

How Land Rent Could Solve South Africa's Problems

By Stephen Meintjes / 20 May, 2015

Johannesburg - Yes, we must resolve the issues we have around our history intelligently, and, of course, we must fix the economy. But emotions around land are the molten lava underlying the statues eruptions of this year – and resolving the land issue is the horse that is going to pull our economy out of the bog, not the other way around.

Why do we say this when there isn't the money to reach the redistribution goals, and we have seen what happens to an economy where what some regard as the only other alternative – land grabs and expropriation without compensation – is tried?

We say this because we have yet to look at land rent. What's that you may ask? It is simply the benefit that accrues to the owner purely for owning land. And it is enormous. It can also be described as the difference between what can be produced on the least productive site in use and all others with equal inputs of labour and capital.

Thus for example, franchise or chain store outlets which succeeded in applying equal inputs per m² in all their outlets would find that the difference in output was due to the locational advantages, or lack thereof, of their various sites.

So their Sandton City outlet value added per m² of trading space would be a multiple of that in, say, Cradock.

The same would be observed in all other industries, such as mines, farms, factories, finance as well as the professions.

This locational advantage is reflected in land prices which are the market's best estimate of the present value of uncollected land rent and, because taxation ignores locational advantage, these prices give us a good idea of relative site values.

Thus prime urban land could be a million times more valuable than, say, grazing land in the remote Northern Cape.

By completely ignoring this, our tax system undercollects rent from the prime sites and, in trying to overcollect at the margin, effectively obliterates economic activity in much of our rural areas.

The irony here, of course, is that all land value is due to the community, or its proxy the state, without whose grant of security of tenure owners would be unable to enjoy the manmade and natural advantages of their land. Not only does the state not collect the value it creates, but, by taxing the fruits of labour and capital, it in effect penalises workers and those who invest in job-creating businesses.

Mankind has indeed managed to dream up even more disincentivising systems than ours, and some would have us move back in those failed directions because they see no other. But we can, and need to, do better.

Here's how. Our wonderful constitution which, up till now, has enabled us to avoid the sectarian bloodbath and devastation that we see in the Middle East and elsewhere, has left us with a conundrum. The preamble states that South Africa belongs to all who live in it united in our diversity but other provisions (eg section 25) guard against expropriation without compensation at the same time as obliging the state to facilitate access to land on an equitable basis.

Beyond that it doesn't give us a clue. So how do we do it? How do 52 million South Africans share equitably in their 122 million hectares, especially when those hectares vary so enormously in value?

Taking all our 30 000 commercial farms and redistributing them to 300 000 or even 3 million others doesn't come anywhere near being equitable quite apart from the economic devastation which it could cause.

So, once again, how do we do it?

No prizes for guessing it cannot possibly be done without taking a long hard look at the phenomenon of land or economic rent – and then collecting the community created value that it represents. Moreover if, as is possible and advisable, we do that instead of taxing the application of labour and capital, guess what, we'll get the application of a lot more capital as well as the jobs that go with it.

This is certainly not rocket science, but it is a fundamentally different approach and requires a national dialogue.

To the extent that we shift from taxation of capital and labour to collection of land rental instead, benefits would include:

- * An investment surge as efficient owners are incentivised to optimise their sites' potential (remember all extra production over and above their site rental is scot free).
- * Much more land coming on to the market as inefficient holders sell.
- * All levels of government are incentivised to improve service delivery and hence land values and their own income.
- * A fire is lit underneath the government, like other landowners, to use or sell its vast landholdings.
- * Economic activity resumes in the length and breadth of the former bantustans (subject to the grant of security of tenure) as the debilitating array of direct and indirect taxes are removed and replaced by lighter or negligible site rentals making them effectively one vast IDZ (Industrial Development Zone).
- * Mass housing, often a white elephant in rural areas, becomes an added attraction for businesses to move there: instead of their being a millstone around the neck of the economy we will have prosperous new "provinces".
- * Tax morality turned around: landowners are paying for value received: no taxes on work or businesses for no discernible benefit.
- * Labour and business become partners, not adversaries.
- * Land can't be hidden in Bermuda: debates move from sterile strife around loopholes and evasion to the proper use of land.
- * Sars is no longer the bogeyman chasing marginal businesses for Vat and PAYE and pushing them into bankruptcy: its new skill – land values.
- * With all the people getting the rent on all their land (in due course, they could even get dividends from the Treasury), the deep-seated emotional sense of injustice abates with benefits to the political climate which will enable:

Land restitution and reform to proceed in a rational and affordable fashion.

Banks to be incentivised to lend for production rather than merely consumption and speculation.

With policy certainty, foreign investment to resume together with economic growth.

Taxation is an odious, unnatural and unnecessary interference with economic activity rendered necessary only by the refusal to pay, and collect, rent.

We have a choice. It's time to talk about our land and our rent. As soon as we collect it, the jobs will follow.

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