

- Profits tax will fall from 35% to 30%.
- Value-added tax will fall from 15%, and to 10% a year later.
- Payroll tax will fall from 39.5% to 31.5%.
- Land taxes will double from 2% to 4%, and natural resource taxes will double as well.

Based on published data, I assume that land and natural resource taxes currently take 9.47% of the income from these assets. I assume that the property tax takes 4.84% of asset income and will remain unchanged. I assume that excise taxes take 5.85% of personal income, that customs duties take 1.56% of personal income, and that these tax rates will remain unchanged. I estimate that the average recipient of labour income pays an income tax rate of 16.8% on an additional dollar of income, while the average recipient of income from land or capital pays a rate of 31.8% on an additional dollar of income. I also assume that special incentives for investment shelter one-third of the income from new investments, from profits taxes, property taxes, and income taxes.

To estimate the economic consequences, I combine the taxes to determine the typical percentage of an additional dollar of income that goes to taxes (the marginal tax rate). I do this separately for labour income, capital income, and income from the possession of land. I also take note of the total tax rate on holding land, as a percentage of the income from land.

The Effect of Tax Reform on Output

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<td>Payroll tax</td>
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<tr>
<td>Land taxes</td>
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When the tax reform is complete, the overall marginal tax rate will have fallen from 68.6% to 67.3% for land income, from 51.6% to 45.1% for capital income, and from 50.6% to 43.1% for labour income. The tax on holding land will have increased from 14.3% to 23.8% of the income from land.

The increase in the tax on land and natural resources will make it more expensive for people to possess these resources without using them, resulting in the use of more land.

As a result of improving technology, wages will rise over time even without reform, and this will induce people to work slightly more each year. But the reduction in taxes on labour income will have a much greater effect. I estimate that, by 2001, the amount of labour used in production will increase by 6.7%.

The reduction in taxes on capital income will induce people to save more. By 2001, the proposed tax reform will cause an 18.2% increase in the amount of saving. The amount of capital in the economy will increase over time because of saving, but it will increase more rapidly when people save more. The tax reform will cause the rate of growth of the capital stock to increase from 1.7% per year to 2.0%.

The projected effect on total output is shown in the figure. I estimate that in 2001, the gross domestic product of the Russian economy will be greater by $24.7 billion, or 5.3% of what it would be without reform.

To the increase in output is not a true measure of the value of tax reform. It omits four consequences.

- To produce more, people must work harder, the cost of which must be subtracted. In 2001, this cost will be $6.5 billion.
- Additional production will cause additional depreciation of capital ($3.3 billion).
- The reduction in taxes on capital income increases the value that people receive from saving. This additional value ($12.5 billion) must be included.
- It appears that the reform will result in a significant reduction in government revenue. It is possible that this apparent reduction will be offset by measures that produce improved tax compliance. Or it might be offset by a reduction in the size of the public sector. Or it might be offset by printing additional currency, with resulting inflation, or offset by some combination of these. I have not accounted for the cost of reduced government revenue.

These four consequences can be added together to form the “excess burden of taxation.” This is a name that public finance economists give to the harm that is caused by taxation. The reduction in excess burden is a summary measure of the benefit of the proposed reform, apart from its effect in reducing government revenue. Combining my estimates of the effects of tax reform on output, work effort, depreciation, and the value of savings, I estimate that in 2001 the tax reform will reduce the excess burden of taxation by $27.4 billion.
Exposure of the "virtual" economy

RUSSIA's top academic economist, Dr. Dmitry Lvov, flew to London to explain how the new government of Prime Minister Yevgeny Primakov planned to rescue the country from its financial crisis.

Dr. Lvov is one of the architects of a plan to reduce taxes on labour and capital and to replace the revenue with rental charges on land and natural resources. In December, as he was briefing economists in Britain, the Duma in Moscow pushed through cuts on profits and payroll taxes and doubled the Land Tax from 2% to 4%.

In a lecture at the London Business School, Dr. Lvov attacked Russia's 30 Federal taxes and 170 local and regional taxes administered by an army of 180,000 tax officials. Based on the tax burden on labour, employees were supposed to have contributed 70% to GDP in 1996. Capital contributed 17%, and according to the low charges on rental income, land and natural resources contributed a mere 13% to the nation's wealth.

In fact, land and natural resources were responsible for three-quarters of GDP. Logically, argued Dr. Lvov, who is Academician-Secretary of the Economics Department of the Russian Academy of Sciences, the burden of public finance should be on the flow of rental income. And this is the logic of tax changes now being proposed by Premier Primakov, despite the strenuous opposition from the International Monetary Fund - which does not want Russia to cut VAT.

