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The owners will have to find **A\$142,444** in the next twelve months. Is this reasonable?

The building is surrounded by over 6,900 sq. metres of land in the state capital's business district, which has been used as a car park for the last seven years. Although occupying nearly three times the area of Enterprise House, and worth \$1.9m, the owners of the vacant land will pay \$13,149 - 9% of the tax paid for the adjoining property.

What would happen if Melbourne City switched to site value rating? The burden on Enterprise House would drop dramatically to \$32,476 - 22% of the present rates bill.

But the rates on the vacant land would increase to \$43,200.

Thus, entrepreneurial profits would not be hammered; indeed, the wealth-creators would be able to increase investment from internal sources of cash.

But the speculators would be forced to free their vacant land, which when developed would increase the prosperity of the community.

Doesn't it all make sense? The bosses of Big Business, if they want to make a constructive contribution to the reform of property taxes, should align themselves with the campaign for site value rating.

● IN THE March-April issue the book review on p.36 was wrongly attributed to Bert Brookes; the review was, in fact, written by Tony Carter.

THE TAXATION of land is often described, and justified, as a fair revenue measure, one that combines neutrality and equity, in providing for public finance. There is also a body of literature which speaks of the tax on land values as an economic development tool, one that can provide incentives for appropriate investment in locations that will bring the best possible returns. There is also some discussion of the relation of this means of taxation to issues of moral, ecological, political and planetary concern, ranging from the importance of free trade to the need to preserve the earth's natural resources, but the failure to distinguish between the infinitely reproducible products of man and the finite resources of the earth is being made more painful and expensive every day.

Land, or the sea and air to the extent that they too provide us with significant resources, is the determinant of the quality of life and, in many cases direct access to it the fact of life itself. Hunger, poverty, disease and every other form of human misery is probably more closely associated with lack of equal rights to land than any other single factor. Urban slums and rural destitution share the same cause - people without a place of their own on which to live or gain a livelihood.

IN MOST of Latin America, this same cause is responsible for people driven from country to city by hopes of a better life, creating more staggering problems as they cling to their ramshackle hillside huts for want of anything better.

The Dominican Republic so far has been spared the worst of this urban growth gone wild, like the slums ringing Caracas and Rio where the heights of luxury coexist tenuously with the depths of human need. The land of the Dominican Republic is good, and most productive, with a balance of urban and rural population that can be mostly self-supporting. For those who want to live and work directly on the land, opportunities are to some extent available. For those who want to seek their economic livelihood in the cities, some opportunities exist there also.

Yet there is no cause to be overly proud. Urban and rural unemployment remains high. Investment is uneven. Parts of the country remain undeveloped, in others the environment is already degraded. Above all, land is inequitably distributed, with the overwhelming majority of the

Land tax, fair shares and economic growth

● This article by Prof. Finkelstein (pictured right) is based on a keynote speech delivered at a conference held in Santo Domingo, Dominican Republic, to explore the possibilities of introducing a property tax.

**BY PROFESSOR
PHILIP FINKELSTEIN**



people having little or none and a few having the most. Depending on the political complexion of the informant, from twelve to forty to sixty to three hundred families own anything from twenty to seventy per cent of the land of the country.

Any economic or social reform that fails to address this issue will automatically fail, since access to land is the primary factor in economic well being.

GOOD social policy may have a range of definitions, but whether one takes a political or economic view, a satisfied people will opt for political stability, economic investment and growth. An unhappy and repressed population is always a threat to all. This simplistic criterion allows for a broad range of measures, from welfare payments to public works, to be defined as social policy. For our purpose, we can consider these programmes of expenditure only as examples of what can be done with public revenues.

While social policy writers and analysts have long contented themselves with looking at where all the money is going, it should be evident that we need to be at least equally concerned with where it is all coming from. The source of revenue as well as its destination is our concern.

For reasons that I have never found compelling, a tax on income has been considered by many a "progressive" tax and therefore a good tax in that more money is taken from the wealthy than from the poor. But whatever its incidence, it is basically a tax on production. Those who are more productive pay more, those who produce less pay less.

