

# THE LISKA MODEL

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## Abstract

The study summarises the overall economic model of Hungarian economist [Tibor Liska](#) (1925–1994). The economic system of the model would be transccapitalistic inasmuch as being more self-regulating, through a “pure” market and unlimited competition, than capitalism as we know it. In this model, property is fully open to competition as gaining control over property in open competition is regarded as a fundamental human right. The model allows the state to have only regulatory functions, accordingly, a drastic reduction of the role of the public sector is needed. The self-controlled economy would also manage redistribution, education, environmental problems and all other socio-economic subsystems much more efficiently than present-day economies. The theory envisions a society without taxation, where all income is fully personal and all property (that is, means of production) is social but is in personal stewardship. The study outlines two subsystems of the model: those of *social inheritance* and *personal social ownership*. Finally it touches upon an attempt of putting the model into practice.

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In his research and theoretical work, Hungarian economist [Tibor Liska](#) (1925–1994) aimed at elaborating the model of a “transcapitalistic” socio-economic system. This system would be transcapitalistic inasmuch as it would operate in a way that is more fully self-regulating through a “pure” market and unlimited competition, than capitalism as we know it. In this model, property itself is fully open to competition as gaining control over property in open competition is regarded as a fundamental human right. The model allows the state to have only as much of a role in the economy as a referee has in a soccer match. The referee’s job is to ensure that the rules of the game are observed. He may award a free kick if a player touches the ball by hand or he may send off those who intentionally break the rules, but he cannot kick the ball and nor can he change the rules. Accordingly, this system needs a drastic reduction of the role of the public sector and it must be totally self-controlled. The self-controlled economy would also manage redistribution, education, environmental problems and all other socio-economic subsystems much more efficiently than present-day economies. The theory envisions a society without taxation, where all income is fully personal and all property (that is, means of production) is social but is in personal stewardship.

The research produced substantial results. The basic principles were laid down and the most important elements were elaborated, but not all parts were worked out in detail. No overall report has been published.

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## 1. EXPECTATIONS

The concept takes, as its point of departure, the rightful criticism that the economies all over the world are working at a very low rate of efficiency, and on this track they cannot work well even if the smartest ones manipulate them (not to mention those who are not smart enough). The trouble is caused by the structure and by state control, which continuously restrict competition, although in actual circumstances one can hardly imagine an economy without the state. The present establishments do not serve the evolution of mutual agreements; they miss the real economic points of view and redistribution works wastefully. This criticism seems still right and definitive although it was laid down nearly 50 years ago.

In the mid-70s Tibor Liska founded a research group at the Budapest University of Economics (that time named Karl Marx University) with the aim of creating a normative model to outline the world which would meet the requirements. The group was working forcefully till 1983 when Liska got two heart attacks not unrelated to his constant struggle with the authorities who were trying to obstruct the work of the research group. The research was going on then but with less intensity.

It was declared at the very beginning: not to care about feasibility as this should be a later step. The first step was to find out what can be desirable and wanted even if it looks impossible. Thinking on practical feasibility may come only after the aims have been clarified. “As far as we cannot draft a world we like, we may not talk about its feasibility” – Liska said. The final objective is of course the practical realisation, but tactics come only after the strategy course. At that time, Liska already had a consistent concept in mind but hardly could explain it to others.

In spite of the implicit practical intention of the model, nobody ever thought that the model must be introduced, as it is even contrary to the principles of the model. According to Liska it is far enough to circulate these ideas and if they do not get around spontaneously, useless to force them. Getting spread has chance only if the people of the society accept them and feel them their own. In this case the ideas will get around automatically without forcing. On the other hand these ideas must be tested in practice even if they seem to be very consistent since it is only a model and the model maker cannot think over unpredictable details, as the first airplane builders could not think of hijackers.

Some of the statements below are rather vulgar since the substance of all model is the simplification in order to be able to focus on few questions to be believed important.

As every normative theory this concept is subjective as well. The following expectations are not right of necessity. Surely many experts would disapprove some of them. Nevertheless any utilization of the model requires that many people do accept these expectations otherwise the model has no chance to work.