At Parliamentary Hearings in the State Duma in Moscow on January 19, Dr Lvov forcefully restated his case. According to the Academy's estimates, the net income of Russia was $80-85 bn a year. "At the same time we are waiting, yearning for some credit facility which is much less than this amount, and we cannot pay our debts. But if our calculations are correct, there are enough resources to carry out the transformation of the Russian economy."

Why, he asked, did Russia owe foreign lenders $150 bn when it could pay its way? The problem was that official policy failed to recognise that the bulk of income potential was from land and natural resources.

"We don't understand what the real economy is that we are dealing with. If most of the income is rent, why, today, is 70% of all budget revenue derived from salaries and wages? The most exploited factor is labour. How can you tax an income which doesn't create much income for the country?"

"The natural component is not taken into account," said Dr Lvov. "The main flow of income is outside the system of accounting and management. This flow is from gas, oil, timber, rent payments in big cities, especially in Moscow, and the criminal world exports this revenue from the country." Since all of this rental income is ignored, said Dr Lvov, what emerges in the official version is "a virtual image of our economy." Therefore, the tax base should be shifted away from wages and profits. "I support putting the rental component the main income of Russia. It is important to change the system of financing. The burden of taxation should be on the rental component." Rent, he insisted, could constitute "the bulk of the revenue for the budget."

RUSSIA continues to need Western support, but until the beginning of January Western plans were coloured by the suspicion that the former spymaster who had now effectively taken over the reins of power from Boris Yeltsin was hankering after a return to the planned economy.

Dr. Lvov's visit to London helped to demolish some myths. He participated in a private briefing for Whitehall economists from the Treasury, Foreign Office and Cabinet Office. They were impressed.

But educating Western governments would not be quick or easy. Dr. Lvov grasped an opportunity that arose when he was invited to meet Prince Michael of Kent, who is Patron of the Russo-British Chamber of Commerce. The Prince asked the academicians to suggest action which he could initiate. Dr. Lvov suggested a roundtable conference to afford the Primakov team the chance to enlighten Western governments on the economic philosophy that was now being developed in Moscow. Prince Michael agreed to consider the proposal.

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**PHYSIOCRAT MODEL OPTION IGNORED**

THE PHYSIOCRATIC tradition of public finance - basing revenue on the rental income of land - is known to Mario Nuti, Professor of Comparative Economic Systems at the University of Rome. He is also Director of Research at the CIS Russian Studies, London Business School.

But a fiscal driven recovery is not one of the options that he perceives for Russia. According to Nuti, Russia faces two options. *

- Populist government expenditures with inflation or a fiscal deficit; government by decree; no more privatisations and discouraged foreign investment.
- Government inaction leading to a pre-capitalist system in which the economy recovers after a large-scale recession.

Professor Nuti adds as an afterthought: "Another scenario, of a rapid and orderly resumption of fiscal and monetary restraint, the completion of economic reforms (e.g. tax reform, land ownership, plant closures), the resolution of constitutional and political uncertainties, is at present so remote as to belong to a world of fantasy."

Even as he offered this pessimistic analysis, Premier Yevgeny Primakov was gathering around him in Moscow economists who identified a third scenario - based on the Physiocratic principles - which was escaping Western observers like Professor Nuti. 

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THE TINY Cayman Islands in the West Indies is championing the right to employ tax policies of its choosing in a David and Goliath battle with the giant nations, writes Fred Harrison.

The OECD countries want to curb what they call “unfair competition”, and they brand the Cayman Islands as a tax haven because it does not tax people’s incomes. Not surprisingly, it does a roaring trade in financial services. Money is attracted from high-tax regimes. This has annoyed North American and European governments, who have banded together to try and straitjacket the deviant low-tax economies.

This has led to curiously contradictory positions held by the British government.

Q It is pressuring the havens within its domain - the Channel Islands of Jersey and Guernsey - to toe the UK fiscal line.

Q But Chancellor of the Exchequer Gordon Brown has read the riot act to Germany, which is exploiting the tax harmonisation theme to try and force increases in corporation taxes in other EU countries.

Germany wants to shift taxes off labour and on to capital, but the overall effect would be an increase in the tax burden. Mr. Brown warned that he would use the veto, “As far as Britain is concerned, tax policy is made in Britain not in Europe. It is by cutting taxes, not raising them, that is the way forward to create jobs.”

FINANCE minister Oskar Lafontaine is using Germany’s presidency of the EU to try and standardise tax rates. One target is the relatively lower tax regime in Ireland. The debate is confused by the use of value-laden words which do not necessarily correspond to the consequences of intended actions. For example, the harmonisers say they want “to avoid harmful tax competition”.

