

Double taxation: the fiscal folly

IF BIRMINGHAM is to survive as one of Britain's leading manufacturing centres, millions of pounds of taxpayers' money will have to be spent enhancing the attractions of industrial sites.

But this investment would not be recovered for the benefit of the community, because the rental value of vacant land is not taxed.

So the crisis in Birmingham dramatically illustrates the fact that, under the present fiscal system, people are subject to double taxation.

- They are taxed by the Exchequer to meet the costs of large-scale investments like road building, which directly enhance land values.

- They then have to pay landowners for the privilege of gaining access to the sites they need on which to establish new enterprises.

Without these payments, however, British industry would not be able to get back to full employment.

About 85 acres of industrial land have been developed each year during the past decade.

This means that, at current rates, Birmingham has 11 years' worth of industrial land left.

A report by the City's planning officer has revealed that manufacturing employment in Birmingham has declined at a faster rate than the national rate – a drop of 35 per cent compared with the decline for Britain as a whole (25 per cent).

The report states: "While it would be simplistic to attribute the more rapid decline of manufacturing in Birmingham than in the country as a whole to a lack of land, it is certainly

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true that *one* of the necessary conditions for Birmingham to at least maintain its position as a manufacturing centre, is an adequate supply of suitable land."^{*}

Last year, the city had 865 acres of land zoned for industrial use, divided up into the following ownership categories:

	Acres
Private	421
Councils	281
Statutory bodies	163

The planning officer's report warns that the amount of land in industrial use is very low, and that future supplies will be retarded because the larger sites, in particular, are subject to "severe physical constraints".

The major constraint, however is accessibility, which can only be remedied by public expenditure on highways.

What happens when that money is spent? *Land values soar!*

INDUSTRIAL land values in Birmingham today remain high relative to the rest of the West Midlands – prime sites command £80,000 an acre compared to £30,000 in Walsall, just eight miles away.

These high values are being demanded even though the recession has increased the supply of vacant industrial and warehousing buildings

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FRANCE: from P.105

According to M. Renard, in a penetrating exposition of the French land market:

"Most 'development land', in the planning definition, is classified in another fiscal category (agricultural or 'unused land') and taxed at a rate which is very low compared to market value.

"An effective rate of 1/10,000 is not unusual so it is easy to understand why this tax is not a powerful tool in the implementation of land policy."¹

FRANCE, in common with other Western countries, has tried to overcome the frictions in the land market by adopting a planned approach to land use.

The major law for land planning is the "Loi d'orientation foncière" of 1967. This, however, has failed to correct urban sprawl, the escalation of land prices and the failure of the

TABLE 3: RESOURCES OF MUNICIPALITIES – 1977 –

Source of Funds	Amount (000,000 F)	Per cent of Total
Local taxes	30,286	35.5%
(Land taxes) (Included Above)	(6,229)	(7.3%)
Grants	28,300	33.2%
Other (loans)	26,700	31.3%

market to supply land as and when it is needed.

The defects in the land market will continue to hinder the Socialist administration's attempt to return the economy to full employment.

The only satisfactory solution would entail a drastic overhaul of the country's land taxes. The present structure of taxation penalises development, for example, because the burden falls more heavily on improved land than on unimproved land (Table 4).

M. Renard, in common with a number of land experts in France in recent years, advocates an annual land tax that avoids the drawbacks associated with such taxes as those that fall on capital gains.

The existing burden of land taxes is too light, notes M. Renard:

"Given the very low level of annual land taxes, 'retention' becomes the general landowner's reaction and one of the problems is how to design new land policy measures to increase land-supply at a 'reasonable' price."

But no corrective action can now be expected from President Mitterand.

In a frank interview with a journalist last July, the President declared that when he was elected he had "dreamed too much." He added: "I underestimated the role of lobbies..."

The President's radical socialism has been exposed as rhetoric, and the people of France cannot expect to enjoy the benefits from a coherent plan of action to reform the land market.

REFERENCES

1. Quoted from Pierre Laconte and Ann L. Strong, *Land Taxation and Land Use*, Cambridge, Mass.: Lincoln Institute Monograph 82-3, p.16.
2. *Ibid.*, p. iv.

TABLE 4: PART OF LAND TAXES IN LOCAL TAXES (%)

	1913	1938	1948	1972	1976
Land tax (improved land)	20.1	22.4	19.7	17.5	15.7
Land tax (raw land)	29.9	13.1	10.9	7.5	7.2

They could earn an honest living as productive capitalists rather than monopoly landholders.

THIS IS what happened in parts of our State irrigation districts under the Wright Act earlier in the century.

As access to water made lands more valuable, the rise in land values created by this service was used to pay for the system.