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## Point of View

The model considers the world from an economic aspect. Each science has its own point of view. If an egg is examined, the physicist will be interested in its mass, perhaps its frictional coefficient, the biologist wants to know whether a chick would come up from it, and the chemist will analyze its molecules. The economist will be taken up with costs and prices and will try to decide whether production would be worthwhile. In spite of the different points of view, they all might eat the same soft-boiled egg for breakfast. Similarly, the practical acts on this economic base do not by necessity differ from other practices. For instance, in the case of environmental management – which is rarely based on an economic point of view – the economic answer is: the environment must be saved since its destruction makes economic losses and restoring is very expensive if at all possible. The social services must also be included in economic solutions; the society cannot work efficiently if big social stress exists, the social investments should return, while holding off should make bigger expenditures later.

Political parties aspire to power – they say – to reach a better living standard, a better quality of life in the long run. So they fancy themselves specifically on the base of economic aspect although they do not always act accordingly. The main advantage of this point of view is that it has the ambitions to be detached. However, most of cases the calculations of studies for decision-making can be problematic even posteriorly. For instance if the question is whether a town needs a new hospital or rather a bypass highway, it will be nearly impossible to make a calculation acceptable for everyone. In both cases the incomes are hard to express numerically since both should save human lives, but it is still clearer to discuss the figures than to confront the interests of different wings.

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## Rules of Making Rules

The model must have a good regulation system. Making rules also has to follow some basic rules. Our rules should meet the following requirements:

- *simple* (easy to understand);
- *checkable* (cheap to check or expensive to circumvent);
- *self-controlled* (no need of external interference);
- *robust* (tolerates unreasonable behavior);
- *attractive* (participants recognise that the rules are in their interest, the overwhelming majority of participants accepts them).

All keywords above are clear, only the meaning of robust needs some explanation. Most systems suppose users to be acting partly reasonably, partly not. Of course, the majority of the players must be rational as otherwise the system will not work. A system is robust if it is prepared for unreasonable behavior, is not sensitive to it, while it is less robust if abrupt actions could make serious problems in its operation.

For illustration of a good regulation system, here is a well-known example. At parking lots of bigger supermarkets the rule is to put back the shopping carts to their place. To keep the rules, a simple

mechanism is fixed to force the customers to insert a coin to make the carts free and the coin can be retrieved only if they put back the cart to the depot. This is a complete regulation system. It is as simple as possible. You do not even need to describe the rules. It is perfectly self-controlled, and there is no problem if someone leaves the cart in the middle of the parking lot since others will gladly collect it. The system seems very attractive and it came into use all over the world within a few years in the 1980s.

It should be noted that this is an economic regulation since the one who does not put back the cart must pay for the cost of putting the cart back by the inserted coin. Note also that this regulation is not free of charge, the mechanism must be constructed and fixed, but still cheaper than any other solutions (e.g. staff would be more expensive and far less flexible, could hardly be multiplied at rush hours). It would be a cheaper course to ask the customers to be so kind putting back the carts, but this regulation will not work independently from morals and would surely generate moral problems. Some of the shoppers would have good reasons to leave the cart in the middle of the lot, then others who have less good reasons would join and so on. Finally, even the most honest ones will break the rule, so the bad regulation would cause moral damage.

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## Mutual Agreement

In our model all transactions should be based on mutual agreement, in other words, on market solutions. The main point of a market solution is that it is favourable to all signatories of the contract, they all want it. Any of them can interpose his veto. No one is forced to join the cooperation. Only market solutions could give effective procedures. Any other solutions cause economic and social damages since people always do what they think to be worth doing, independently from whatever is recommended or permitted. According to Liska, the task of economics is to search and find the market solutions for those sectors of the economy (education, health, environment, culture), which are traditionally not subject to market regulation.

Liska had a very strong statement: market solution can be found for any case. It will be hard to prove this statement, but is not easy to refute it either. All we can say that the evolution of societies shows: the more developed a society is the higher the level of mutual agreements will be, as a cursory survey of the history of societies will make this abundantly clear.

To find the proper market solution is a hard task. It needs a lot of time and tolerance to reach the final agreement and cross-checking the acceptable compromises. The case of power situation is inadequate to find the right manner of mutual agreements. Those who are in monopolistic positions would rather want to be in absolute control than to negotiate. Dictates always force others to execute what they are unwilling to do – otherwise there would be no need dictates. Except for some rare, insignificant cases, the results of commands are more objectionable than the results of compromises, even if finding it can incur considerable transactional cost.

State institutions and authorities – due to their ruling position – are disposed to handle problems by dictate even if there is a chance of finding the suitable terms and conditions. Several examples can be mentioned where laws and directives are totally useless because people do not accept them and will, instead, look for loopholes and backstairs solutions.

