

S. Africa, M.S.

Morgen = 2.116 a.c.s. = 92,173 s.f. = 1.92 football fields
 Rand = (100¢) = .35 U.S.
Idea, for - buy | Ha = 2.47 ac. = 1.17 Morgen
 Morgen = .86 ha.

1. To redistrib. wealth w/o destroying means of prodn
 - a. Capl.
 - b. Incentives
 - c. Exchange - mkt.
 - d. Force.
2. Collapse of e-u bloc demonstrates need for not destroying mkt.
 (Banger: both ANC + rt-wing have limited their contempt for the mkt.)
3. Taxation ^{can be} incremental, ^{gradualistic} — spread the shock over several years. A continuous fn., vs. a step fn.
 Taxn. ~~gives land~~ is politically less final, ^{discrete} than redistrib. titles to land. Less revolutionary. Leaves educated, trained personnel in place.
 Leaves old landowners w. base for their security, ^{some power}.
4. Squatters Less threatening. It says you may ^{soon considering} keep ~~up land~~ — if you can meet the social audit, then the mkt.
5. Taxn. requires w compensation.
6. The middling ec. agent can get land if he has credit.
 Land tax has same effect as extending credit to all, on same terms — ~~and~~ very good terms, a perpetual loan.

2. (Minimize advantages to landowners, taxn. vs. redistribution.

+ ✓ 1. Leaves them in possession, & in residence, in place.

X 2. Any release of land will be by voluntary decision, based on mkt. choice.

X 3. Leaves them a power base, for political action.

Base is automatically augmented as no. of landowners rises. Redistribution is self-limiting - cf. reactionary swing of U.S. politics. (I regret. But there are no ult. solutions - only (over)

X 4. Enlists state fully on their side, to protect their tenure. (Now, presence of squatters indicates direct invasions of surplus lands is possible.) (cf. 7) (altho "squattling" may involve consent of owner.)

+ 5. They retain titles.

X 6. Removing other taxes ~~offsets~~ makes it easier to pay land tax. The only net losses are on land the owner cannot use fully - surplus land. Owner can sell that.

X 7. Relief from squatter invasion comes in 2nd way. Landless people ~~are~~ now have a reasonable ex. route of access to land. Cf. 4. Accommodate their legit. demands, in reasonable way, turn menacing borders into allies.

X 8. Means & instab. of prodn. & exchange are not destroyed, but strengthened. (cf. 1, p. 1). Ec. growth empowered

const. dynamic balancing among incompatible
principles — e.g., elitism vs. democracy.

X 9. Change of distribn. will be gradual, & somewhat controlled, and at margins of land; as det. by owner.

X 10. Secure advantages of free mkt ec., intn. into world ec.

X 11. Cf. 10. Political freedom. No need for pass laws, ~~or~~ repressive police actions. These are ~~to~~ unpleasant for those who impose them, as ^{well as} ~~the~~ they target.

✓ 12. Compatible w. Dutch & Eng. ^{precedents} ~~Traditions~~ - Jan van Riebeeck, 17th cent. Wm. Bradford, same time, (Livingston - van Rensselaer, on other hand, pushed inc. tax.)

✓ 7. Forges alliance w. early constructive, ^{entrepreneurial} elements of the ~~new~~ non-white force.

Assuages guilt, & fear of vengeance.

X 13. Spreads burden of redistribution. over wide groups all rent-takers - not just farm owners, who are targeted
Miners: gold & diamonds. ^{in conventional land reforms,}
Cities: high value, high concn.
Water:
Air:
Timber, Fish;
B.C. State.

✓ 14. Use existing instns. of prop. tax, already in place. ~~For~~ RSA has a lot to teach the world in this area. Excl.

