

Apartheid land laws

Cape Town councillor **BILL STIBBE**, a roving advocate of local government tax reform, travelled to Beirut to present a paper at the United Nations Regional Conference on "Localizing the habitat - Agenda at Municipal Level". And in June, in Lille, France, at the United Towns Organisation Conference, he analysed the inextricable link between land reform and fiscal policy. Private property rights in land, he believes, when disconnected from the appropriate fiscal policy, condemn people to economic apartheid.

THE SINGLE greatest problem in the world is the contrast of wealth and poverty. The combined net worth of 350 billionaires equals the annual income of the poorest 45% of the world's population.¹ This contrast arises mainly from the maldistribution of land.

Susan George wrote: "The most pressing cause of abject poverty which millions of people in the world endure is that a mere 2.5% of landowners with more than 100 hectares control nearly three-quarters of all the land in the world, with the top 0.23% controlling over half".²

Similar conditions exist in South Africa, where 86% of the land is owned by the white minority. People who work for their living do not have reasonable access to land and self employment. So both land and labour tend to be idle, separated by outdated laws and customs and by bad taxation.

Land reform should ensure a more equitable distribution of land. This usually involves changes in laws, regulations and customs. Land reform is the process of examining and changing laws, regulations and customs relating to land ownership and land tenure. Preventive legislation needs to be removed and new incentive legislation introduced.

In South Africa there were laws to keep different race groups apart. These have been withdrawn, but it is taking time for customs to change. Not only is

THIRTY NINE former municipalities and local authorities in and around Cape Town have been pooled together and subdivided into six new municipal areas to form the Cape Metropolitan Area. The Cape Metropolitan Council has agreed in principle to change to Site Value Rating.

Cape Town municipality, together with two adjoining municipalities have decided to change to Site Value Rating as quickly as possible. They agreed to produce new Valuation Roles based on the market value of land only. The new Valuation Rolls should be completed during 1998 and be applied in July 1999. The decision to value land only has many logistical advantages:

- It is not necessary to inspect every building.
- Previous property sales offer a guide-line for market values.
- Once the basic data has been established, computer updating of the Roll can be carried out annually.
- The Roll is easy to produce, requires little manpower, and it is easy for the general public to understand.

it necessary to remove restrictive laws to bring about land reform, but it will be necessary to introduce new laws to assist in land distribution. Political and legislative change on its own is of no lasting advantage without being accompanied by economic reform.

HOW CAN taxation affect land reform? This is one of the most neglected aspects of economic research and land policy.

- (1) The collection of municipal revenue ("rates") from anything other than land values encourages speculation in land and the withholding of land from optimal use. Revenue collected from a payroll tax or from any form of production or services, discourages employment. If rates are collected on the value of buildings they discourage construction and improvements. Capital, which is highly mobile, is encouraged to migrate.

There is only one suitable source of municipal revenue, and that is the market value of all land excluding the value of undepreciated improvements.

Services should not be viewed as a form of taxation. The cost of services, such as electricity and water, should be related directly to consumption and capital outlay. These should be self supporting and have little impact on the municipal budget.

In the field of Site Value Rating, South Africa is a world leader. Two studies on rating carried out over a 20-year period and a 10-year period are reported in *That All May Live* by Godfrey Dunkley.³ Seventy per cent of all municipal rates collected in South Africa come from cities which employ Site Value Rating and exclude charges

on improvements. Cities using Site Value Rating experienced twice the capital growth compared to those taxing site and improvements at the same rate ("flat rating").

Cape Town and Port Elizabeth are the only major cities still rating buildings at the same percentage as land (see box).

(2) Central Government tax policies seriously affect people's lives. The greatest adverse impact is to be seen at municipal level.

Any tax which does not reduce to zero at the margin of production causes unemployment. The margin of production is where the cost of production is equal to the value of what is produced. There is no room for any tax. In South Africa, Value Added Tax together with some of the other direct and indirect taxes have created large unemployment in the former homelands. Many industries have closed down since re-incorporation into South

Africa. Since there is no other employment for people in these areas, and as people do not have access to suitable land for self employment, they are forced to migrate.