Mutual agreement cannot work on every level. In operational decisions there is no time for continuous negotiation. For instance, a delivery man cannot make a bargain every time he is supposed to deliver something. He accepted the terms of an agreement when he signed his work contract. This must be on the base of mutual agreement, but there is no room for further haggling after he accepted the agreement. On the other hand, we cannot consider taxation as a market solution. Although the rules of taxation are fixed by elected representatives, one cannot say it is on the base of mutual agreement. Paying half of your income in tax or going to prison is not a real choice.

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# Efficient Money Spending

Our model should inspire the efficient spending of money. Analyzing who is spending the money and who is he spending it on can result four solutions:

1. Own money is spent on ourselves.
2. Own money is spent on others.
3. Others' money is spent on ourselves
4. Others' money is spent on others.

In this order there is a significant decline of efficiency and growth of negligence. In the first case people are much more circumspect, they very closely examine the full range of options as to what to buy, where to buy it, how much it costs, etc. In the second case – e.g. in the matter of a birthday present – they are less cautious. The third case is even worse. For instance, a company sends a staff member abroad on a business trip and covers the hotel cost up to a certain limit while the staff member can choose the hotel he wants to stay in. In this case the limit of the compensation became the criteria for the hotel selection, and not the personal preference. He might be satisfied with a cheaper hotel if he visits the same town as a tourist, but if somebody else pays the hotel bill, it will be taken full advantage of. Of course, not everybody will ignore his personal preference in a situation like this, but statistically the majority does. In the limit range there remains still some leeway of deliberation but in the fourth case it is even less, and an additional cost enters: i.e. the person must explain the spending and it must be confirmed. Not to mention corruption, since you can bribe someone only if he is spending other people's money; it is all but impossible to corrupt him if he is spending his own. Independently from the moral condition of the society, vast difference manifests between the first and the last case. Doubtless: the first money spending way is more efficient than the rest.

In our time, all over the world a considerable part of the national incomes is collected by taxation and is spent in the most ineffective way. Beside this, taxing procedures have several other disadvantages. The operation of tax institutes costs much; it is very expensive to check on all tax payers, if it is possible at all. Tax, especially graded tax prompts the tax payer to keep down the level of his economic performance; this restrains precisely those who could use money in an efficient way since they proved to be able to produce income.

Taxation is a kind of flat rate. It is not only unfair to make people pay for a service they have not used but the presence of flat rate entails waste. It is a better solution, both from an economic and a moral point of view, if everyone pays as much as he uses.

In Hungary, between 1990 and 1998, the national water consumption decreased by 40%, while the ducting network was increased by 17%. In the same period water meters were introduced in households, since earlier it was proclaimed as an unnecessary cost. Certainly, the measurement of consumption was only one of the reasons, but anyway, an important one.

From an economic aspect, the flat rate has entitlement only if the measurement of consumption costs more than the cost can be saved by it. Technological development makes measurement cheaper and cheaper, so more and more services can be paid for in proportion of their consumption.

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## Selection

In our model the means of production should be owned by those who can generate the maximum profit from them, so properties would be openly and freely competed for. Everybody must have the right and the option to become a runner in this competition on base level and, depending on his performance, can go forward. The more the runners are the better the results will be.

To achieve this goal, a new form of ownership has been invented, which is the greatest idea of the model.

It is termed *personal social ownership*. It stands between private ownership and tenancy-type holding of property, while its status is significantly closer to private ownership. On the basis of personal social ownership, the bidder who guarantees the maximum of long-term profits will be selected for the position as owner, with the proviso that he can keep this position only as long as he produces the maximum of long-term profits. Even an ancestor is interested in handing over his property to a more efficient successor. The whole procedure is completely self-controlled, which makes it even more attractive.

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## Responsible Decision Making

Every economic activity needs some kind of foresight. If the preferences of the customers, the available resources and all the information needed for production and marketing could be known precisely at any given time, efficient economic activity would be a simple mathematical exercise. But information is diffuse, and it can be known only partially. In economic competition those will be successful who can make the most of this partial information, in essence roughly as reliable as the prescience of a clairvoyant. It is impossible (and even unnecessary) to examine whether the decision was good because of careful analysis or it was only a lucky guess. What is really important that the decision-maker should bear the consequences of his decision. Difference must be made between good and bad decisions. There will always be miscalculations and wrong-headed decisions. We do not have to be angry with the one who made a mistake or was not careful enough, but the one who found the better solution must have the better position.

The basic principle is that anyone has the right to make decisions and his further possibilities should depend on the result. As Liska said: systems in which I decide and others bear the cost of my decision are not desirable.