Aside from the disincentive implications of such a tax, there are other considerations. The very poorest who have no income pay nothing and thus are excluded from contributing to the public economic life of society. It is questionable if any social policy should allow its beneficiaries to remove themselves, or worse, to be removed from the

responsibility for its support. This is the basis for dependency, class strife and a degree of what sociologists call *anomie* and what the working and middle classes the world over resent and the wealthy fear.

If there is bad feeling towards those unfortunates at the bottom, imagine the hatred for those at the very top for whom income from labour and capital is no longer relevant; those whose wealth derives from the passive ownership of land and natural resources, from where great wealth increasingly flows, much of which escapes taxation.

The progressive features of the tax on incomes then are restricted only to those who regularly earn a little and those who regularly earn more, a dubious advantage for any society that wants people to work and capital to be productive and would reward rather than penalise them for doing their jobs better.

SOME OF our West European friends have found a new way of penalising production which some Americans have been considering lately. It is called a value-added tax, a levy on goods and services which is proportional directly to the amount of value added at each stage of their production or exchange until they reach the consumer.

The lesson for Santo Domingo

Dominican millionaires escape property tax

THE UNEARNED increment of land belongs to all Dominicans, according to R. Hipolito Mejia, the Secretary of State for Agriculture in this Caribbean island state. And he affirmed:

"We believe that a land value tax would contribute to the most profitable use of each piece of land, thus increasing efficient land use. Moreover, it would increase production and thus accelerate economic growth. Besides, income distribution would improve as a result of a major contribution by the owners of the best pieces of land.

"According to the eminent professor of the University of Wisconsin, John Strasma, who did work on this subject in the Dominican Republic through the Agency for International Development, only three countries in the Western Hemisphere do not provide for some form of annual real estate tax in their tax laws: the Dominican Republic, Cuba and Venezuela.

"In his final report, Dr. Strasma also points out that 'a well-designed real estate tax does not represent an additional burden for an owner whose land yields a good production, but it does weigh heavily on those who hold their land in idleness. On the other hand, exactly the opposite occurs with sales taxes, consumer taxes, or net income taxes: those who possess unproductive land do not contribute, while those who make their land produce must pay high taxes.'

"For 1977 in the Dominican Republic, 2,373 persons declared agricultural properties among their assets. Among these, income tax was paid only by those people whose properties were valued at less than one million pesos, while the two properties valued at more than one million did not pay anything. This indicates that these large estates are being under-used and that their owners apparently keep the land for real estate purposes and not as an agricultural or cattle-breeding business.

"By the year 2000 the population of the Dominican Republic will be about nine million, which means a duplication of the current demand for food. For this reason it has become absolutely necessary to use all possible mechanisms to achieve the highest and best use of each square metre we are living on. Real estate speculation should be deterred. The unearned increment of the land belongs to all Dominicans, while the private owner is entitled to those proceeds that are the fruit of his work.

"We want to clarify that we are in favour of the concept according to which the resources obtained from taxes of this kind should return to their source of origin; in other words, they should be used in programmes that will improve the living conditions of the farmers."

might well be in Hong Kong rather than in New York. A duty-free port might do more for the revenue base of this country, including employment and investment, than the high tariffs imposed here as your major revenue source.

Which brings us ultimately to the distinction between the poor and the wealthy and the basis for taxation that provides good social policy.

The difference between the poor and the wealthy, as opposed to the simply non-poor is equal rights to natural resources. The value of resources – land, minerals vast country acres as well as valuable urban locations – offers a source of revenue that is capable of growth. But most of all, the collection of this revenue makes for a fundamentally more equitable distribution of wealth.

For there would be no tax on production to limit artificially the use of a site or motivate the destruction of a crop. There would be no incentive to hold uncultivated land off the market to speculate at the urban fringe in spot development. A tax that was high enough to discourage monopolistic hoarding of land and high enough to compel its use and growth would not only stimulate production and employment to a very high degree, but also transform special rights to land to equal rights to land.