But who is being harmed? When it comes to national interest, the meaning of words become plastic. Take, for example, the statement offered by The Financial Times in an editorial on November 24. It acknowledged the need to eliminate distortions in tax policy, and then stated: “But where a country chooses to have a different tax structure from its neighbours, because it is considered more equitable or more efficient, that cannot be regarded as unfair competition. It is perfectly legitimate”.

This definition invites a consideration of what constitutes a fair and efficient tax. Unfortunately, government advisors do not engage in an open review of all the options in the quest for harmony in tax policy.

TAX EXPERT Mason Gaffney, a professor of economics at the University of California, flew to the Cayman Islands to debunk the rhetoric employed by the tax harmonisers. He warned a packed meeting of the Society of Trust and Estate Practitioners: “When a powerful international political organisation officially brands you as ‘harmful’, look out”.

He said that the OECD’s proposals “call for more enforcement, and to scapegoat small tax havens. To enforce an income tax today calls for nothing less than a worldwide intelligence network with vast powers of search and seizure. It also calls for worldwide thought-control to give it moral authority and general support. The end of this thought-control is to criminalise income”.

Words like uniformity and fairness were employed to disguise vested interests which advocated taxes that were discriminatory between payers and abusive in their impact. As an example, Dr. Gaffney cited the sales tax: “A ‘uniform’ sales tax is not uniform in its effects. Retailers in rich locations can bear it and survive; those in marginal locations cannot. The result is especially to penalise poorer neighbourhoods and regions and communities”.

He also exposed the hypocrisy of the harmonisers. For example, the OECD branded as “harmful” a nation which allows a person to deduct costs when the corresponding income is not taxed. “That sounds reasonable,” said Dr. Gaffney, “and yet that is the standard treatment of most real estate income in the USA, the largest member of the OECD”.

Lurking behind the rationale for harmony were the governments of richer nations which employed policies to attract inward investment at the expense of poorer nations. Dr. Gaffney pointed out that attracting skilled labour and capital was possible by offering superior public services. This was possible for nations that were fortunate to occupy the best lands on the planet, and “It seems rather miserly of them to deny to nations occupying less favoured lands the only compensatory measures available”.

Less well-endowed nations could attract resources by offering “a magnetic tax structure”. Declared Dr. Gaffney: “The OECD report was written by people wearing blinders that keep their eyes and minds fixated only on kinds of taxes that penalise and repel mobile activities. There are taxes that...positively attract them. The OECD does not like them”.

The professor identified revenue-raisers which benignly supported economic activity. These measures raised revenue directly from the rental income of land and natural resources. The alternative, said Dr. Gaffney, was “a worldwidequisition by the revenue agents of every nation into the records of every other nation”.

S PURIOUS though its logic may be, and harmful the consequences, the OECD report has initiated a debate which could be turned against the high-tax harmonisers.

In paragraph 29 of its report, the OECD talks of poaching from “the tax base [which] ‘rightly’ belongs to” another country, which can be labelled harmful competition. This thesis rests on the implicit claim that there is a unique property in a country’s total revenue. This is
I\nTHE last 25 years, 56 bills were submitted to the Pennsylvania legislature in attempts to offer local governments the option of splitting the property tax in favour of levying higher rates on land values than on the value of buildings. The only bill to pass permitted eight school districts to adopt the two-rate tax. Knowing that only 10% of introduced eight school districts to adopt the “Borough Bill”. Pennsylvania has six classifications of local governments that can levy taxes - cities, boroughs, townships, towns, school districts and counties. Each operates under separate codes. The only taxing jurisdictions with a land-value tax (LVT) option, other than the cities and those eight school districts, were 45 boroughs and five counties that had adopted “home rule charters”. None had opted for LVT. In 1995, 15 cities and one school district had adopted split-rate property taxes.

ASKED my State Representative, Jeffrey Coy, to sponsor a bill enabling boroughs to adopt LVT. Coy thought he could support it as a local tax reform option if I would get my Chambersburg borough council to pass a supporting resolution.

After talks with Chambersburg Mayor Robert Morris, Council President Bernie Washbaugh and Borough Manager Julio Lecuona, I was placed on the agenda to make a 20-minute presentation to the council on October 27, 1993. The Council then appealed to the Pennsylvania Legislature to extend to boroughs the local option to implement a two-rate property tax. Its resolution noted that “increasing the levy on land values discourages land speculation and encourages infill development in urban areas”. Representative Coy agreed to co-sponsor the needed legislation with 41 other representatives, both Democrats and Republicans.