Our model assumes that people want to arrange their own things and do not like if others tell them what to do. While the other expectations of our model are easy to justify, this one is an exception. There are people who do not like to decide. They prefer to follow a leader who tells them what is right and what is wrong. We can only hope that social and cultural change will bring things closer to the fulfilment of this expectation.

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## 2. ELEMENTS

From among the elements of the model, two have been elaborated in precise detail.

- *Social inheritance* means that the income produced by one generation will be redistributed among the members of the next generation, which would also guarantee the most efficient way of spending money.
- *Personal social ownership* would meet the selection criteria of putting the right man in the right place, the right man being the person who is able to manage the property in the most profitable way.

When physicists try to explain the law of gravity, they always assume a vacuum, even if freefall practically never takes place in vacuum. Ignoring friction makes it easier to understand the essence of the law. What we are doing here is very similar to this. Imagine a sector of the economy where our model is ruling (beside some other sectors). Homes (family units), real estate and means of production belong to this sector where there are no mixed cases as it is always clear what belongs to our sector and what does not. At this stage, changing sectors is not allowed. Together with other important aspects, it is ignored here, even if it is a very important question and, also, it is a relevant part of the model. This is done because our first task is to understand how the basic model works and without this understanding the discussions of the details will be useless.

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## Social Inheritance

In our days, most societies spend a huge amount of money on the education, health care, cheap housing, and many other things of their citizens. In our model these allocations are replaced by social inheritance, whereby every citizen should be given at birth the right eventually to draw the allocations that will be due to him in his lifetime.

Social inheritance ensures a continually increasing income for the citizen and it is not only a birth aid, as it should cover the costs of education (from kindergarten up to secondary-level schooling), health insurance and the rest. This should be an initial capital with which the citizen can enter the entrepreneurial competition; his old-age pension will also derive from it. Entrepreneurs must add some of their profits to their own account, but they can use it throughout their lifetime, and, finally, it will be the source of the social inheritance of the next generation.

Technically social inheritance is a deposit (100,000 euros in the table below) of which only the interest can be partly withdrawn while the rest of the interest must be capitalised. More precisely, there is an exogenous parameter of the model, called “riskable” rate, which shows how much of the interest can be withdrawn. Since the rest of the interest is enlarging the account all the time, it produces an increasing income continuously. Once in a lifetime (over age of 21), even the riskable rate of the account can be withdrawn.

### The run of social inheritance in time (Interest rate 10%; Riskable rate 70%)

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Years	1	2	3	4	5	6
At the beginning of year	100,000	103,000	106,090	109,273	112,551	115,927
Pay-out at the end of year	7,000	7,210	7,426	7,649	7,879	8,115

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Years	19	20	21	22	23	24
At the beginning of year	170,243	175,351	180,611	186,029	191,503	197,033
Pay-out at the end of year	10,906	12,275	13,643	15,012	16,381	17,750

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Years	30	40	50	60	70	80
At beginning of the year	70,697	95,011	127,687	171,600	230,616	309,229
Pay-out at the end of year	4,949	6,651	8,938	12,012	16,143	21,695

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**Note:** In the second year, the pay-out is calculated as the 70% of the interest  $103 \times 0.1 \times 0.7$ ; at age 22 the pay-out is the same ( $186 \times 0.1 \times 0.7 = 13$ ) plus the 70% of the capital  $(186 + 186 \times 0.1 \times 0.3) \times 0.7 = 192 \times 0.7 = 134$  all together 147.

The model parameter (riskable rate) is set to such a value that at the age of life expectancy the amount must exceed the initial inheritance even if the person has not added anything to it. (The 70% riskable rate value belongs to a lower interest rate but in the example above 10% was used to make it easier to follow the calculations.) In other words, the model ensures that the total social inheritance for the next generation cannot be less than it was earlier.

The income deriving from pay-out, including the bigger amount over the age of 21, may be spent on anything. It is no use setting any limitation to this, even if some will spend the money in a useless way, since it would restrict those who could use the money well; anyway, it is impossible to make the right discriminations. Besides, it is economically favourable if this spending power is at the disposal of quick-to-act young people. While not all of them will be successful, taken as a whole they will certainly be.

Further advantage of the process is that all services must work for the market and there is no need for a bureaucracy to control redistribution at considerable additional costs. Here everyone can decide on what his own needs are, and no bureaucratic authority will determine what the citizens need. It is better if people spend their own money instead of having, even electing, someone who would do it for them.

