

Far East should swallow do remedy on

AT THE TURN of the century, Germany had a concession at Tsingtao in Northern China, a coastal fishing village. The intention was to build a port to service an inland mining operation.

It was recognized early that there would be the danger of the economic value of anticipated development in the region being speculatively capitalized into a "futures market" in the selling price of land. This would stultify development and economic viability. The German government appointed a diplomat, Dr Wilhelm Schrameier, to draw up a Land Ordinance for the Tsingtao region which would prevent any such anti-social outcome.

Starting from first principles, Dr Schrameier evolved a policy in which increases in the locational value of land would be socially channelled. Speculation would be rendered fruitless.

There were two main elements to Dr Schrameier's ordinance: a tax of 6% per annum upon the assessed value of land titles, and an incremental tax upon realized profits from the sale of land at the time of sale.

Dr Sun Yat Sen observed the Tsingtao ordinance in operation in 1913, the success of which gave a practical boost to his acceptance of Henry George's postulate that the value of land should be vested in public ownership (although, of course, the land could be privately held and used). The annual land value tax element in Dr Schrameier's programme was *de facto* the social appropriation of the economic rent of land.

Dr Schrameier arrived at his proposal without prior knowledge of the detailed social philosophy that Henry George had built upon the foundation of his "single tax" on the value of land. The obvious need perceived by Dr Schrameier brought forth the obvious solution!

DR SUN emphasized the dangers of land speculation in China, especially in its major centres like Canton and Shanghai, in the exposition of his Third Principle in his SAN MIN CHU I lectures in 1924. He extolled the "land tax" as the method whereby the social infrastructure of cities could be developed and the environment enhanced, while avoiding the accumulation of great private fortunes from unearned increment in land values.

Dr Sun emphasized the *incremental* land tax feature of Dr Schrameier's programme, rather than that of the recurrent *annual* land tax. This latter in Georgist theory, would have

guaranteed to the community in perpetuity the revenue from the rental value of land as a normal distributive share of the value of ongoing production. But J. S. Mill's proposal for an incremental tax was a proposal which George, in his *Progress & Poverty*, had severely criticized as being inadequate.

The truth of George's contention has been borne out in Taiwan, where the high price of land in Taipei and other major centres is a serious problem. Taiwan has undergone incredible evolution from a rural economy to a well advanced industrial economy in three decades. So has South Korea. But both need to study Japan in order to get a glimpse of what the future holds for them – unless they overcome the land price problem.

In Japan a very ordinary apartment can cost 30,000,000 yen. As Henry George said, the reason why real wages do not go up is precisely because the price of land does! Invention and social development obviously increase general productivity and hence overall living standards, but the relative gap between rent receivers and rent yielders in the context of private owner-



● Dr Sun Yat Sen



● Sun Yat Sen statue, San Francisco

Sun has never set on the Schrameier Prescription

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ship of land, widens and widens. That is the basic theme throughout George's writings.

Dr Schrameier determined to come to terms with the problem by arriving at precisely the same solution in the format of his 6% *annual* land value tax proposal – so that the *whole* community would gain equity in all of those increases in the utility, and hence value, of land that accompanied societal growth and development.

It is unfortunate that Dr Sun had had no personal experience of land value taxation in Australia, particularly at the municipal level, for therein he would have discovered that the annual land tax principle was long entrenched in "site value rating" as the major source for municipal revenue.

DR SCHRAMMEIER'S ordinance was not primarily designed as a revenue raiser. It was designed as a fiscal mechanism to prevent the social ravages of land speculation. Nevertheless a land value tax that is designed to be a substantial revenue raiser will, in the act of yielding revenue to the community, deny that selfsame revenue to private landowners as an unearned income, and to the extent that land rentals were denied to private landowners, these could not be capitalized into selling prices.

Indeed, the effective operation of the *annual* land tax would render the incremental tax unnecessary because there would be very little increment in the realisable selling price! A specific case in point is the construction and financing of the Taipei Rapid Transit Underground Railway. The immediate environmental effect will be to greatly reduce the smog problem and to facilitate commuting. The immediate economic effect will be to boost the rental value of land in all of those areas of Taipei City – and beyond – wherein the environmental benefits will be enjoyed.

Taiwan at all levels of administration needs to rediscover, appreciate and apply the "Schrameier Principle". By that term is implied the raising of public revenues from the land values generated by social development. The physical engineering of building infrastructure must be matched by the social engineering of taxation policy, so that the people as a whole, in contributing, by their presence, to the general improvements in