They have been mulling out of tax system, as PIT grew.
Look to 43

- ~~14.~~
- X 7. ~~Leads blacks~~ Introduces blacks to capstr. ec. -
 now, blacks regu. on tribal lands, ~~to~~ have little experience
 w. prop. ownership. This ^{draws} ~~coopts~~ them into Econ. system,
 by easy, natural steps. Shows ^{and the market system} ~~them~~ it can work to their advantage.
- ✓ 15. There are few ~~few~~ rural tenants now in place,
 for a conventional land reform to transfer to.
- X 16. Need to import K₁ to accomm. huge new needs -
 caused by moving pop., esp. to cities.
- ✓ 17. Cf. 7. ~~Solves~~ Creates new job opps., desperately needed.
 a. ~~Support govt.~~
 b.
- X 18. Compensates the dispossessed for loss of land
 a. Support govt.
 b. Makes jobs (demand side)
 c. Produces goods (supply ..)
- X 19. Unlike conv. land reform, contains no
 self-defeating element - like taxes that abort
 urban growth.
- X 20. Creates a fund by which local govt. can
 be motivated to act in general int. - by receiving popn.
 Twsp. on ungr. land become only viable,
 relieving pressure elsewhere.

- ✓ 21. Demand for land by mass mkt. is good for rent-takers when above a certain level.
Below that level, they can't pay, but can invade & squat.
- ✓ 22. Promote edu. by demonstrating it does some good. Unlike Ireland, Philippines, brain-drain countries.
- ✓ 23. Promote soils studies.
- ✗ 24. Precludes handing over govt. to unqualified, & ~~only~~ opinionated proletarian — by demonstrating that present leadership has both the will & the skill to make ~~a~~ places for them in the ongoing system.
- ✓ 25. Dutch are community-minded. Is now a qu. of widening the comm. circle.
- ✓ 26. Broaden mass mkt., weaken unions.
- ✗ 27. Perceived fairness — effci. demands it (Loots)
- ✗ 28. Eliminate wasteful seg. & cruti-seg. spending (no affirmative action, Restoration, etc.)
- ✗ 29. Do justice among whites. Land highly conc.
29A Δ no. of white farms, (& blacks) to protect tenure.

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p. 1

DRAFT, 16 March, 1992

"Land Reform through Tax Reform"

Mason Gaffney

Outline, with annotations, of a paper for delivery at a conference on:

A Land Tax for the New South Africa?

presented by

The Centre for Human Rights Studies

University of Pretoria

20 March 1992

INTRODUCTION

Owing to travel exigencies, this draft is being written on the eve of the de Klerk "vote of confidence" election, to be delivered just after the election. This poses obvious difficulties. However, news reaches the United States that the election will be close. Whoever "wins," therefore, Newton's Second Law of politics will apply: every action will produce a reaction. The winner will continue to balance liberal and conservative views.

I write from what I take to be the conservative viewpoint. This is not to represent myself as conservative; it is role-playing. The idea is to "walk a few miles in the other man's mocassins," the better to understand his viewpoint, sift out its merits, and accommodate or coopt them. It is also to acknowledge the reality and legitimacy of some conservative concerns, and seek a common ground. One must recognize the talent, energy, training, solidarity, sincerity and commitment among conservatives that makes them a continuing force. They must be part of any solution.

That view follows the lead of America's second Dutch President, Theodore Roosevelt. It was his genius to implement populist policies under elitist leadership. That formula was the essence of The Progressive Movement, which achieved the fastest social progress in our history¹. A substantial part of that progress consisted in rapid growth of property taxes, which were higher in the Progressive Era than before or since. Besides

¹The other great Progressive President, Wilson, was not Dutch, but certainly was a Calvinist.

being higher, they were more focused on land values, less on capital, than at other periods: it was a strong demand of the times.²

seeks out & magnifies
✓ A "Conservative" I define as one who either sees merits in or enjoys privileges under the status quo, and apprehends hazards in proposed changes. Most sympathetically, a conservative recognizes weaknesses and irrationalities in liberal ideology and leadership, and doubts the leaders can or will deliver on promised improvements in the human condition.³ Enlightened liberal leadership should recognize conservative scepticism may be right; there is ample precedent. A conservative fears a majoritarian tyranny may discriminate against him and his kind, the moreso under the peculiar conditions of the R.S.A. It is up to specific liberal leaders to prove them wrong -- if they are wrong -- and thereby win some over.