The Pennsylvania State Association of Boroughs (PSAB), a handful of Georgist activists and I began to work on the passage of HB 2532. Jack Gardner, the lobbyist for PSAB, Dan Sullivan, founder of the Pennsylvania Fair Tax Coalition (PFTC), Mike Goldman and I distributed literature and lobbied people at the Capitol. The bill sailed through the House with a 2-to-1 vote in 1995. Our efforts intensified as the bill entered the Senate. The legislative session was ending that year with a short 5-day Senate session - a small window of opportunity. The bill went through all required readings and was approved by the Local Government Committee. Senate leadership ruled that it did not need to go through the Finance Committee, because it was a local option bill which did not put the state to any expense.

One day before the final session, the Senate leadership decided the bill would have to go through the Finance Committee. Sullivan, Goldman, Gardner and I stood in the Finance Committee meeting rooms on the last day of session, anticipating that HB 2532 would be reported out of the Finance Committee, put to vote and passed. But the Finance Committee chairman concluded the meeting without even mentioning the Borough Bill. We were stunned. To this day we do not know who objected or why the leadership decided to kill the bill.

Gardner had alerted us to the risk that, because no one on the Senate side had “adopted” the bill - which would have committed him to steering it through - and because nobody wanted controversy on the final days of the session, it was vulnerable to the slightest objection from any senator. He had suggested that we avoid ruffling feathers. So once the bill was expected to pass, we simply made ourselves available to answer questions. It was the correct closing strategy, but it was not enough. We would have to begin all over again.

OUR STRATEGY in the next legislative session was much more effective. Identical bills would be sponsored in both the House and the Senate. Representative Joseph Gladeck, Jr. had several land value tax provisions in a set of bills he called his “Economic Development Legislation Package”. The Borough Bill was one of them so we were covered in the House.

My state Senator, Terry Punt, said the split-rate tax option made sense. He agreed to sponsor a bill, which bombed in a Senate committee, but was later revived and passed. Senator Punt had become Chairman of the Economic and Community Development Committee. He skillfully enlisted several other senators as co-sponsors. The bill was referred to the Local Government Committee in January 1997, giving it two years to wind its way through the legislature.

The only cloud on the horizon was the Pennsylvania Farm Bureau (PFB), one of the largest and strongest lobbies in the state with members from farmland within boroughs. If a farm would have to pay a higher tax they would oppose the bill. After wrangling back and forth between Punt’s office and the PFB, Punt agreed to an amendment to exempt farms.

I had invested several years in the legislative effort, but keeping quiet was apparently in the best interest of the bill. As a constituent of Coy’s District, I was furious that the centralized state Republican Party was becoming a strong outside force in our local governance. They were putting substantial funds into the campaign chest of Coy’s opponent. The Republican leadership in Harrisburg, the state capital, found it intolerable that Coy, a Democrat, should continue to serve in a district where Republicans enjoy a 2-to-1 majority.

Both Senator Punt and Representative Coy had strong track records of serving the best interests of the people of our district. They had both attained legislative leadership roles that usually go to big city politicians. My first impulse was to write irate letters to the editors of our local papers alerting the populace to the shenanigans of the Republican central committee. But my allegiance to the passage of the Borough Bill won out. I remained silent.

The elections last November came and went. Representative Coy was re-elected with 56% of the vote - a margin of about 2,200 votes. But shortly afterwards, Senator Punt suffered a heart attack. Our legislative champion was rushed to hospital. What was now to become of the Borough Bill? All we could do was wait through the final remaining days of the 1998 legislative session.

The good news finally, and unexpectedly, broke. Senator Punt’s Borough Bill passed the State House by a vote of 198-to-2. The bill was signed by Governor Thomas Ridge on November 24 as Act 108. Our efforts had finally succeeded! Now nearly 1,000 Pennsylvania boroughs can choose to move toward land value taxation.

ALANNA HARTZOK reports on the successful campaign to enable nearly 1,000 Pennsylvanian boroughs to adopt land-value taxation.
The Seven Principles of Sustainable Society

Before we can enjoy the rewards of a sustainable society, argues DREW L. HARRIS, commercial culture will have to be radically realigned.

As the rhetoric around sustainability intensifies and globalisation adds to the turbulence of modern life, the question arises: can we identify organizing principles that would nurture sustainable social systems?

A study published in the Journal of Global Competitiveness (Nov. 1998), addressed this question by comparing and synthesizing studies of groups, organizations and specific, intentional communities. The study synthesized the research on highly effective work teams done primarily at the Harvard Business School, a Ph.D. dissertation study of companies with highly stable workforces (including Lincoln Electric, Hallmark Greeting Cards, Haworth Industries, and Chaparral Steel), and historical analyses of Fairhope, Alabama (a community established to demonstrate the viability of Henry George’s economic theories).

