

## EXPROPRIATION WITHOUT COMPENSATION

# Charging of land rent by the state and distributing the income is fairer

16 JULY 2018 - 05:02 STEPHEN MEINTJES

Could the unlanded do much better for themselves than just occupying expropriated land? Prof Nicholas Tideman of Virginia State University pointed out in a submission to the Davis Tax Committee in June 2017 that: "The most equitable possible conditions under which citizens might gain access to land would be if the government collected the rent of land and shared it equally among all citizens, either through a 'citizens' dividend' or through spending for public services."

Tideman states that a general equilibrium analysis in the US of the effect of shifting taxes to land concluded that in the short run, the overall benefit from the combination of higher wages and higher returns to investment would be 15% of net domestic product and, in the long run, a consistently higher growth rate. He also said that SA could expect similar benefits and he estimated that a tax collected from all of the rental value of land in SA would yield R841bn per annum, which was close to the 2017-18 budget for VAT and income taxes.

He also said that with the economic growth that could be expected to result from removal of the taxes that impede the economy, it was possible that the proposed taxes could fully replace VAT and income tax. Given that land prices reflect the present value of the expected after-tax benefits of simple land ownership, and hence uncollected land rent, Tideman is no doubt right: collection of land rent has the potential to replace most taxes.

How else can we ensure our 57-million people in SA all benefit from our 122-million ha? The bureaucracy, corruption, disruption and delays involved in attempting a physical redistribution will eliminate this as a serious possibility whereas beginning to collect land rent, as Tideman suggests, will immediately make land more freely available. This is because all landowners will be incentivised to use land optimally, which would entail, in many cases, additional investment and job creation.

Alternatively, they will be incentivised to sell, thus increasing the supply and reducing the cost of land and facilitating start-ups. Moreover, the preamble to the constitution already gives a clear steer to the government inasmuch as, while the phrase, "We believe that SA belongs to all who live in it ..." in no way undermines existing title to land, it by

no means guarantees rent-free ownership of land. Quite the contrary, it points the way to the need that the government starts now before the Constitutional Court tells it to!

So if, as a weighty consensus has it, it is not necessary to alter the constitution to expropriate land without compensation in specific instances such as CBD sites hosting abandoned buildings, what is this land rent and why is it so important? Adam Smith simply said it was "payment for the use of land". Then, as now, most of the UK was owned by the descendants of William the Conqueror's Normans who lived off the rents paid by tenant farmers. Some of them, like the Duke of Westminster in London, were later to do even better with urban rents.

Since then rent has become a widely recognised phenomenon and the term "rent seeking" is often used to describe attempts to achieve unearned income through patronage, fronting to obtain state contracts or other manifestations of corruption. Its real significance, however, remains in regard to the unearned income accruing simply due to ownership of land. Therefore it would be the value-added remaining on a site after meeting the claims of labour and the risk adjusted returns on capital.

The classical economists, and the Physiocrats before them, had a good understanding of rent as well as its position as a natural source of revenue for the community which maintained the landowners' security of tenure.

Adam Smith in *The Wealth of Nations*, for example, said: "Both ground rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own ..."

While the French and British landowners of the late 18th century ensured that this advice was not implemented, the concept was carried to heights of popularity in the Anglo Saxon world by the publication in 1879 of Henry George's *Progress and Poverty*. George advocated the single tax on land to replace all other taxes and, after he died while running for mayor of New York in 1897, 200,000 people attended his funeral.

In a somewhat more democratic Britain than in Smith's time, Lloyd George's Liberal Party proposed a land tax in the budget of 1909. Although it was ardently espoused by Winston Churchill in rousing speeches, the land-owning House of Lords vetoed it.

Many cities in North America, Australia and SA nevertheless introduced site value (only) rating as a result of George's work. In his *A History of Economics: the Past and the Present* (1987) John Kenneth Galbraith notes:

"In his time and even into the 1920s and 1930s, Henry George was the most widely read of American economic writers.... *Progress and Poverty* in various editions and reprintings, had a circulation in the millions."

Nevertheless, Galbraith notes, "His *Progress and Poverty*, despite its continuing social influence notwithstanding, receives only passing mention or none at all in the standard works on the history of economic thought."

The big question is, why? The short answer is that vested interests mounted a highly successful campaign to expunge discussion of the single tax from economics. One of the

weapons in the neo-classical economists' arsenal was the conflation of land with capital. So land was airbrushed out of the debate. This process is detailed extensively by Mason Gaffney and Fred Harrison in *The Corruption of Economics*, who have the following to say of Frank Knight of the Chicago School: "... to Knight all land value is a human product.... Among the human activities and investments that create land, by Knight, is "killing off previous claimants". Not all the arguments of the neoclassical economists were quite as egregious but for those curious to see if any of them had validity or how they pulled off their coup, Gaffney and Harrison is required reading.

In the 20th century, the even greater failings of Marxism (plus tarnishing Georgists with that brush) made neoclassical economics seem like the only way to go. After the fall of the Berlin Wall, neoclassical economics had a decade or two in the sunshine but its shortcomings are now plain to see. Economics really needs to come down to earth. Ignoring rent and the concomitant need for taxation have led to major distortions in the financial system and growing inequality.

Freed from historical hang-ups on rent, South Africans can begin to appreciate and examine to what extent economic activity will be stimulated once the community begins to collect rent on the value it creates and reduces taxes on production and consumption, that is, economic activity.

And the further we go in this direction the faster we will grow. Even those states where land rental collection has been applied, albeit to a limited extent, such as Singapore and Hong Kong, are prospering.

Moreover, there are signs that recognition of this phenomenon is gaining traction elsewhere, with economists such as the Financial Times' Martin Wolf, and Joseph Stiglitz paying increasing attention, while in Britain an all-party parliamentary group has been set up to examine land value capture. An example of the latter is the mushrooming of buildings around stations such as the Jubilee and Crossrail underground lines in London, which testifies to heightened land values due to publicly paid for infrastructure. We have the same phenomenon around Gautrain stations.

Rediscovery of rent may well happen soon because as we've seen, the land issue is arguably holding up restoration of investor confidence in our country and there is no reason for South African economists to share the inertia around rent of their American counterparts.

Moreover, while the neocolonialist taint is overworked, it is particularly apt with regard to our dysfunctional rent-free land tenure system and its flip side, the equally dysfunctional tax system. Both have their roots in Britain ignoring the advice of the classical economists to collect the land rents arising out of the agricultural and industrial revolutions, which it was able to do by allowing the victims of land enclosures to go to the colonies willingly, or unwillingly, to join the army or navy, work in the dark satanic mills or go to prison.

We don't need this, we have the intellectual capacity to rediscover rent: if we don't it is just a matter of time before someone else does. But it would not just be nice to be first, we need to be!

Finally, while it is hard to find fault with Prof Tideman's analysis and the Davis Tax Committee is to be commended for engaging with him, it would be even better if this was to be followed up by analyses by South African economists. In doing so they could follow up

on many of the issues flagged by this writer (Our land, Our Rent, Our Jobs) thus enabling SA to take a global lead in the rediscovery of rent.

Thus, instead of focusing on redistribution of a few thousand farms, which can take place anyway, we can instead achieve a massive benefit for our 57-million citizens, including not only the redistribution of rent but also unleashing a potentially massive growth boom by eliminating regressive taxation.

- *Meintjes is head of research at Momentum Securities.*