SOUND AND STABLE

THE OPTIONS for improving the local property tax are back in the spotlight. The traditional approach is being favoured, of taxing both land and buildings, but more attention ought be directed at the possibility of exempting buildings altogether.

Nigel Lawson, the former Chancellor of the Exchequer who resigned after a row with Margaret Thatcher, has breathed new life into his 1985 proposal. He opposed the Poll Tax, and suggested that the domestic rates (the property tax) ought to fall on capital values. These values were to be updated when houses change hands. Depending on how often general revaluations took place, this could put an economically damaging premium on immobility.

The Labour Party, in its *Fair Rates* document, advocates the use of an unspecified composite of "market price ... rebuilding costs, maintenance and repair costs, and private rents in order to calculate a rateable value". This raises more questions than it answers.

On November 30, the *Financial Times* recommended "imputed rental income or the capital value of the site of domestic dwellings" as the best option. This is site-value rating (SVR), which was advocated by both the Labour and Liberal parties during the first half of this century, and which is operating in several countries today.

The volatility of house prices since 1985 is now recognised as a major factor in Britain's current macroeconomic problems, so it is worth emphasising that an annual tax on site values alone has an important stabilizing influence. Pittsburgh, the one large city in the US which is working towards such a tax – its tax rate rate on land values is considerably higher than the rate on buildings – has the lowest, most affordable house prices of any major US city.

The bricks and mortar of a property form part of the physical output and capital stock of the economy. A tax on the yield of this stock, such as the rates, discourages its production and increases its price. Land, on the other hand, which is not produced by industry, generates a different price effect when it is taxed. The supply of housing sites cannot be manipulated in order to shift taxes. The net rent of a site, hence its price, falls in direct proportion to a tax on site rents.

That's why it makes sense to direct the tax burden onto the value of land alone. This would encourage, rather than discourage, the construction industry which is now in slump. For example, it penalises the speculators who hold land idle, for no good reason: for the tax falls on sites according to their highest and best use – as permitted by the planning laws and reflected in the demands of prospective users – regardless of actual use. This increase in the supply of land for development further reduces rents and prices.

THE incentives are all in the right direction. "De-roofing" would not be encouraged, and property owners would not be discouraged from making improvements. It is probably no coincidence that Pittsburgh hovers at the top of the Rand McNally *Almanac* list of America's most "livable" cities.

When considering alternatives, the practical conclusions of actual experience is important. In 1989, the Lord Mayor of Brisbane's inquiry re-examined the appropriateness for that City of the existing SVR system. The committee of inquiry concluded that it was superior to orthodox rating as a "mechanism for achieving a city's town planning objectives".

• BRITAIN'S Prime Minister, John Major, has abandoned the poll tax in favour of some variation on the old property tax.

• In a major study of the alternatives, a London firm – Coopers & Lybrand Deloitte, which was commissioned by the Rowntree Foundation – concluded that "A tax only on residential land is attractive economically because it ought not to affect landowners' decisions as to how to use their land". But in practice, claimed the report, the difficulty of separating land values from the value of buildings "makes such a tax difficult to administer".

• In this review of the property tax, DAVID RICHARDS re-considers the evidence, and finds persuasive arguments in favour of the property tax on site values alone.

In supporting "rating on the unimproved (site) value of land", it noted that the "committee's conclusion in this regard is in line with the findings of other recent Australian inquiries".

It also reported that the rating system presents greater valuation problems, so that the City would only be able to achieve its target of annually updating rateable values by remaining with SVR. In Brisbane, as in Scotland, dissatisfaction had come to a head when the rates burden was drastically realigned after a seven year interval between general assessments.

Denmark's local property tax is also based on site values alone, including farm land. Computerised annual updating of the country's land and buildings information system was introduced in 1982, and complete annual reassessments are imminent. By far the most straightforward and successful part of the process is the separate site valuation system.

In Britain, pilot site value surveys were carried out in Whitstable in 1963 and 1973, and the surveyor reported that "The field work involved in valuing site only is very much less than valuing site plus improvements". For speed and economy of implementation, SVR clearly fits the bill.

Accountability and ability to pay are two criteria by which property taxes are judged to fare badly. However, the Brisbane report points out that those who pay rent or board contribute to the rates (so do housewives in kind). Furthermore, SVR does, in fact, bear proportionately on the capacity to own the most valuable land. Land is a "positional" good, which means that those with greater ability to pay choose to buy more of it, or to buy sites that are in the best locations (i.e., enjoy advantageous access to community-provided amenities or the beauties of nature).