These studies exemplified traits of sustainability at each level of the social system: stable (both long-term existence and small turnover in members), self-supporting (do not require constant or substantial influx of exogenous resources), and effective (serve the needs and interests of substantially all of the participants).

Seven core principles emerged as necessary components of sustainability:

1. Wide distribution of synergistic value
   Collective action produces incremental value above the sum of the individual contributions. This is the essence of collective action - to be able to produce more than the sum of the parts. What distinguished the sustainable social systems was how they distributed that synergistically created value through group rewards, profit sharing, funding community infrastructure and services. Individuals (internal or external) or small subsets of individuals were not allowed to privately appropriate a disproportionate share of the value generated by collective action.

2. Individuals retain the value they create
   Successful work teams balance group rewards with differential pay for differential ability and performance. Organizations provide pay-for-performance incentives to stimulate individual behaviour while the collective rewards (profit sharing, bonuses, stock options, etc.) focus behaviour and motivation on collective outcomes.

   At the community level, economists have well documented the negative effects of appropriating private initiative (i.e., taxing wages, commerce, thrift). For example, economists Nicolaus Tideman and Florenz Plassman concluded that the dampening effects of taxing productive activities costs the G7 countries approximately US $7 trillion every year in GDP.

3. Eliminating or severely limiting privileges
   At the organisational level, absence of class distinction may be a manifestation of the first principle cited above - profit sharing. Most perquisites of rank serve as additional compensation, an implicit reward for attaining a level in the organisational hierarchy.

   While one might reinterpret that principle as another example of reducing the private collection of synergistic value, it has another effect. The dollar value of any particular perk may not capture a disproportionate share of synergistic value. The destructive effects on the social system emerge through the appearance of private rules (privilege) for an elite group. At the community level we see the resistance to this in complaints that government officials appear to disregard (and sometimes have explicit private law excluding them from) the laws that affect the populace. Small group studies have shown that favouritism (a form of privilege) is a universal source of discord.

4. Participative administration
   Democratic participation in administration is a key organizing principle. In both communities and organizations, participative administration need not take the form of a direct democracy. However, the following conditions appear as necessary for an administration to function with effective participation:
   - Opportunities for leadership.
   - Processes for people to be heard (especially their grievances), even if no action is taken. People seem to have a universal need to have their point of view expressed and taken seriously.
   - Processes for correcting injustices.
   - Opportunities for each person to contribute.
   - Creating a forum for inquiry (besides advocacy).

5. Learning systems that include self-inquiry
   Inquiry in the sense of classic liberal education appears present in all three levels of sustainable social systems. Successful work groups shared information not just within groups but across groups. Along with its capacity to remedy dysfunctional behaviour, self-reflection provides learning opportunities for systems.

   The new model of effective organisations embodies learning systems. Early writers on democracy emphasized the requirement of an educated populace for the success of democracy. Indeed, the United States built its public school system on the justification that such education was a prerequisite for a free society. That education has explicitly included knowledge on the process, rights and responsibilities in a democracy. One could easily view the democratic chaos of the former Soviet countries as symptomatic of the lack of education about the core philosophic underpinning of democracy. (For example, majority rule while respecting the interests of minorities and holding some rights as inalienable even when a majority might want to usurp them).

6. Goals and values that guide action and foster systemic identification
   At the team level, clear purpose and specific goals seem to make a significant difference in team performance and in member satisfaction. At the organisation level, statements of vision and values, mission statements, and statements of strategic intent seem to guide and shape organizations toward success. In Built to Last: Successful Habits of Visionary Companies (1994), Jerry Porras identifies higher order values and strategic intent emphasized at companies such as Harley Davidson and Intel as contributing to relatively greater success compared with competing firms that assert their purpose as maximizing shareholder value. (Harley Davidson's current success can be compared with an earlier time when it emphasized shareholder profit and floundered.)

   At the community level the guiding direction seems less clear. Some communities and nations have identities that endure (America - the land of opportunity, land of the free; New Hampshire - live free or die; Philadelphia - City of brotherly love). These may influence collective behaviour. However, a purpose, rather than an identity seems more likeable to generate collective action. Fairhope was intended to demonstrate a socio-economic model. America gained independence amid rhetoric of
creating a new socio-economic order ("...in order to form a more perfect union...").

This principle provides self-reinforcement: the greater the success of the identity or purpose the more people identify with and commit to the system.

