

# 1 OPEN FORUM

Land and Liberty Summer 1997

## Legal action plan to fight taxation in South Africa

*PETER MEAKIN writes from Capetown to explain why he plans to launch a legal challenge to Nelson Mandela's South African constitution.*

TAXES on people's earnings are evil. That is why we will apply to the Constitutional Court to have all taxes that bear upon labour, savings and trade of individual South Africans expunged from the statute books.

We will not have to prove to the court that the manner in which revenues are raised has a profound bearing on the levels of unemployment. We plan to prove that the current tax laws make the promises to dignity, freedom, and equality, in particular, impossible to uphold.

When Minister of Finance Trevor Manuel and his 7,000 tax collectors are forcibly relieved of their loathsome addiction to taxing people's work, savings or trade then we know from examples around the world that there will be an explosion of investment and employment opportunities in South Africa. But this is only half the story; it still does not guarantee that every one becomes employed and it leaves nothing to Manuels' coffers.

How will Mr Manuel secure his revenues? We cannot predict what he will do, but it seems that he will be compelled to raise his entire revenues from the land.

Work (salaries, wages and fees), Savings (interest, dividends and profits), Trade (VAT, customs and excise; though these taxes are actually a claim on labour and capital) and Land (rents) are the

only revenues which he can attack. When he is restrained from taxing labour and capital and trade, the active components of production, he will be left with land rents as his only source of revenue. That will be a joyful day indeed.

LAND, or more accurately, resource rents, comprise those annual revenues which currently accrue to land owners without any exertion on their part, and whether in the country, the town, the mines, the spectrum, the rivers or the seas. Land is the passive factor of production and will give up its food, fibre, shelter, minerals, and fish to anyone who works it.

Resource rents are the amount which anyone would be prepared to pay, annually, to have a stream running through their farm rather than no stream, to live in Claremont rather than in Simonstown, to have a shop in the Waterfront rather than Bonteheuwel, to control one of part of the spectrum rather than another, to have a right to harvest perlemoen or crayfish, to be able to pick up passengers at a taxi rank, to develop offices not houses, to build casinos and not offices, to mine rich ores not marginal ones, to farm rich soil not scrub, to farm close to a market not far away, to have this view not that one, to have water, sewerage and storm pipes and electric and telephone connections;

digital not analogue connections, and to have good policing.

Such rents arise entirely from the gifts of nature, or from the expenditure of State, Provincial and Municipal authorities (roads and services, hospitals, defence, police schools) and by the growth of towns and cities.

They are the quintessential source of Departmental revenue not merely because they leave to men and women the entire fruits of their labour, not because they return to citizens that wealth which Nature and Communities alone create, but because they make it easy for everyone to get access to as much land as a man and his family may need to employ themselves and live by their own labour in some comfort.

HOW DOES the expropriation of resource rents by the State enable the poor to secure easy access to land? This happens because if there is no private claim to resource rents there is no capital value in land; no deposit to pay, no interest to pay and no capital to repay.

SACPRIF's method is to give people a chance to get out of the squalid and crime infested townships, and to offer a real option for the creation of wealth by themselves other than relying on someone else to create a job, or on crime, soup kitchens, public works, child-feeding

*Continued on page three*

# AGRICULTURE: A TAXING QUESTION

John Ramsay

How can the ecological decline which modern farming methods have had on the quality of the British countryside be reversed? The over-reliance on agrochemicals, the intensive rearing of livestock, the destruction of wildlife habitat and the general trend towards ever larger and more homogenous agricultural holdings producing food doused with pesticide residues and growth hormones have turned a once green and pleasant land into an alien wasteland. It is an altogether too familiar and too depressing portrait of the British countryside and one that shows no sign of improvement despite the spate of food scares that have led to a great deal more critical scrutiny of modern farming, knowledge of whose practices have stretched public credulity.