You who live here know the importance of a homeland that is free, secure and most of all your own. The most peaceful, equitable and socially desirable means of securing rights to your land is making all those who occupy it pay everyone else for the privilege. Providing equal rights to land does not require the subdivision of estates into small, often uneconomic buildings. Nor need it mean an expropriation of private property.

Produce must belong to those who raise it with their labour, but the advantages of one piece of land or one urban location over another result from neither an individual's labour nor an individual's capital but are due to the bounty of nature or the collective activities of the community. It is the sharing of this unearned income that will accomplish what no bloody revolution or public expropriation will ever achieve.

ADVERT

WANTED: John Orr's *Taxation of Land Values and its effect on Landowners and Tenants* (1912). Please write to The Secretary, UCTLV, 177, Vauxhall Bridge Road, London, SE1, if you have a copy that you can sell or entrust to library for use by researchers.

SINGAPORE: ALARM OVER LAND PRICES



● Development grows apace in Orchard Road, Singapore's bustling commercial centre. Ian Barron reports.

SINGAPORE'S booming land market has begun to arouse fears that the latest prices may undermine the country's economic prosperity. Over 200 tenders that will fetch a conservatively estimated S\$800 m. were submitted to the Urban Redevelopment Authority in its recent sale of sites.

Parcel 3 attracted the highest bid: \$40,000 per sq. metre, placing a value of \$67 m. on the 1,676 sq. metre site at the junction of Cecil Street and Boon Tat Street.

The site was among eight lots of land in the Golden Shoe area earmarked for office development.

The scramble for land reflects the confidence among investors that Singapore's trading performance in the Far East will be matched only by Hong Kong's.

In the past decade, the island has experienced a total transformation. Urban slums, and the traditional *kampung* villages, have been flattened in favour of sleek concrete skyscrapers. Ornate oriental architecture, and jungle green, have both succumbed to the bulldozer.

The impact on culture and environment is controversial (depending on one's point of view). What is beyond dispute, however, is the degree to which landowners have benefitted from the growth in economic activity.

After the latest bids for land were delivered, the stock market responded: the value of property company shares rocketed, along with the shares of companies with land banks.

But while the speculators can confidently cash-in on the relative scarcity of land, alarm bells are now being rung about the prospects of the economy generally.

● Ho Kok Cheong, a committee member of the Real Estate Developers Association, has warned that land price levels have aroused the fear that there seems to be no limit to the rising cost of vacant land. High tender prices, he says, will lead to end-products which often have to be priced beyond the reach of many customers.

● Prof. Philip Motha, head of the Department of Building and Estate Management, National University of Singapore, has now publicly drawn attention to the de-stabilising relationship between trends in land values and economic development.

Nonetheless, these signals will go unheeded. Macro-economic analysts have yet to incorporate into their calculations the impact on the industrial economy of land values that are pushed upwards at a rate out of proportion to the rest of the system.

The green foliage may be rapidly disappearing in Singapore, but the jungle remains: concrete in form, and with an unnatural body of laws that permit the exploitation by land monopolists of men who want nothing more than the freedom to enjoy the wealth that they create.

Can of sardines!

SPECULATIVE fever, says Charles J. Urstadt, president of a Manhattan real estate firm, is like "two guys buying and selling cans of sardines. They sell for 10 cents one day, 20 cents the next, and on up to over \$1 a can. Finally one man opens a can and tells his partner how terribly the salty sardines taste. His partner replies, 'Sardines aren't for eating, they're for buying and selling'."

UTRECHT '82

THE NEXT conference of the International Union for Land Value Taxation and Free Trade will be held in a beautiful wooded estate near Utrecht, Holland. The date: July 24-31, 1982. The conference centre, Woudschoten, has three halls and an open-air theatre, with residential facilities for 150. Full details of conference arrangements will be published in future issues of *Land & Liberty*.