7. Secure tenure for members

Small groups in which individuals enjoy stable tenure are more productive. At the organisation level, highly stable companies such as Lincoln Electric and Haworth Industries (a leading US office furniture manufacturer) officially promised secure employment (membership). In most communities, citizenship guarantees standing. Losing one’s citizenship (membership) requires deliberate (and usually highly provocative) action by the individual and the community. Any attempt to remove citizenship meets with inquiry about the nature of citizenship. This principle provides a setting in which the exercise of true inquiry can flourish and where members secure their role in creating collective values. Secure membership provides a balancing effect in the social system by ensuring membership for those who challenge the system with dissenting opinions.

While each of these principles may add value individually to a social system, their robust power comes when taken as a group. As a group they interact, self-reinforce and self-regulate.

For example, the quest for proportionate distribution of synergistic value creates a potential tension when related to the principle of equitable distribution of individually created value. Mutually satisfying resolution of this tension may only come through the democratic process. The means of distributing the collectively created value may also vary with the purpose of the collective. For example, communities might choose to provide services while organisations may provide direct payment to members.

Similarly, introducing a new privilege without adding collective value might instigate a participative "voice" process to correct the injustice combined with an inquiry about the nature of the privilege and its potential to contribute to collective value. However, without equal distribution of synergistic value system members may lose their will or incentive to engage in democratic voice. Without the corrective effect of participative voice authorities might grant additional privileges. The formal recognition of principles or processes does not ensure their use.

Given the assault on academic tenure, the apparent non-responsiveness of many governmental agencies, and the losses of companies once noted for their secure tenure (e.g., IBM and Digital Equipment Corp.), one might question the appropriateness of secure tenure for sustainable social systems. Here, again, the principles appear to function as a group. What academic environment or government agency functions in self-aware inquiry, provides differential rewards for differential performance or shares in the collective value that they create? Tenure alone does not (nor do any principles alone) provide effectiveness and sustainability.

The groups, organisations and communities cited in the studies maintained their sustainable qualities for long periods, but this raises the question of the depth to which the principles are embedded. Work groups can be vulnerable to managers and sometimes to the larger organisational culture. For example, in the classic studies on motivation at the Western Electric Hawthorn Facility, workers who were not included in the studies sought to undermine the results, in part because those in the experiments became very happy and excited about their work.

At the community level, Fairhope has seen the imposition of county, state and federal taxes along with layers of government intervention which dilute the principles of sustainability. While its first half century included in the studies sought to undermine the results, in part because those in the experiments became very happy and excited about their work.

The language in which the OECD conducts its analysis lays the foundations for international conflict which could move from fiscal to force of a different character. For example, in paragraph 31 it talks of governments being able to conclude that some countries could be "poaching other countries' tax bases". In the past, nations have gone to war for less. But again the high-tax harmonisers need to be challenged on their property claims. Poaching pre-supposes ownership, which needs to be defined and legitimised in the court of world opinion.

The coercive philosophy behind the views expressed in the OECD report are revealed by the comment that "countries should remain free to design their own tax systems as long as they abide by internationally accepted standards in doing so" (para. 26). The basis of those standards needs to be critically examined before sovereign nations are intimidat- ed into complying with the strictures of those who dominate the public discourse.


References


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**Brussels □ Priced off land**

**Land & Liberty** Spring 1999
Wisdom from a man of the soil

John James

THREE ACRES & A COW
The life & works of Eli Hamshire
by David Stemp
£12.50* 

WHEN I saw this title on the bookshelf I guessed it would contain at least some kind of reference to land reform and poverty; I reached for my wallet and I’ve not been disappointed. The book, written by the subject’s great grandson, is an ideal purchase for anyone interested in mid-to late-19th century history.

The book begins with some of the Hampshire family background and genealogy and is itself full of interesting anecdotes such as “had to pay sixpence for the redemption of English captives taken by the Turkish pyrates”.

It’s Eli and his works, however, that really interested me. Eli was born on Christmas Day 1834, at Ewhurst in Surrey into a family of yeoman farmers who, it appears, were down on their luck. Eli was largely self-educated and became a carrier, amongst other things. He was a thrifty chap, he was renting a field at the age of 14, and if he came upon a toll bridge he would unhitch the horse, lead it over and then pull the cart across himself to save a penny. At the age of 29 he married Rebecca, who brought a modest fortune with her. It wasn’t squandered. He also brewed his own beer, after falling out with the local publican, eventually teaching his daughter to brew it before she left for school in the morning.

Eli was acutely aware of the disparity of wealth and the problems it caused, his greatest criticism being reserved for the clergy who, he thought, cared for the shepherd (themselves) more than the flock. There is no mention of any books that may have guided his thinking except for the Bible. Perhaps the Bible was all he needed.

In his late forties he wrote The Source of England’s Greatness and the Source of England’s Poverty under the pen name of “a Carrier’s Boy”. The book was intended as an autobiography but is more a collection of his thoughts, events in his life, anecdotes, articles and correspondence. He sent copies to leading figures and eventually met one of his heroes, Gladstone himself.