Equally familiar to this sorry picture is the common perception that little can be done to reverse this trend beyond exhortations to the farming community to farm with rather than against nature and through our limited power as consumers to insist on organic produce wherever possible. Despite the increased availability in recent years of organic produce it remains statistically insignificant at only 0.3% of total agricultural production and while the current system of agricultural subsidies continues to reward intensive production it is likely to remain the exception rather than the rule.

Even the long awaited Labour victory promises little to redress this degradation of our countryside. The Shadow Secretary for Environmental Protection, Michael Meacher, has vowed to work for major reforms to the Common Agricultural Policy, to reward less intensive agriculture and active land management. Whilst not doubting the sincerity of the commitment I am well aware that this is a road we have travelled many times before. Ever since

Britain joined the EEC the major parties have all agreed that the CAP badly needs reform, yet the subsidy bandwagon rolls on unhindered and ever larger. Nor is there much prospect of an increase in financial support for organic farming through more cash incentives to make the transition from intensive to organic production. With so many prior claims on the public purse and a self-imposed moratorium on increases in public expenditure any such proposal is likely to get short shrift from Labour's frugal Treasury team.

The outlook for the British countryside is bleak but need not be so. There is a simple, cheap and effective way to reverse this decline and that is by the re-rating of agricultural land, allied to a series of discounts and exemptions for those farmers embracing more environmentally friendly forms of agricultural production. Currently agriculture enjoys the privilege of being the only industry exempted from business rates. This exemption is a historical anomaly dating back to earlier this century when the power of landowning interests was pre-eminent. If ever this exemption was based on sound reason, the fear of war and the consequent need for self-sufficiency, it has long ceased to have any continued justification on either economic, social or environmental grounds. If modern agriculture prides itself first and foremost as a business and turns a deaf ear to criticism on the basis that environmental sensitivity would be unbusinesslike then let it compete as a business subject to the same taxes as borne by other industries. As they have sown so shall they reap!

The proposed re-rating of agricultural land would of course not be applied uniformly. A series of discounts and exemptions would be available to encourage active land management and organic production. The details of the

discounts available will doubtless need considerable thought before their application but generally speaking, and in lieu of suggestions to the contrary, the discounts should be split equally between land management and production.

In the case of land management the exemption should be so structured as to promote the retention and reinstatement of native woodland, copses, hedgerows and wild meadows and be suitably flexible to promote traditional customs such as dry stone walling. Indigenous woodlands with unrestricted access and other "non-productive" wildlife habitats would have complete exemption from the tax.

In regard to production the emphasis here would be to frame the second part of the exemption to promote organic produce and animal welfare. Exemption for livestock farmers would be limited to meat produced in accordance both with the Farm Verified Organic scheme and the welfare code of Compassion in World Farming whilst fruit and vegetable growers would have to meet Soil Association standards to obtain the production exemption.

Barring the above all other agricultural land would pay the full business rate based on the market value of their land. The formal incidence of the tax should fall on those who hold an interest in the realisation of the land's market value, either through leasehold or freehold interest, not on tenant farmers who have no security of tenure and thus no interest in the land.

Doubtless this proposal will draw opposition from vested interests who will trot out the well-worn argument that the imposition of rates on agricultural land will ultimately feed through into higher prices for agricultural produce which will consequently undermine the industry's competitiveness in a global market etc. etc. On the surface such an argument has

## 3 OPEN FORUM

appeal but it rests upon a misunderstanding of the nature of land taxation. As a brief resume of classical economic theory in any given economy landowners will charge their tenants the maximum rent that the market can bare. At this point there is no surplus of farmers wishing to enter the market and rent agricultural land; if there were, market forces would dictate that rent would rise until the excess demand for land was removed. If a tax on land, in this instance business rates, was imposed and landowners were to attempt to pass on this tax to tenants in the form of higher rents this would be self-defeating; any rise in rents would lower the demand for land as farmers, unable to pay the increase, left the industry. The decrease in demand would ultimately depress rents back to their former level and an equilibrium would be

re-established. The landowners cannot therefore pass on any such tax on land and will have to bear the cost as a deduction from their rental income. In any event prices for agricultural produce will remain unchanged.