There are at least 5 million squatters in and around the cities of South Africa. There is a shortage of over 1m houses. The only possible solution would be for government to change its tax policies. It is essential that all taxes at the margin of production be removed, and replaced by Land Value Taxation. This should apply to all land according to its market value. In time, land at the margin of production would have little if any tradeable market value when the speculative element is removed. Land Value Tax would not be collected on such land.

THE QUALITY of a nation is shaped to a very large extent by its system of taxation at central government level, and its system of rating at municipal level.

In the absence of oppressive laws and customs, tax reform is the most important single factor in land reform. Changes in laws and regulations can bring about temporary relief but only suitable tax reform can create a sustainable economy with an equitable redistribution of land and income.

For example, disputes over access to land are major causes of domestic and international strife. If the rent of land were collected as public revenue, people would pay the community for the use of land according to its market value. This would reduce the incentive to own land in order to achieve unearned gains. If Land Value Taxation were combined with payment of a citizen's dividend the strife would be even further reduced.

References:

- 1 David Korten, "The Limits of the earth", *The Nation*, July 15, 1996.
- 2 Susan George, *How the Other Half Die*, Penguin, 1976, p.24.
- 3 Godfrey Dunkley, *That All May Live*, Whyte Publishers, 1990, p.122.

THE DEBT of the sub-Saharan countries resulted from a combination of national pride, a desire for independence and the prospect (under their total dictatorships) of making huge personal fortunes out of deals done with the West. These have all contributed to their virtual bankruptcy.

At first, loan money was available at low rates of interest, followed by increasing amounts through higher OPEC oil revenues in 1973/4 and again in 1979. Then the huge costs of US "star wars" and cold war rearmament raised interest rates which, together with a sustained drop in the prices for over-supplied third world commodities has resulted in inability to repay more than the interest charges, and in many cases a great deal less.

The steady accumulation of un-repayable debt from over-borrowing (and over lending) has had two major effects. First, good land that had been theirs for centuries has increasingly been taken from them by their governments to grow cash crops for hard currencies for debt repayments. Second, national budgets have not stretched to providing even the most basic skeleton services for education, health, fresh water and sanitation.

Deprived of land for growing food to eat, working (if they can) for very low wages in the plantations or on remote unproductive marginal land, many have been driven to sell up disadvantageously and move into the towns where services and the framework of law were already inadequate, and, of course, potential residential land already taken.

Control of farm land and increasingly of urban land are the principle keys to wealth and status. It becomes an issue of power and strength, including violence and the use of force to keep it that way. Idle hands grasp willingly at guns held

out to them by those intent on keeping control of events, and by those opposed to such. All is overshadowed by immediate daily needs for food, water, shelter and fuel.

Control of land in the hands of governments and international finance (IMF, World Bank) implies for such people a monopoly over their means of livelihood; a level of wage equivalent to a new form of servitude; weak or non-existent bargaining powers over the introduction of more productive technologies; a reduction in services, and a sense of continuing loss of independence to a neo-colonialism.

Africa's debt: are we moral bankrupts?

A Personal View
by
George Ticehurst

There are now signs of improvement. NGOs and charities are focusing on small scale businesses, community and domestic activities that can use extremely simple and effective inventions and technologies. In conjunction with micro-credit loans, individuals in a community can purchase sufficiently small items and quantities of domestic and farm stock and equipment to become economically active. But, *beware of the landlord seeking higher rents from greater wealth!*

The pace of privatisation of state owned (crony-run) enterprises (SOEs) is increasing. This can give "ordinary Africans" opportunities to create wealth, become middle class and promote a modicum of democracy. But trying to take over from SOEs is a new form of international investment among OECD "treaty" members that demands conditions that insure them against as many of the risks as possible. The question is, will this be enough to improve the urgent conditions of the vast majority of those living in poverty, especially those who depend directly on land for their living? Delay brings death.

Somehow, in the next century, the problem of land and desperate growing populations will have to be grasped. It has always been a moral issue and it remains so; it will therefore not go away until a moral solution is found. It needs the application of another "extremely simple and effective invention". This lies readily to hand (fiscal reform) and could, if applied, bring the natural resources of this vast land mass and its labouring millions into the global economy, with justice and equity. The very plurality of our society's cultures and creeds requires us to look for answers to our problems in the Common Good. Or are we, also, bankrupt, morally bankrupt?