✓ The thesis here is that tax reform is the kind of land reform most compatible with "good" -- i.e. public-minded, socially defensible -- conservative principles. By "tax reform" I refer first to raising the property tax rate on the land-value base, primarily to replace other taxes, (including building taxes) and sometimes also to increase public services. Second, it could mean adapting income-tax schedules to take more land income, and less earned income.⁴ Third, it could mean a tax on gains from land sales (a major revenue raiser in Taiwan, and an integral part of its successful land reform programme⁵). Fourth, it could include a package of resource-based taxes, like severance or net proceeds taxes on minerals, and on water withdrawals.⁶

Like King Arthur in Camelot, I present this case in the form of several "propositions."

²This history is well summarized by Elliott Brownlee, "

³There is, of course, also a less attractive side to conservatism, a fearful, guilt-suppressing, greedy side. To be realistic, I address some of that, too; but as little as possible, to avoid gratuitous offense.

⁴This happened at the inception of the personal income tax in the United States (Brownlee, op. cit.)

⁵John Riew, ";

⁶For those who like consumer taxes, it could also be presented as a tax on land-consumption. To save time I do not develop that view here.

Proposition: A, Tax reform leaves intact the present institutional structure

✓ 1. Landowners remain in possession, in residence, in place. No one is evicted or divested, even in part. *No expropriation, condemnation, confiscation, compensation, nationalization.*

2. Landowners retain title.⁷

✓ 3. Tax reform uses institutions and trained personnel already in place. It is a matter of raising property tax rates on one base (land value), and lowering the rate on others (buildings and movable property). Many S. African municipalities already practise this art, and enjoy a considerable world reputation. The former Assessor of Johannesburg, Mr. McCulloch, has been invited to lecture in the U.S. on how he does it. *John*

~~My impression from afar is, however, that the practise in R.S.A. is limited to municipalities. If that be so, extending it to farmlands will require building new skills and institutions. American rural counties depend heavily on property taxation, and rural assessors in turn depend on soils studies, supported for over a century by state colleges of agriculture. Developing a new indigenous cadre of soil scientists here may be innovative, but, if so, hardly menacing or revolutionary. Soil scientists have many technical uses apart from helping tax assessors, and soil erosion appears to be desperately in need of attention in parts of this land.~~

✓ 4. No special "land reform" agency is needed; no new powers, no new bureaucracy, no arbitrary rules for takings.

Proposition: B, Tax reform is gradualistic, not cataclysmic

✓ 1. Sale of land by present owners will be voluntary with individuals, piece-by-piece, based purely on market criteria. Advocates regard land taxation not as amending the market, but letting it function more perfectly. It is standard economic doctrine that a land tax is "neutral."

✓ Some land reformers, indeed, dismiss land taxation as too mild a measure, because of its dependence on market forces and rationale. The answer to that, in a nutshell, is that heavy land taxation has the same effect as extending long-term credit to all potential buyers on identical terms. The simple mathematics of that proposition is in Appendix A.

No credit program in the world has ever, or could ever, remotely approach that goal such an achievement.

⁷This does not preclude restitution, where a strong case can be made on other grounds. It does, however, have a rationale of its own quite apart from specific cases of restitution, and may be considered independently.

~~At~~ More, taxing land puts new entrants on the same P. 4
footing as the present owners. For all alike, the price of holding
land is the annual tax. The purchase price, i.e., the advantage of seller
over buyers, will ~~fall~~ be lower. The access barrier is lowered or eliminated.

2. Owners with surplus lands will select for sale those
lands that are marginal to their own needs, and most vital to the
needs of others as evidenced by market values. Most owners are
likely to retain lands near the farmstead, the nucleus of their
operations, lands they can use fully and productively.