He claimed he was a Radical and a Liberal and also claimed title to the idea and phrase of “three acres and a cow” which is often attributed to Jesse Collings MP. He complains greatly of underused and vacant farmland and he detested the system of the workhouse and poor relief. He even states that if the government held land in trust the rental income would permit reduced taxation. He was also aware that taxing land would make sure it was put to use. He didn’t restrict himself, he offered ranging from poverty, inhumanity, hunting, the clergy, magistrates, pollution and even the price of fish!

His next book, The Three Great Locusts, is almost a continuation of the first. The “locusts” are the Tories, the Church and Lawyers. There are also more stories of empty stomachs and shoeless feet in a community that misused land. His proposal to celebrate the jubilee of Queen Victoria is worth mentioning. He quotes Leviticus XXV, demands restoration of half the common lands for the poor and suggests most humbly that the Queen give a million pounds to provide the cottages the poor would need.

You can also read his views on war, an international army and court of law. You can read about the meetings he attended, you can learn the legend of “Dog Smith”.

If Eli lived today I think he would have been active in local if not national politics. He lived in a time of great social, economic and industrial change, a period of reform, in which Eli represents the common man’s growing awareness of his rights as a citizen who could help mould his own and other people’s lives. He was a son of the soil and thus more aware than most are today of man’s need of access to land and the connection between land use and poverty. It’s not all politics and poverty, however, for he offers thoughts on manure, the fashion of women pinching their waists and warnings against smoking.

The book is well produced and as entertaining as it is interesting. The author published it himself after waiting years for his agent to find a publisher. He has done his great grandfather proud.

* Obtainable from David Stemp, 27 Netley Close, Surrey SM3 8DN, UK, 246 pages.
Silencing the Message from the East

Sandra Sinclair

EAST AND WEST
by Chris Patten,
MacMillan £22.50

LAND ADMINISTRATION AND PRACTICE IN HONG KONG
by Roger Nissim
Hong Kong Univ. Press, £15.95

EAT THE RICH
by P.J. O’Rourke
Picador, £16.99

Hong Kong is a key case study for students of the market economy. How did this resource-free rock on the edge of China become one of the most dynamic capitalist economies in the world?

Chris Patten, the last Governor of Hong Kong, believes he learnt the lessons, and in the year before lowering the Union flag for the last time, on June 30, 1997, he sought to instruct Europe. He commented on the low taxes and free trade, but not once, so far as one can tell, did he identify the substantive cause of the prosperity: land in Hong Kong was held on lease, the revenue from which enabled the colonial government to finance its vast infrastructural improvements while holding down the taxes that damage production and trade.

Not a word appeared in his speeches and articles about the way in which revenue was raised from the sale of leases and the annual rental charge on land. He might have offered a more rounded assessment in his memoirs but he failed to do so. In fact, he seeks to disparage the colonial government’s record on land policy in the two fleeting references which he offers in a book of 340 pages.

Patten, a former minister in Margaret Thatcher’s government, is now back home without a mission. Once upon a time he was Chairman of the Conservative Party, which is now searching for a reason to exist. Had Patten opened his mind to the roots of the Hong Kong story he would have been well placed to advise Tory leader William Hague on the primary reforms that the Conservatives need to adopt if they wish to regain their political relevance.

The real story of Hong Kong is to be found in a book by one of the civil servants who spent 20 years working for the government as a surveyor. His methodical exposition of the history of land policy begins with the first attempts at land speculation in the 1840s, when “the prospect of Hong Kong becoming a permanent British territory encouraged keen competition to get hold of the best sites; in other words, all the necessary ingredients for a speculative market were in place”.

Writing from the Foreign Office, Lord Aberdeen sought to terminate that activity by instructing that land would be offered only on a leasehold basis, and that leases would be allotted “at public auctions to the highest bidders for the payment of an annual rent, the rent being the subject of the bidding”. Roger Nissim’s study guides us through the economic history and the evolution of the law as it related to the use of land, with a useful summary of traditional Chinese use rights which were also respected. His volume ought to be compulsory reading for the authors of the rash of books we can now expect on Hong Kong in the post-colonial era.

Instead, one fears, the attempt to uncover the economic secrets of Hong Kong will start with such treatments as is now offered by Rolling Stone satirist P.J. O’Rourke. He set out to answer the question: “Why do some places prosper and thrive while others just suck?” The answer, he notes in Ch. 1, could not be with brains or the endowment of natural resources, or the absence of government, plain hard work or technology. None of these works as an explanation when all the evidence is assembled. So why, then, was he able to conclude that Hong Kong “is the best example of laissez-faire”?