The source of social inheritance is the deposit side of the accumulated capital operating in the sector, which is used by entrepreneurs as credit. In other words, the total deposit is the same amount as the total credit in the sector. Actually, the interest is paid by contractors after the credit they use on one side and the interest-rate pay-out of the deposit on the other side. The whole process is, of course, complicated by the banking system in the background.

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## Personal Social Ownership

It is a new form of ownership, a mixture of private ownership and tenancy, though closer to private ownership. This ownership ensures that the property will be managed by the person who can do it the most profitable way as long as he retains maximum efficiency in the long term.

Logically speaking, this form of ownership hardly differs from private ownership. The owner is responsible for the property, and the rise or fall of the value of the property would directly affect his or her own budget. The only difference is that the owner does not have the monopoly of possession, as he has to sell the property to anyone who wants to buy it. Of course, the selling price is set by the owner. So far, there is no difference as it is easy for the owner to set a top price nobody would want to pay (so he is not really forced to hand over the property). But – and here comes the crucial difference – the price must be announced in advance, and a rate of the price called “premium” must be paid into the owner’s own social inheritance account. The premium is a very low rate of the price, only 1% per year.

For example, if a kiosk (a small retail shop) is priced at EUR 120,000, its owner must pay EUR 100 a month into his own social inheritance account, and if anyone wants to buy it he must sell it for that price. The owner may re-evaluate the property at any time pricing it higher or lower than the earlier value. If he, say, doubles the price, from now on he has to pay EUR 200 a month. By this it is ensured that he does not have to sell the shop for less than EUR 240,000. If he does not want to sell the kiosk, it is not worth risking EUR 120,000 for EUR 100 per month so he will set a price at which he is happy to sell.

The premium is not a real loss for the owner since he pays it to himself. It could bring along temporary liquidity problems since he will get it back only in the long term, because from now on the interest of the social inheritance account will be higher. As, also, this amount will enlarge his account, the total social inheritance becomes larger for the next generation as well. As a matter of fact the owner is forced to

increase the inheritance as a compensation of the right he is allowed to use that portion of public property.

It is essential that the premium rate should be low. The low rate will protect the owner against over-bidders. If he wants to stay safely in possession, he will overprice his property, that is, he will set the kind of price on it he would be happy to get in case he actually had to sell. It makes for him some additional cost but he gets a good deal if he is over-bidden. In other words, he can insure his rights, as it were, on a level of his own choice. If the insurance costs are too high it may be worth taking the risk of saving the costs. The model works well only if the change of owners takes place without conflicts. The change is advantageous for the “successor” since he is ready to pay the price, and the low premium rate will help the “ancestor” to set a good price to be interested in the handover.

On further reflection, the only difference between private ownership and personal social ownership is that the private owner has the unconditional right to keep his possessions. Our owner can have this option only by setting the price on an extremely high level, which, however, means additional costs for him. On the other hand, this premium must be paid as long as he is the owner, so he is motivated to find a successor who could take over and could manage the property at least on the same level he has managed it. As long as more efficient successors are readily available, the owner is forced to hand his property over, or he has to pay a higher premium as a penalty of not being the best owner.

The suggested form of ownership unites the advantages of private ownership and tenancy in order that the publicly most beneficent qualities could always be the dominant ones. If the owner wants to stay in possession, he must be profitable enough, and if he wants to get out, he has to find a successor who is able to produce the same efficiency; otherwise he has to pay for the losses.

In the case of our new ownership, continuous bidding is going on. Although only the owner may change the price of the property, in practical terms anyone can do it who is able and willing to pay the price set by the owner. In reality, everybody over-bids himself and the bid (the added value) is his own gain. The bid will be realized if he can manage the property on the long run or sell it on that price, thus the market will acknowledge the raised value. This ownership not only motivates but maximally rewards those who perceive the possibility of raising the value of the property. An entrepreneur is a good one if he perceives this possibility and acts on this perception as the added value of the property will be his gain.

A special advantage of the procedure is that it is completely self-controlled. Minimal paperwork is needed and only the actual prices must be recorded. There is no need for any authority to monitor the pricing process as the owner is the one who has the greatest interest in setting the right price. Moreover, he is likely to over-valuate. In spite of this distorting factor, the statistics of the declared prices will offer more reliable information about the profitability of firms than traditional accounting figures.