3. There being few black tenants in place, it will take a
little time for many black buyers to familiarize themselves with
soils and local peculiarities. Land reform must involve
substantial migration and re-orientation. An interventionist,
centrally controlled land reform program might transplant people
in quantum leaps, inviting failure. Tax reform compatible with
market action lets buyers move in individually, in their own
time, based on personal wants and abilities, and private
negotiations between buyer and seller. *purchase*

Proposition: C, Tax reform assures that the means and
institutions of production and exchange are retained and
strengthened

D. Proposed reform promotes growth. Eliminates & suppresses inefficiency & encourages efficiency & saving.

1. Tax reform, as proposed here, recognizes the role of
private capital as a means of production, and the need to
motivate saving and investing by securing property rights in man-
made capital. It secures those rights much more than the extant
tax system, by down- or untaxing capital. It is possible to do
so, while raising property taxes and revenues, by signaling the
difference between land and capital. Man forms capital by
producing, saving and investing. Some Other Force created land,
which is appropriated by sovereign states and granted to
individuals by political processes. What the state grants the
state can tax without in the least invading private capital
proper, or driving it away, or discouraging its formation, or
encouraging its wasteful consumption. *efficiency & saving*

Arguably, taxing land induces more capital formation by
lowering land prices. Land value substitutes for the value of
real capital in the portfolios of individuals, weakening their
resolve to add other assets by saving.

W/o doubt, nature's K encourages & imp. - quite the opposite to loss of cap. efficiency.

2. Tax reform, as proposed here, retains and even sharpens
market incentives to allocate scarce means to their best uses.

VAT
3. The proposed tax reform will strengthen the market system
by removing taxes from exchange. ~~GST~~ and income taxes, which we
propose abating, are both based on exchange, and are avoided by
substituting non-market activity, and unrecorded activity, as
noted in Loots (1991?, p.45).

4. The financial system will adapt by basing loans less on
land collateral, and more on capital, personal reputation, and
appraisal of specific projects. On balance this will help
stabilize the financial system, whose worst fiascos, from the

South Sea Bubble of 1720 to the American Savings-and-Loan debacle of 1987-92 have resulted from loans on speculative land.

5. The proposed tax reform is market-based. It will not hinder but facilitate trade relations with the outside world. At the same time it will develop internal markets and may, on balance, make R.S.A. more self-sufficient than now.

6. The proposed reform, compared with the old ways, is compatible with freedom of personal movement, which in turn is an integral part of any free market economy and free society. Repressive pass laws, police actions, and other institutions of control, damage and cost those who impose them as well as those imposed on.

7. The proposed reform will encourage capital imports, by raising the after-tax rate of return to investing. It will, to be sure, discourage foreign land purchases, but that is a net plus, considering the political influence that accompanies landownership.

Besides raising returns to private capital, the proposal creates a flow of funds for financing infrastructure. The capital to finance internal improvements lies sleeping in the lands to be served. Land taxation offers a means both to awaken and to enlist it: it is both a reveille and a muster.

8. Unlike conventional land reform proposals, the proposed tax reform contains no self-defeating element. Conventional reforms visualize spending taxpayer money to finance land transfers. This in turn calls for higher counterproductive taxes (like GST) levied on industry and commerce in cities. The best medicine for farming is higher demand from thriving indigenous cities.

9. The proposed tax reform contains no ethnic or historical element; it is purely economic, and purely oriented to the present and future. Restitution and reparations for past wrongs are to be accomplished by opening future opportunities equally to all. The demand for restitution of specific lands to specific people, purely as a redistributive matter, would slacken, because landownership is now to be coupled with tax obligations. The idea behind restitution is that land is a source of unearned income, and a store of value.