But is the tax base an adequate one? The Whitstable surveys found that the increase in the number of properties on the rating roll made the overall site value base similar to the existing base, but would have resulted in most properties (including the best developed shops in the High

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Published by Land and Liberty International, 177 Vauxhall Bridge Road, London SW1V 1EU
Typeset and Printed by Doppler Press, 107 High Street, Brentwood, Essex CM14 4RX

escape, is another effective deterrent to labour, chiefly because it makes it impossible to work the marginal lands, which would otherwise yield an adequate livelihood to labour, but no more.

Hence the drift to the shanty towns. The general tolerant attitude towards tax evasion and avoidance is a pointer to its basic immorality.

Part of Mbezi's success, Chaka goes on to explain, is due to his organising ability and good relationships with his customers; and his reward for these is one that he should be allowed to keep intact.

On the other hand, part is due to the location he has chosen, and the density and quality of the surrounding population. This part shows up in the value of the site, which, being thus created by society, is the only logically and ethically justifiable source of public revenue.

AT THIS point, Chaka deals with a question that is seldom considered: what happens when the market price of individual sites, which now provide a benchmark for the valuation of others, is totally absorbed by land value tax at one hundred per cent?

The solution he quotes is one given in the thirties by Monsieur V. Précy of the 'Ligue Pour La Réforme Foncière', a continuous auction in which bids are invited for rents, not prices.

Having laid a secure foundation, Chaka proceeds, against a diminishing opposition, to describe the wider social benefits that will accrue from this reform. Nobody will want to hold more land than he can profitably use; and the lifting of the taxes on industry and trade will encourage people to use the marginal lands that yield no rent, and will therefore also not be liable for the land value tax.

This expansion of opportunities for individual enterprise will tend to curb monopoly, and, as a corollary, to replace a banking system that at present serves monopoly and speculation with a decentralised one that will benefit a rising class of small craftsmen and retailers.

The first cause of the specifically South African problems of race relations, and rivalry between the Afrikaners and the English, will gradually be eliminated by a land reform that is in keeping with the traditions of both the Afrikaners and the African tribes; and the present vexed question of power-sharing will cease to exist.

FINALLY, the implications of the single tax for the rest of the world are considered in some detail, as are also its probably beneficial effect on business cycles.

Nor does Chaka neglect such matters as successful applications in part of the land value taxation principle, free trade and a proper limitation to the functions of government.

This grasp of affairs is remarkable, one would think, in an occupant of a "shoe-box house" in Soweto, until it becomes apparent, by an accumulation of references to sources, that he is a regular reader of *Land & Liberty* and *The Economist*.

A further question on which one would have appreciated Chaka's opinion is the one of whether economic justice would suffice to soothe the inter-tribal animosities that at present appear to be exacerbated by right-wing extremists.

It would also have been helpful if he had corrected a statement by Dabulamanzi (page 8) that "money to pay wages" would be a part of Mbezi's initial working capital.

Henry George exploded this fallacy by pointing out that wages are paid after labour has added value to the employer's stock of capital, and therefore at no time diminish it. Mbezi would pay the first week's wages out of the first week's takings.

But these are minor criticisms of an excellent book that for some time to come should be both a valuable source of arguments and information for the convinced Georgist, and, above all, an entertaining introduction to Georgism for the beginner.

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Street) paying lower rates than under the existing rating system.

An attempt to calculate the annual rental value of land in Great Britain for 1985 has come up with the figure of £39.4 bn, if all mineral rents, farmland, routeways and urban parks are excluded*. An average rate of 34p in the pound on that rateable value would have been sufficient to yield the £13.4 bn raised in Great Britain by the existing rates.

Anders Muller of the Inland Revenue Directorate in Copenhagen, who has studied the operation, incidence and economic effects of Denmark's property taxes relative to other taxes, concluded that "it would therefore certainly be wise to consider an increase in taxes related to properties (which) could for example finance a reduction of the income tax".

Far from having to think of transferring the responsibility for huge chunks of local spending, such as education, to central government, there are excellent social and economic reasons for contemplating local government rates displacing central government taxes.

According to the British figures above, an additional 54p in the pound site-value rate would have been sufficient to replace all central government grants in 1985. The £21 bn saved would have been equivalent to one-third of personal income tax, corporation tax and employers' national insurance contributions together.

*Ronald Banks, ed., *Costing The Earth*, London: Shepheard-Walwyn 1989.