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## Ownership and Tenancy

So far, we have focused on those aspects of personal social ownership which show its similarities to private ownership. Now we shift our emphasis to those aspects in which personal social ownership is remarkably similar to tenancy. The two definitions are logically equivalent: the tenant can be the one who pays the highest rent into his own social inheritance account. The tenant manages the property and can change the rent fee any time. In case of change of tenants, the ancestor is entitled to get compensation, which is hundred times as much as the annual rent, and it must be paid by the successor.

Thus, if a tenant pays EUR 100 per month for a kiosk into his own social inheritance account he will get EUR 120,000 from the one whom over-bids him, and he must hand the kiosk over. The tenant can change the rent anytime in both directions. If he, say, doubles the rent, he has to pay EUR 200 monthly into his account, and he will get EUR 240,000 if a new tenant takes over. If he does not want to hand the kiosk over, it is not reasonable for him to risk EUR 120,000 for EUR 100 per month, so he will set the rent at a level where he is willing to hand it over.

It is evident that the two definitions describe the same form of ownership. The premium rate (1%) in the former corresponds to the rent in the latter, just as the price in the former does to the value of compensation in the latter, which is hundred times as much as the annual rent. The first definition is preferable as, due to the low premium rate, this form of ownership is closer to private ownership than to tenancy. Thus, the actual value of the premium rate determines whether our current form of ownership approaches the former or the latter.

Personal social ownership is a generalisation of the two traditional forms of ownership. If the premium rate is zero then our form of ownership is equivalent to private ownership since the obligation to sell is only formally present as the owner can set an extremely high price without any consequences, and he does not have to sell the property unless he wants to. On the other hand, if the premium rate is 100% then our ownership is a typical rental, where the one who pays the highest rent is the tenant, and as he has no owner's responsibilities, he can quit any time without losses. All other values of the premium rate between zero and 100% will result in a mixture of these two forms of ownerships. From the economic point of view, tenancy is less efficient since the tenant has no interest in the appreciation of the property. This is why it is important that the form of ownership suggested in our model closely approach private ownership since in business developments appreciation is of decisive significance. In case of a 1% premium rate the character of the business in question can hardly be differentiated from private ownership as the interest of the owner is nearly the same as in case of private ownership. Our form of ownership requires the owner to perform at a level of efficiency adequate to the business environment while this is what cannot be demanded of a private owner (although if he behaves rationally he will sell his property if another person can use it more profitably).

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## **Redistribution and Successive Generations**

The traditional way of redistribution is that the economically productive part of the population finances the non-productive or less-productive part. The implementation is carried out by authorities of the state, collecting tax and financing education, health care and other kinds of social assistance. In some countries, the old-age pension system works similarly, too. If we consider the population including everybody from infants to senior citizens as one generation, the process of redistribution takes place within the same generation.

It is clear that redistribution has a great importance. It is a "must" in every modern society. It is a kind of investment, and the bigger the investment is the better its results will be. Traditional redistribution has some basic problems, which our model intends to eliminate. The implementation of the present way (in-generation redistribution) needs considerable additional costs and no one can be sure whether the allocations conducted by the bureaucracy really go to the right places. A further disadvantage is that taxation reduces the resources of productive people thus making their efficiency lower.

Our model solves the problem by social inheritance (outlined above). Here the present generation collects inheritance for the next generation. The model allows, even motivates, entrepreneurs to be as efficient as they can be, and at the same time to generate a bigger amount for their own social inheritance account. They use it throughout their lifetime, but finally they leave a bigger inheritance to the next generation.

Another advantage of this solution is that the model keeps the poorest layer of people from "sinking" into a derelict condition as a minimum standard is guaranteed for them, while those who are able to produce great economic efficiency are not restrained.

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### 3. STARTING IN PRACTICE

*Social inheritance* cannot yet be adopted in practice. It needs a very long time of preparation and acceptance. If it ever happens it will surely be different from what we can imagine now.

*Personal social ownership* seems easier to adopt. It also needs hard political preparation but it depends only on decision. The introduction of personal social ownership can be envisioned both on local and national levels.

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#### Local Level

A frequent problem of municipalities is how to utilize their real estate. If they sell them, they give them up in exchange of a one-off price. If they lease them, hard analysis is needed to decide the duration and the rent. For short periods, the renter will not make serious developments, while for a long period it is nearly impossible to realistically decide the rent fee. At the end of the lease period, the renter would try to extract the maximum profit from the unit, leaving it in bad condition. This would be the case of uneconomical use.