10. Tax reform does not interfere w. eq. of scale. Achieves equity equal distrib. w/p = allow.

D. Tax reform strengthens land tenure and relieves pressures to violate it.

1. Tax reform enlists the state fully on the side of landowners guarding their tenure rights from squatters and other invaders. The state, as land tax receiver, has the highest interest in protecting and cultivating its source of revenue.

Now, the omnipresence of squatters suggests to an outsider that direct invasion of surplus, unguarded lands is possible. So long as there are landless people, squatting is inevitable. *raises respect for law. Now, cannot stop squatting, short of killing off people, but people have no place to go.*

2. Tax reform is calculated to create new jobs. It is known how Cecil Rhodes imposed a flat poll tax on natives, to induce them to work for him. A property tax based on land value has a bit of the same effect on landowners, ~~but the effects on society are more extended. A land tax has at least three effects:~~

a. To use the land more intensively, the owner must hire more labor, or sell parcels to laborers wanting to go into business on their own. *More labor means more output, making more jobs downstream.*

b. ~~More productive labor means more output, producing more goods to meet the increased demand from the higher incomes generated by (a), preventing inflation. Here is supply-side economics coupled with demand-side economics.~~

c. ~~The tax supports public services, letting other, counterproductive and counterincentive taxes be abated.~~

3. The reform proposed ^{by Landmark} includes a Federal share in the land tax base. This share, it is suggested, should be used for a social dividend or the equivalent (such as school support based on attendance). In this manner, the Federal government creates a motive for local governments to receive and attract new population.

Coupling this with the proposed relief of labor from work-based income taxation will make economic life possible on lands now rendered submarginal by taxation, as expressed by Dunkley (1991, pp. 8-13).⁸

4. Sales of surplus lands to new entrepreneurs, in farm and city, will create a new social climate, and large numbers of motivated people, to give mutual aid resisting trespass.

4 B. Give an obvious moral basis for ownership. "It's mine: I pay taxes on it."

⁸ Abatement of taxes on work and saving will also allow fuller use of the "intensive margin" of land use: i.e., intensification of use of better lands.

5. Landless people will now have a reasonable, legal economic route of access to land, for work and living.

Proposition:

E. The proposed reform meets many tests of perceived fairness

Loots has written that efficiency demands perceived fairness (1991?, pp. 50-51). So has Gaffney (19.., p. ..), who, not surprisingly, supports the position of Loots. No reform can meet all tests of perceived fairness, because many of these are partly subjective and/or culturally determined. However, the proposed reform meets more, I believe than most other measures.

⁸ Abatement of taxes on work and saving will also allow fuller use of the "intensive margin" of land use: i.e., intensification of use of better lands.

1. The shock of higher land taxes will be offset, for many and probably most landowners, by the gain from lower taxes of other kinds. Land income is what remains after all expenses have been met. These expenses include taxes. Ergo, lower taxes ~~and~~ will raise land income and price.

In the short run this might seem to apply only to those owners who are using and have improved their land intensively. Actually, however, it applies to all. The reason is that land price is derived from anticipated land income, and any owner of surplus land can take advantage of new opportunities created by untaxing or downtaxing inputs and sales and income. He does this either himself, or by sale.

The thesis that all taxes are shifted to landowners follows logically from two premises. One, after-tax interest rates are determined by world markets, so the local supply of capital is perfectly elastic at a fixed, after-tax rate. Two, labor has been reduced to so low a level that it cannot bear any more tax burden. You may test the premises from your own observations.

2. Tax reform spreads the burden of redistribution over all rent-takers, where conventional land reforms focus on farm owners. Comprehensive rent-taxation would tap rents from urban land. Farmers rarely believe this, but in most countries urban land values far outweigh farm land values, not just per ha. but in the aggregate; not just in the aggregate, but per capita; not just per capita, but relative to building values. In addition, retail and industrial lands are highly concentrated in a few hands, even more than farmland, concentrated as that is.