In Hong Kong, he discovered, they knew how to make everything from nothing. American libertarian think-tanks have voted Hong Kong the freest nation in the world. Chinese culture could not be the secret, because the prosperity of the British colony contrasted with the poverty of Chinese communism.

So once again we are regaled with the catalogue of startling facts such as the low tax rates and a permanent budget surplus. Hong Kong’s government consumed 7% of GDP compared with the 21% spent by the US federal government. Life expectancy of 76 years. Average individual wealth was greater than in Japan and Germany and was creeping up on US per capita GDP.

In his jaundiced perception of British rule, O’Rourke seeks to qualify the influence of the colonial government in his treatment of the land issue. He writes: “Why did Britain do so little to interfere with Hong Kong’s economic liberty? This is especially hard to answer...Actually, the British did piss in the colonial soup when they could. The crown government held title to almost all the land in Hong Kong and the New Territories, and dealt it out slowly to keep sales revenues high”.

In his haste to frame his next quip, O’Rourke failed to see the connection between land policy and the liberties of the people. Consequently, he does not answer his original question. Hong Kong remains the uncomfortable enigma to the conventional analyst and observer. It is possible to make everything from nothing, but apparently the inscrutable people of Hong Kong are keeping their recipe a secret!

Ironically, O’Rourke need not have embarked on a globe trot through Albania, Sweden, Cuba, Russia, Tanzania and Wall Street. He need have gone no further than New Hampshire, where he says he keeps his legal residence “for tax purposes”. A little digging in his own back yard would have given him all the answers he needed as to why some places prosper while others just suck.

Land & Liberty  Spring 1999
Russia’s ex-premier backs rent strategy

Sergei Belyakov reports from Moscow

Dr Zvolinsky now plans two more parliamentary hearings this year, to undertake the groundwork for bills on land rights and associated tax reforms. He will submit the bills to the new Duma next January.

**Academia:** the Academy of Sciences is highlighting the benefits of switching public finance onto the rent of natural resources. Leading the economists is Dr Dmitry Lvov, Academician-Secretary of the Academy’s Economics Department. The Academy and the Council of the Federation (parliament’s upper house) plan a conference this spring at which a book edited by Dr Lvov will be launched and circulated to the governors of all 89 regions in Russia. The chapter on public finance was written by Fred Harrison with co-authors Drs Tideman, Gaffney, George Miller of Britain’s Wolfson Institute of Preventive Medicine, and Tanya Rokoshnaya, Director of the St. Petersburg-based Land & Public Welfare Foundation.

A bid to mobilise scholars behind a new approach to transforming society, Dr Lvov will launch a manifesto for Russia which he co-authored with Harrison. This advocates a tax reform plan which the authors believe would unite the political factions behind a programme for rescuing a society that is suffering a net loss of about 1 million people a year through poverty and psychological trauma.

The thrust of these trends is in the direction of what is known in history and philosophy as the Single Tax, which weights public revenue in favour of drawing income from the rents of natural resources. Can Russia hope to adopt this formula which, according to its advocates, would enthrone justice in the economic system?

Dr Zvolinsky is determined to give Russia the choice. But to do so, he has to muster powerful political support. His first step was to join the Duma faction of Deputies called Our Home is Russia - otherwise known as “the party of power”. Head of the faction is Victor Chernomyrdin, who presided over Russia as prime minister for five years until he fell victim to one of President Yeltsin’s bouts of blood-letting last year.

During those years in power, he told Land & Liberty, the land question was the most difficult problem he had faced. And, he revealed, he backed Dr Zvolinsky’s plans to promote the rent of Russia as public revenue. As the heavyweight boss of the Gazprom monopoly before his appointment as Prime Minister, Chernomyrdin still commands influence among the people with power in Moscow. He seeks election to the Duma in December, which would provide the platform from which to launch his bid for the presidency in June 2000.

**Holyrood: a Virtual Parliament?**

SCOTLAND goes to the polls on May 6 to elect the nation’s first parliament in three centuries. The Labour Party says that, if it wins, it will not touch taxes.

Land & Liberty will analyse the results in the Summer edition, to evaluate the pledges of some political parties to introduce radical land reforms.

Can land reform be meaningful without tax reform? If the current tax system remains untouched, will Holyrood be turned into a Virtual Parliament? Or will Scotland now enjoy the breakthrough that was demanded by the people 100 years ago, but which was snatched from them by landowners in Westminster?

Millennium politics in Scotland - a country that was at the forefront of the Enlightenment Project - will symbolise the prospects for the evolution of democracy in the 21st century.