

## **China's Gift To The World – the Missing Economic Policy for Sustainable Development**

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China is a growing super power. Her GDP expands each year at an amazing rate. The shift in the past 40 years from a communist, mainly agricultural economy to a communist-led, mixed public/private economy producing massive growth in industry has been nothing short of incredible.

China has become the manufacturer of the world. Every child in the USA and Europe plays with toys and games that have been made in China and households have many goods that originated in Chinese factories.

China is truly a global player.

This expansion in the international arena has led to economic prosperity for China - at a price.

The price is greater exposure to the World's dysfunctional financial and economic systems where even in the so-called “prosperous West” (USA and Europe) - much poverty sits beside plenty, where many are left uneducated, where health programmes are often either unaffordable or do not match people's needs, where many essential services (including much research for cures to illnesses) rely upon charities accosting people on the streets or advertising on TV for donations, where amid prosperity many people's diets are inadequate, where it is common to find unemployed and homeless people and where taxes on trade and incomes are far too high.

The current world financial and economic crisis leaves China dangerously exposed. Chinese factories now face massive reductions in overseas demand for their goods and the whole economy suffers.

It must be possible to improve upon a system that produces such dire results.

This present crisis is a symptom of the failure of the capitalist mode of production. That is not to say that the free market exchange and trade of goods and services between individuals, companies and indeed between countries, is intrinsically bad. This trade where we each produce and exchange more of what we excel in (preferably in a sustainable way) can only benefit mankind.

Local production for local markets is also a desirable way of reducing huge transport costs and many adverse effects on our environment. This should be achieved by releasing local economies to play to their own strengths and not by creating artificial trade barriers whether they are taxes, duties and custom charges on imports or artificial barriers, such as laws prohibiting certain goods for reasons other than genuine safety or for ethical considerations (such as the international trade boycott on South African goods during the apartheid period).

It must now be obvious to all, that the current capitalist mode of production as practiced in the West does have a fundamental flaw. Many Government leaders are happy to just blame the banking and financial systems and seek regulatory controls on future lending. I believe that the current crisis is caused by a much deeper underlying defect than a mere banking/credit problem. The fact that this crisis is not unique, that it is a part of a pattern of a regular circa 18 year cycle of booms and slumps must surely indicate that we are all ignoring a fundamental truth. A truth as important to economics as the law of gravity is to physics.

Could it be that because of its unique history, culture, politics and intellect – that China could not only develop an economic model that gives it some protection from the current and future world trade downturns but actually sets the agenda for other major and emerging economies to follow?

**The answer to this question has to be a resounding “YES”!**

Most economists failed to see the impending economic crash.

This is like saying that most rocket scientists failed to see that they had to produce enough power to overcome the Earth’s pull of gravity if they were ever to launch a satellite into orbit.

How can economists, the practioners of a science that does nothing but study the production and distribution of wealth be so ignorant?

It can only be because there is a failure in their body of knowledge. An important factor that gets totally ignored, distorted or deliberately misconstrued.

Ever since the dawn of civilisation, cities have always given people the opportunity to create surplus wealth. Craftsmen become specialised and hence more productive, trade increases, new tools are created, ideas are readily exchanged, knowledge grows and surplus time is devoted to the arts, sport and other cultural and leisure activities. As a city grows, people move in from the surrounding neighbourhoods. This creates a demand for space. Space for homes, factories, offices, shops, roads, railways, leisure activities etc. This growing demand creates a value for land. We call this land value “economic rent”. This value cannot be ignored. It exists as surely as the law of gravity.

It is not the “rent” paid for the hire of a man-made item such as a building or hire car. “Economic rent” is the income that arises from land or natural resources. It is the value of the location of a building, or the extra natural fertility of a farmer’s field or the demand for a landing slot at an airport or the part of the spectrum used for mobile telephony.

We all need land for our existence.

To create man-made wealth – our food, clothes, homes, workplaces, transport etc we need three distinct factors of production: namely Labour – human mental and physical exertion, Capital – man-made wealth used to create more wealth and finally Land and Natural Resources. Without land and natural resources we can create nothing.

The return to Labour is wages. And if I take your wages you become my slave. The return to Capital is interest or profit. If I defer spending my wages and instead buy tools, then surely I am entitled to a return on my capital. The return to Land and Natural resources is economic rent.

So the question arises, who has the right, morally rather than legally, to enjoy this land value?

In Western economies it is usually accepted that the owners of land have the right to collect the economic rent of land. But on what basis do these landowners make this claim? Did they build the planet with their own labour? Of course not! They and their ancestors have grabbed the land using strength, guile, cunningness, bribery and military conquest. They have then influenced governments to pass legislation that gives their “ownership” the force of law.

In its constitution, China recognises that land belongs to all. But even in China the collection of economic rent is only partially addressed.

One of China’s founding fathers, Dr Sun Yat-sen advocated the collection of economic rent. Karl Marx and Engels described how the rent of land should be used to pay for public services in their writings including “The Communist Manifesto”.

Hong Kong has collected a part of economic rent for over a century. All land in Hong Kong is leased and the income used to partly meet government expenditure. Because of the nature of the leases and methods of auctioning them, not all the economic rent is collected publicly and a large part remains in private hands. But nevertheless they did manage to build a new Metro and a new airport from land values rather than resort to taxing trade or people’s incomes.

If China adopted a policy for collecting all land rent, many advantages would flow. The value of buildings and other improvements would be ignored and only the location value collected. Taxes on trade or incomes could be reduced or even abolished. Economic rent could be used for funding infrastructure improvements which over time would add to surrounding land values and thus increase the public income naturally.

Few entrepreneurs would pay to keep land idle for speculative reasons and so city land would be developed comprehensively, facilitating the use of communal services such as transport and avoiding the unnecessary spread of urbanisation into the surrounding countryside – urban sprawl. With towns and cities becoming more efficient, business growth would be sustained and the whole economy would become more efficient.

The current world economic crisis originated in the USA with banks lending money to people on low incomes (subprime mortgages). It was only when land prices reduced that the world-wide banks had a problem and soft loans for land speculation in other countries also began to cause economic collapse. So the world needs to address the land problem as well as a banking problem.

Collecting the economic rent of land is the way to do it!

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