The solution suggested by the Liska model would be to give real estate into personal private ownership. The first owner should be the winner of a public auction and henceforth the unit should operate according to the rules above. The 1% premium fee should be paid to the municipality since no social inheritance is in operation yet. The new owner is allowed to change the price any time by simply announcing the new price (what the municipality records), and he also must pay the 1% premium fee according to the actual price. The owner (tenant) has to sell the unit to anyone who wants to pay the price, so he is forced to determine a good price, but he is safe as he can always set a price that would compensate him.

Shops, kiosks, houses, lots, building sites, etc. would be auctioned this way. This will result in less revenue than there would have been in case of direct sell as private property but through the 1% premium fee a continuous income is generated. (In some areas the 1% of marketable real estate may well amount to a larger sum than the present total budget.) As the municipality is interested in the broadest possible competition, in order to maximise the number of participants in auctions credit should be granted to anyone to help him towards paying the starting price of the unit. This is without any risk as the credit will be mortgaged on the unit bought. (Of course, the interest after the credit is additional revenue.)

Apart from real estate, licenses, vending rights, advertisement space and much else that is in demand can be the subject of competition. For a single license, many competitors could run and, what is even more important, the race will be continuous.

The self-regulating effect of personal social ownership can also be useful for the municipality. When many units are already working this way, a new investment in public services immediately increases the prices, and also the incomes of the municipality without any taxation due to the 1% premium fee.

This is the point up to which the processes can be predicted and only practice should decide whether the predictions were right. What comes after that is frankly speculative. If we assume that this form of ownership is, in fact, more efficient than any other, those areas where it is widely adopted will quickly reach a new stage of development. Not only the 1% premium fees but also interest on the credits would increase the revenue of the municipality. What to do with this revenue? For a while, the local government should expand infrastructure and if it is successful it further increases its income due to the revaluation of real estate in the area. After a while, a considerable part of the budget could be the source of social inheritance. The most profitable thing to do is to encourage competition to expand and to share social inheritance, thus giving a chance to more and more people.

It is a real question why local leaders would give up their rights by sharing social inheritance, and why

they would be ready to lose power. The situation seems to be a social trap. The ones who could decide are not interested, while the ones who are interested have no right to decide. In the long run, our above expectations could be confirmed. If it is true that it is better to spend one's own money than the others', and personal social ownership is really more efficient than any other, then the idea of sharing power becomes not so impossible to contemplate.

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## National Level

Although our model proposes to do without taxation, in the nearest future it cannot be abolished just as drugs cannot be withdrawn from a drug addict even if the side effects of the drugs are far worse than the original disease he started taking the drugs for. But this does not justify expensive and inefficient taxation. If taxation cannot be discarded for a while, at least we should try to apply a more powerful way to complete its task.

Observations made during the last decades show that income tax is hopeless. Practically only low-salary employees pay real income tax while others (company managers and executives as well as private entrepreneurs) can always find a way to circumvent it mostly by receiving, besides regular income, various benefits and allowances (e.g., costs of an expensive conference which is, in effect, a holiday that can easily be covered as job-related expense paid by the company). Among the presently used taxation types only the consumption taxes (VAT and sales tax) can be collected relatively fully and cheaply.

Simplified, incomes can be spent on either of two things: on consumption or on investing in property. (Here, we disregard savings since deposits are credits somebody will eventually spend.) If taxation cannot be discarded, all taxes should be collected as consumption tax and property tax. This way we do not need to care about the impenetrable and untraceable ways through which incomes usually arise. Whatever way people spend their incomes they will pay the tax, thus the result is the same.

Not only housing and similar forms of real estate but firms are also the property of someone. The property value of a company depends on its income-generating ability (many economics textbooks define property value this way). Housing can also be considered as a source of income even if the property is owner-occupied. If we accept that the value of a property is based on its income-generating ability, we can also accept that there is no big difference between income tax and property tax. If the average profit per capita is 10%, then the 1% property tax corresponds to 10% income tax. The only difference is that changes in property values are not simultaneous with changes in incomes since development periods produce less income but great value growth, while later incomes will be bigger and value decreases. In the long term, these differences will even out. From the statement above, there follows that income tax and property tax cannot be applied together unless we do want to penalise the ones who are able to make profit and discourage them to produce it.

On the basis of personal social ownership a property tax should be introduced, which would work in a self-controlled way. The owner himself should evaluate his property item by item, and would pay 1% per year after the value he has established for his property. In order to make it self-controlled it is necessary that if the value is disputable, the owner should be forced to sell his property at that price or maybe at a price 10% higher. An owner who gets 10% more for his property than what it is worth in his own evaluation has no cause for complaint at all.