Besides urban values, there are rents from mines. These have been sneaking out of the R.A.S. tax system, as the P.I.T. grew (Loots, 1991?, p.43). There are several other sources of resource rent to tap, as well: rights of way, radio spectrum, air routes and landing slots, fishing rights, waterfronts and accesses, forests, waters, game preserves, discharging effluents in common airs and waters, etc.

3. Subjecting the natural earth to European-style land tenure may be necessary to promote the most efficient use. This has been seized as the occasion to extinguish traditional common rights as well, but it need not be so. We need merely replace the right of common access with a state duty to collect land revenues, and use the proceeds for common purposes.

Land taxation compensates the dispossessed and landless in at least three ways:

a. The tax supports public services, letting other, counterproductive and counterincentive taxes be abated.

among Malays,

b. To use the land more intensively, the owner must hire more labor, or sell parcels to laborers wanting to go into business on their own.

c. The land with the newly productive labor ^{will} means more output, producing more goods to meet the increased demand from the higher incomes generated by (b), preventing inflation. Here is supply-side economics coupled with demand-side economics.

is comprehensive

4. Tax reform ^{is comprehensive} does justice among whites, and among blacks, among coloreds, and among Indians, not just between groups. Conventional land reform is likely to select a few token blacks for restitution or subsidy, leaving the mass as miserable as before. If given an "anti-racist racist" spin, as many apprehend, it would do nothing good, and perhaps some damage, to landless whites. Tax reform is comprehensive in its impact. It truly levels the playing field, tapping unearned rents now taken by a tiny minority of South Africans (plus a few foreigners of great wealth) and distributing them equally among all citizens of the Republic.

- those better
orgd., active
demand

Classroom 1991a, 10, ch. de Klank 22

Today's economic playing field may be visualized as the cross-section of a hill, the hill consisting of resource rents. Those on top stand taller because of what they have, not what they are. Measured differences of ability among persons are very small compared with measured differences in their ownership of resources. Tapping those rents and dividing them equally is what it will take truly to "level the playing field." The rest of the rhetoric one hears and reads is so much trivia by comparison.

5. The proposed reform helps everyone perceive the fairness of rewarding saving. Now, unearned wealth stigmatizes earned wealth, and free markets too, by free-riding on their good names. The rationale for land taxation, widely publicized, helps everyone distinguish assets formed by functional human effort and sacrifice from rent-yielding natural resources taken by force and politics.

Proposition:

F. Landowners are not left helpless, but retain a power base

1. Nothing stops landowners from organizing, and they will certainly do so. If it is true that some 4500 owners control half the farmland, their voting power is small, and they depend on their discretionary wealth, which will be reduced. However, their power base is automatically augmented as reforms succeed and their numbers rise. Thus, land redistribution may be self-limiting. To the liberal this is a problem; to the conservative landowner it is comforting.

2. Selling land to blacks introduces them to the capitalistic market economy, drawing them into the system by

easy, natural, and generally advantageous experiences. It will demonstrate to ANC members that the market system can work to their advantage and to fulfill their goals.

3. Tax reform, under professional leadership, will demonstrate that those presently in power have the will and the skill to make places for everyone in the ongoing system. Thus it may well preempt any tendency to turn government over to unqualified and opinionated doctrinaires.

Proposition:

G. Tax reform will strengthen the economy of R.S.A., giving it new power and stature dealing with the outside world

Details to be added.

SUMMARY AND CONCLUSION

To be added

~~LVT puts new b~~

~~F. Quick & Efficient. + Comprehensive~~

~~cf. Land Claims Court (de Klerk, 11-23)~~

~~G. Raises money~~

~~Turns land reform from a sink of public funds to a source.~~

~~H. Truly equal. land not forced into mkt. system.~~

Shani Forster

Appendix, Mason Gaffney

T = Tax Levy

t = Property tax rate

V = Value, and property tax base

i = Interest rate, nominal

R = Gross revenue

e = expenses

a = "cash flow" = $R - e$

K = capital outlay

IPF = Installment Plan Factor

s = Sales tax rate

y = Income tax rate

$a - K \times IPF$ = net cash flow

g = Growth rate of "a," per year, current prices.