The real economic effect of re-rating agricultural land will be to decrease the cost of such land which would make it easier for new farmers to enter the industry. It is worth noting that when agricultural land was de-rated in 1929 there was no corresponding decrease in the price of agricultural produce but the cost of land began to steeply escalate as it became more attractive to hold wealth in the form of land which was tax-free. With re-rating we can expect to see this effect operate in reverse.

The benefits of this proposal to re-rate agricultural land with its series of discounts

and exemptions for non-intensive farming are clear. At one stroke it provides a powerful stimulus for farmers to convert to more sensitive forms of land cultivation and penalises those who exploit and pollute the countryside. The proposal also gives financial incentives both for better stewardship of existing non-productive land and for the reinstatement of landscape features which have been deemed surplus to the requirement of modern farming techniques. In addition rather than putting further strain on the public purse the proposal would provide the Treasury with a much needed new source of tax revenue. The scheme should commend itself to all those who care about the environment about the quality of food we eat, about the loss of wildlife habitat and with promoting a better and healthier countryside.

### SOUTH AFRICA

*Continued from page one*

programmes and welfare payments.

These measures, however well meaning, are an admission of a failure to get people onto land so that they can make their own soup, drain their own lands, feed their own children and give or accept charity when droughts or pests occur.

They convey the impression that there are just too many people and not enough natural resources to support them, ignoring the fact that such people are being supported from just such resources though they are provided by someone else. This theory has become well entrenched in the crusty volumes of the conventional wisdom orchestrated by the press for reasons which escape me.

But the jury is still out on the question of the stinginess of nature. The Reverend T.R. Malthus first claimed that population increases faster than the means of subsistence more than 170 years ago and yet farmers in many countries, today, are paid not to plant.

This is the result of what has become to be known as the Green Revolution. It has not stopped. Science extends the barriers of subsistence each year so that families require less and less land to

support themselves in food, shelter and fibre.

If nature is so stingy then how would Malthus explain that one hectare of land in Stellenbosch produces R600,000 worth of self-pick strawberries annually, a 400m plot of vegetables can yield R35,000 p.a. at supermarket prices or, starting with five sows and a boar, a destitute Korean island-community became the largest exporter of hams to Japan in less than a generation?

But who wants to just subsist? Let us take the case of the Bushmen who were so beguilingly introduced to us by Sir Laurens van der Post.

The Kung bushman of the Kalahari live in one of the harshest environments in the world, yet Prof. R. Lee of Toronto University has shown that their life of hunting and gathering is almost leisurely. Small children and old people do not work, and working adults need to put in only six hour's labour a day, two and a half days a week, to provide enough food ... John Yellen has found that such bushmen today are perfectly well aware of the arts of farming, and occasionally plant crops and acquire herds of animals. But when their enterprises decline, as

they are very likely to do in that harsh environment, they happily revert to traditional ways.\*

Let's just read that again. Working adults need to put in only six hour's labour a day, two and a half days a week, to provide enough food. A 15-hour week is enough to live a preferred life style in the most extraordinary conditions.

If 15 hours a week is the norm in subsistence economies, and there is ample evidence from the early 20th century to support this, then imagine what one could make for oneself on a 30-hour week where there is arable land. There are 14 million hectares of that stuff in the country.

*There is no shortage of land, which means there need be no unemployment. The obstacle to work is taxation. Thus, joblessness would be banished if taxes on people's wages and savings were outlawed. That is why we formed the South African Constitutional Property Rights Foundation. We are seeking advice from a top London lawyer. We want to get into court in 1997 and have the issue resolved by The Millennium.*

\* Colin Tudge, *Food Crops for the Future* (Blackwell, 1988).