This kind of taxation hardly needs any monitoring since the owner is the one who is most interested in fair and proper evaluation if he does not want to end up on the losing side. Occasional under-evaluations could be overridden by special agencies, which will try to make a profit by buying up under-evaluated properties. Nevertheless, few owners are likely to take the unreasonable risk involved in saving EUR 100 per month when they may well lose EUR 120,000.

Accordingly, we propose that only consumption and property tax are needed, thus the tax revenue of the

state will arise not when money is made but when it is spent. This solution would make a cheaper state since the scope and size of taxation authorities would be greatly reduced. Furthermore, not only the state budget would become smaller by the reduction of red tape and paperwork, but considerable savings could be realised in the economy since a lot of energy is made free to produce profit what the players of the economy formerly wasted on their efforts to save tax. Another important consequence is that in a world where no income tax exists, more income is produced since it is worthwhile to relocate resources to the field of making profit.

Apart from other advantages, this solution enforces overall efficiency in the economy. The values of the properties must be declared on the market level and the owner who is not able to operate with it on that level does better by selling it. This is not really different from the status quo since a reasonable private owner would do the same, but in our case a new kind of signal enters the picture that helps (or forces) the owner to recognise his situation and act accordingly.

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## 4. FURTHER IDEAS

Finally, here are some ideas, which need further research. They are not as hopeless as they seem at first sight, still, great efforts and a long time are needed before they can be put into practice.

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### Human Capital

Sports clubs are ready to buy players from another club for millions. In contrast to the slave trade of old times, many people would happily be in the place of these players “sold and bought”. The club that sells its player collects the millions because it has bred a player of great value. The buyer club needs this value since the capital represented by the player it buys would produce profit for it.

The same situation holds true for education. Schools and universities breed human capital that will produce income later in industry or in any other part of the economy. Our model proposes to treat education similarly to sports clubs: colleges, universities and other institutions of study should receive their income directly from the users of their products.

Any production activity is economical if the value of the costs is less than the value of the product. The added value is the profit. Nearly everyone agrees that the greatest added value is produced in education. The problem is that this value is not realised at schools but somewhere in the field of production later. If the task to realise the profit where it is produced is solved, education would be the most profitable line of business.

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### Environmental Capital

Environmental property is a huge part of the national wealth. The development of it needs huge investments and much time. Even the beauty of a view of riversides, of mountains etc. has great value, although this value can hardly be expressed in figures. How can we save or even develop these values?

All property needs economic management. The management of environmental property sometimes results in the destruction of some part of it in order to create something more valuable instead. The owner is the one who must do the management. The main problem of environmental management arises from the situation that environmental capital does not have real owners.

One hundred years ago, nobody paid for water. Today it is natural to use water meters in households and pay for the amount of water consumed. The water supply service has several owners, and they stand for their interest. It is not easy to decide exactly who the owners of the water are since a whole chain of owners shares the ownership, but they do the management of this resource.

At present, “commons”-type possessions cannot have a private owner since no one should have the right to monopolise them. Marginal ownership can solve this problem. If these possessions are in social personal ownership, anyone can be the owner as long as he or she is the best owner. The owner has the duty to take care of the value of the property.

As years go by, more and more resources become the subject of economic management and more and more owners do the management. One day the view of a valley might have an owner, and customers might pay for the view. It sounds a very strange idea presently but so was the water meter 500 years ago.

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## 5. POSTSCRIPT

It is hard to define what conditions are needed for the practical functioning of a model like this. Presently even the expectations of our model are far from being widely accepted, even if it is a necessary requirement (and not only among economists). If any part of the model will ever be implemented in practice, it will be different from what we imagine at present. Implementation must be the result of evolution as the basic principles of our model stipulate it. In biology when a new viable mutant appears, it will proliferate even if nobody wanted it to proliferate. On the other hand, if it has no viability, it will not survive and nobody will shed a single tear for it. In evolution a totally out-of-the-ordinary creature has less chance than a mutant with only a small difference, so a step-by-step process of gradual change has more chance for succeeding.

In the last two thousand years people were indoctrinated that important decisions affecting their lives can be made only by others at the top of the hierarchy of social power. It was rational since at the bottom level information was not available and orders were needed to tell people what is allowed and what is not. But in our days information is ever most easily accessible on every level, and nobody can claim to find a better way to solve the problem of another person except the person concerned.

[Tibor F. Liska](#)  
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## References