the opportunity which has been lost for a full bodied land-value taxation scheme—a measure which would encourage maximum production without the concurrent problem of introducing a land price spiral.

The experience of developing countries that have tried it clearly shows that peasant smallholdings and peasant proprietorships based on freehold concession are no substitute either morally or economically for the relatively painless measure of requiring landholders to contribute to the common pool the economic rent of their holdings.

JAPAN

The Same Patterns, Problems and Palliatives

P. R. HUDSON

"Japan's economic triumph could turn out to be a sinister firework"

IF JAPANESE ECONOMIC EXPERIENCE shows nothing else it certainly illustrates that the predictions of economic planners throughout the world have a common standard of innacuracy. In 1955, the Japanese Economic Planning Agency predicted a rise of gross national product of 5 per cent per year. It rose twice as fast. The economic target set for 1962 was achieved by 1960. A predicted growth rate of 7.2 per cent for recent years matured into a positive achievement of 10.7. While the official planning agency chooses to stick to an average rate of about 8 per cent, the more adventurous economists consider that 10 per cent is realisable. The gloomies, on the other hand, have their doubts. Having been proved wrong that a shortage of labour would produce a cost inflation in the early sixties they still feel that the rate of growth will decline in the early '70s particularly since the government now intends to devote much more money to the provision of social services and public works, even to the extent of incurring the first budgetary deficits for twenty years.

These comments and much other valuable information about Japan is to be found in a recent article by Professor G. C. Allen (London University)*. Two aspects of the Japanese economy are particularly interesting because they are bound up with the rigid land tenure system in a country in which accessible developable and cultivable land is particularly scarce.

In the last ten years, the disappearance of the formerly high unemployment rate due to industrial and commercial expansion has had the effect of reducing the agricultural labour force from 40 per cent to 23 per cent of the working population. Estimates suggest that within twenty years only eight or nine per cent will be employed in agriculture. Nevertheless, farming in Japan is relatively inefficient by international standards and the government pays high subsidies for basic commodities and particularly for the rice crop which is twice the world price under the pressure of the agricultural vote. The system of land tenure, brought about by the early post-war Land Reform Law fosters peasant proprietorship and there are certain limitations on land sales. Most of the farms are held in tiny scattered strips making the agricultural industry a heavy user of capital and labour. Understandably the older men and women prize the security that their land holdings give them. As Professor Allen points out, the farmers are "reluctant to sell an asset which, they observe, is constantly rising in price." Moreover, the younger people also look on the parental holding as a valuable refuge from "the uncertainties of urban employments."

Pointing to the difficulties on the economic horizon, Professor Allen paints the picture vividly. An urban population expressing dissatisfaction with high food prices lives beside an entrenched peasantry expecting to enjoy the full fruits of rising productivity. "Serious matters are at stake. Rural Japan remains the rock on which the social order rests. The agricultural life is still regarded as a repository of old values and virtues in a time of social disintegration. It offers some barrier against the wave of urban squalor that threatens to engulf this beautiful land . . . the family farm is a haven of security to return to if bad times should come."

Apart from rural problems, Japan's political leaders are faced with the need to grapple with very serious problems of urban congestion and rapidly rising land values in towns. In Tokyo region, urban land prices have risen by ten times in a decade. "Rents have soared," writes Professor Allen, "and housing standards have lagged far behind industrial progress." The government plans to build three million houses in five years. The private sector will provide another 4.3 million with help from the government in the provision of sites. As yet, however, no real attempt has been made to deal with the problem of land prices. Fortunately a policy of legal price fixing has been rejected as futile.

In his analysis of Japanese economic hurdles Professor Allen states that the need to solve the problems of urban congestion, housing and land prices is more urgent than elsewhere because of the exceptional growth rate

*Japan's Economic Problems and Prospects by G. C. Allen, Emeritus Professor of Political Economy in the University of London. Published in *The Three Banks Review*, December, 1967.

of the last two decades. It seems quite clear that unless the government produces the right sort of land policy quickly, Japan's magnificent economic triumph, albeit at the cost of social squalor. could turn out to be a sinister firework which might explode in its population's face within a very few years. Instead of concentrating on land appropriations and re-allocations at very high cost, the Japanese government would do well to consider the merits of a taxation system for urban land which facilitates development and provides a healthy income. No one would pretend, however, that with its rigid background of rural peasant proprietorship the country would find land-value taxation an easily acceptable measure in the absence of continued agricultural subsidies.

