LAND and LIBERTY

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THE APPRAISAL profession in the USA is under attack. Our cover picture shows McCloud B. Hodges Jnr., a critic of the way appraisals are conducted. Too often, he says, real estate values are calculated by methods which are so subjective that the appraisers might just as well have arrived at their numbers by rolling dice. Far better, he says, to use scientific, computer-based appraisals based on a system of discounted cash flow. Mr. Hodges holds the printed-out data that went into the appraisal of one building on which he is currently working. *See Page 87.*

DEEP DANGERS

THE TRAUMA now being inflicted by the land market on Britain's manufacturers is an object lesson for everyone.

In England, the problem manifests itself in house prices. A survey by the Confederation of British Industries (CBI) in the south-east has proved that firms are curtailing their investment plans because they cannot attract workers.

Is there a shortage of labour? No: Britain counts her unemployed workforce by the million. Why is there a problem then? People cannot afford to relocate in areas where there are jobs for them, because of the speculation in residential land.

The other side of the same problem is to be seen at work north of the border, in Scotland, where the CBI is articulating complaints about the Uniform Business Rate (UBR).

This is one of the reforms introduced by Premier Margaret Thatcher, who has abolished the residential property tax (which will push up land prices). She resorted to this action because her economic analysts did not correctly diagnose the source of the problem: the structure of the property tax.

That is why people will now have to pay a Poll Tax, and companies will pay the UBR, levied at a uniform rate nationwide.

THE PROBLEM with rates – old and new (in the guise of the UBR) – is that it falls indiscriminately on the value of both land and buildings. This means that investors are penalised for committing their resources to improving land (new buildings, fixed plant, etc), instead of being encouraged to do so by having the tax removed from the rewards of their investments.

The other problem, highlighted in Scotland most recently, has nothing to do with the property tax *per se*. The failure to revalue property regularly means that the taxing authority is not able to sensitively (and fairly) respond to changes in the relative prices of property over time.

Hence, for some, the rise in the tax was relatively high. They had benefitted from the windfall gains of rising property prices. For others, the relative decline in property prices meant a drop in rates.

For political reasons Mrs Thatcher exploited the outcry from those who have enjoyed large increases in their property values. She introduced the Poll Tax.

Some leading valuers believe the new system of raising revenue for local governments will collapse within a few years. At that point, the experts ought to be ready with a comprehensive plan for a tax that is directed exclusively at land values.

NO-ONE in Britain can now doubt that the land market is in urgent need of reform.

In the past, each recession was preceded by land speculation which favours the *rentier* form of investment – simply stated: getting money for nothing – against the entrepreneurial form of investment.

Britain is now deep into a rerun of this vicious process. So is Japan, and Australia and Finland. We do not doubt that history will repeat itself in the form of a depression. If we are right, industrialists ought to be leading the debate that has as its ultimate objective the smoothing out of the damaging troughs of the business cycle.

This can only be achieved by reforming the tax system. We need to reduce taxes on wages and profits, and compensate by increasing taxes on rental income. In that way, we would not only encourage incentives at work but also negate the incentive to speculate in land.

Land is the best long-term asset into which one can invest one's money. That's obvious. But this propensity to seek refuge in an asset which, in the wrong hands can be used to retard economic growth, ought to be neutralised. It serves no rational, productive purpose in a capitalist society.