Not only were these irrigation projects locally financed, but the game of speculation in land values was curtailed as 81 large landholdings were broken into over 7,000 parcels for successful, diversified small farming operations.

This is California's shining example of land reform through a proper tax reform. The wholesomeness of community life in Wright District towns such as Dinuba, in comparison to towns in corporate farming areas like Arvin, was documented by the well-known Goldschmidt report to the Senate Sub-committee on Small Business completed in 1946.

What would happen to Southern Pacific's 195 acres south of Market Street under a similar use of the tax system?

At a value of about \$250 per square foot, this parcel, when developed, will be worth at least \$1½ billion. This value is created not just by the Southern Pacific but by the presence of all the people of San Francisco.

Based on this \$1½ billion land value, which is probably an underestimation, the economic rent of this parcel would yield over \$150 million dollars back to the city each year – nearly three times the amount estimated under the current system.

In other words, just this parcel alone would generate 15 per cent of the city's current budget of \$1 billion.

Implement this same system throughout the city, which includes, of course, Southern Pacific's other enormously valuable downtown properties, and you would have a well-funded local public financing system with absolutely no burden imposed on productive enterprises.

In fact, the other half of this proposal is that:

- All taxes on labour could then be gradually lifted.
- The inflated cost of land caused by speculation would be undercut, and
- Land would become more affordable for needed use such as housing.

This dynamic tax restructuring would take the land monopoly game out of capitalism and allow individual and cooperative initiative to get the job done.

AROUND THE WORLD

Honduras: repression mounts as peasants demand reforms

REPRESSION is intensifying in Honduras, where democratic politics and guerrilla warfare overlap in a confusing mixture.

The country is used as a jumping-off point for civil wars in the two neighbouring countries.

● **LEFT-WING** guerrillas fighting the government in El Salvador receive their military supplies from Cuba and the USSR via Honduras.

● **RIGHT-WING** guerrillas, backed by the CIA, use Honduras as their base for attacks on the Sandinistas who overthrew Somoza and now run Nicaragua.

The USA is pouring money into Honduras to bolster the fragile government of President Roberto Suazo Cordova.

This support, however, is seen by many as undermining the credibility of the civilian government, which was elected to power in 1981 after years of military rule.

Honduras, the poorest country in Central America – per capita income is £50 per annum – is turning a blind eye to the machinations of both right-wing and left-wing organisations.

The military, however, is gaining the upper hand. The violation of civil rights is on the increase.

Guardian correspondent Tony Jenkins has listed the reasons for the repression in a report filed to London on July 15:

- 582,000 peasants are landless, while 627 landowners own 65 per cent of all farm land;
- 40 per cent of the population is illiterate, with poor prospects of industry-based jobs.

Jenkins wrote: "The pressure for land reform is growing quickly. The government has now ended 10 years of legalised land 'recuperations' and threatened peasants with 12 years gaol for seizure of private property.

"In response, some of the landless have started to face the army with machetes. Five hundred peasants are now in gaol and another 700 face court cases."

The peasant organisations face a dilemma. If they do not act, the hungry people will not acquire the land they need to feed their families.

But if they are seen to be succeeding, this would be the excuse that the army needs to overthrow the democratic government and return to military dictatorship.

DALLAS property owners are due to reap a handsome gain in values.

Voters have backed the plan for a rail network. The cost: \$3.4bn.

The money will be raised by a 1 per cent increase in the local sales tax. This will increase the cost of living for consumers, but rents and the buying price of land near the railway stations will soar once the trains start to roll.

THE PRESENCE of Royalty, it seems, is good for property values.

Prices have been rising rapidly in Gloucestershire. And one of the reasons, according to local estate agents, is that members of the Queen's family have been buying houses in the county.

First to make a mark on the market was Princess Anne and her husband, Capt. Mark Philips, who bought Gatcombe Park. Then Prince Charles and Princess Diana bought Highgrove.

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from 4 per cent in 1979 to over 7 per cent last year.

And there is a danger that potential industrial land will be diverted for housing development, as the supply of housing land in the city becomes tighter. This, in turn, will push up prices further:

"Although values are at present similar, disposal is generally quicker for housing, and this may be expected to lead to a premium on price," says the report.

Birmingham has a proud tradition of industrial entrepreneurship.

Her manufacturers were among the world's leaders in the 19th century, but the city's industrial base has declined steadily in recent decades.

It is not surprising that the city's councillors should be contemplating action to reverse this process.

But while short-term considerations may necessitate the expenditure of taxpayers' money, they should also take into account the reforms that would guarantee long-term prosperity.

At the heart of such a strategy would be the imposition of a cost on the holding of vacant land, to cut back the selling price and increase the supply of land to those who wish to use it productively.

*Industrial land resources in Birmingham, Planning Dept., City of Birmingham, 10.2.83.