COLOMBIA

'Costless' Public Improvements—a Nod in the Right Direction

MOST PROPERTY TAXES, whether based on assessments of the value of land plus building or a rental concept of either or both, are used by local governments for their prime source of revenue. Nearly all major public improvements are financed through borrowing in the capital market by bond issue or from special governmental loan institutions.

It is thus tempting for local authorities to spread the load of capital investment over a long period of time by making easy payments from tax receipts. In this way they can undertake more projects per year and in an economic climate of currency inflation they can make substantial gains in the long run.

This system of financing even with the additional costs of loan charges, has the added political advantage of keeping the rate of tax much lower than it would need to be if all projects were financed on a strict cash basis. On the other hand, where as is frequently the case, a greater amount of new capital expenditure is incurred every year, an increasing proportion of tax income is required to finance the greater debts. Since administrative costs also rise with expanding services it is easy to see how the tendency develops for tax rates to be increased annually.

In the rapidly expanding less developed countries there is generally a relative shortage of capital and interest rates tend to be high. In these countries there is also frequently a need for very high expenditure in public works, often occasioned by a dramatic shift in population from the country to the towns, requiring major extensions of public services. Often, however, there is strong resistance on the part of long established town dwellers to face a sudden increase in property tax rates in spite of the fact that property values are rapidly rising—particularly the value of well located sites.

Recognising the political difficulties involved in big increases in tax rates, the government of Columbia has enabled local authorities to raise at their own discretion *impuestos de valorizacion.* These valorization taxes are specific imposts on assured site value increments resulting from limited public improvements. The total amount levied, usually in two annual payments, is completely used up to finance 'once for all" capital projects.

In the city of Medellin, where the system has been used for twenty years, half the annual budget is raised in this way by a special department responsible for planning, valuation and execution of the works. Considerable interest repayments are thus avoided and the difficulties of the capital market overcome. The city now has an impressive network of parks, highways, improved rivers and canals.

Strangely enough, it is the citizens themselves who help to determine the extent of the area deemed to benefit from each improvement. The Valorization Department produces its draft scheme, estimates of cost and its own administrative expenses. Local estate agents and resident groups are then consulted on the delineation of the area considered to be affected and on the tentative divisions of tax burden. After discussion the scheme may be amended or the tax area altered.

This system of taxation is an interesting one and has some of the effects of a site value tax. Owners of vacant or under-used land may, for example, be obliged to sell or re-develop to cover the tax payment and the payment brings home the reality of the value increase arising from the municipal improvements. Commenting on the system recently, *W. G. Rhoads and R. M. Bird, expressed the view that the impact of the tax, levied as it is at a stiff rate over a short period, may have a stronger impact on the real estate market than a regular site value tax. They rightly point out, however, that the valorization tax recovers only the benefits from direct public investment while site value taxation reaches increases in values which arise, for example, out of increased productivity. (This apart from collecting revenue from already established land values.) Moreover, the valorization tax, does not influence the selling price of land to the consumer, although it may discourage speculation to some extent and, by itself, does not penalise development. One of the other merits of the tax is that the Valorization Department is prompted to initial improvements only where the resultant income arising from increased values is sufficient to cover the cost of the scheme and is acceptable to tax payers.

While it could never be argued that the Valorization Tax is an efficient substitute for site value taxation, it has considerable advantages over development levies and capital gains taxes, by relating public works directly to the amount levied and by providing for capital financing.

**Land Economics.* W. G. Rhoads—U.S. Embassy, Bogota. Colombia A.I.D. Mission. R. M. Bird—Internattoinal Tax Programme, Havard Law School.