m = amenity flow, non-cash

I. Tax cost displaces interest cost ($K = 0$

$$s = 0$$

$$y = 0$$

$$g = 0$$

$$(m = 0)$$

$$V = \frac{a}{i + t} \quad (1)$$

$$T = tV \quad (2)$$

$$tV = a \frac{t}{i + t} \quad (3)$$

II. What determines value of land (V)?

$$(K = 0$$

$$s = 0$$

$$g = 0)$$

$$V = \frac{a + m}{i + t - g} \quad (4)$$

a) V is elevated by both m and g .

b) $T = tV$ taps both m and g , unlike sales and income taxes.

c) Fear of inflation raises g , hence V . Land held more as a store of value than a means of livelihood & production.

III. Effect of income tax

A. Simple case, $K = 0$, $s = 0$

$$V = \frac{a(1-y) + m}{i + t(1-y) - g} \quad (5)$$

Tax on land income lowers V , hence tV .

B. $K > 0$. ~~Not~~ ^{Not} financed. $(m = 0)$

$$V \cong \frac{a(1-y) - K \times (PF + y \frac{K}{n})}{i + t(1-y) - g} \quad (6)$$

where n = tax life allowed.

Shocker: for some building in S.A., I am told, $n = \infty$, i.e. no writeoff is allowed. This applies to rental dwellings. If so, y will stifle them completely.

C. $s > 0$, $y = 0$, $K = 0$

$$a = R - e(1+s) \quad (7)$$

$$V = \frac{R - e(1+s) + m}{i + t - g} \quad (8)$$

Result: s , like y , cuts into V , hence lowers T . Conversely, abating y and s will raise T .

IV. Total Effect.

Put all the above components in one long equation. To be supplied later.

"Land Reform through Tax Reform"

Mason Gaffney

Delivered at a public conference, A Land Tax for the New South Africa?, presented by The Centre for Human Rights Studies, The University of Pretoria, 20 March 1992.

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INTRODUCTION

"May you live in interesting times" need not be, as the saying has it, a curse. Many South Africans are rising to these interesting times with hope and zest, tempered with prudence imbued by the several conspicuous failures of applied Marxism. Radicals and conservatives are coming together to negotiate a better social compact. In that spirit, I write from the conservative viewpoint, without representing myself as conservative: this is, admittedly, role-playing. The idea is to "walk a few miles in the other man's mocassins," the better to understand and accommodate his viewpoint. It is also to acknowledge the talent, training, solidarity, commitment, and leadership among conservatives that makes them a continuing force. We would reckon ill to leave them out.

That follows the model of America's second Dutch President, Theodore Roosevelt. It was his genius to implement populist policies under elitist leadership. This was the essence of "The Progressive Movement," which achieved probably the healthiest social progress in U.S. history¹. A substantial part of the progress consisted in rapid growth of property taxes, which were higher in the Progressive Era than before or since. Besides being higher, they were more focused on land values, and less on true capital, than at other periods: it was a demand of the times (Brownlee, 1985). *add Calif. had its own kind of land reform, 1903-25*

"Conservatives," viewed sympathetically, are those who recognize weaknesses and irrationalities in liberal ideology and leadership. They doubt liberal leaders can or will deliver on promised improvements in human welfare, pointing to Lenin, Stalin, Mao, Hoxha, Castro, Nyerere, et al. It is up to specific liberal leaders to prove them wrong -- if they are wrong. The thesis here is that tax reform is the kind of land reform most compatible with "good" -- i.e. public-minded, socially responsible -- conservative principles.

¹The other great Progressive President, Wilson, was not Dutch, but certainly was a Calvinist.

The "tax reform" in question means first raising the property tax rate on the land-value base, whether to replace other taxes or to increase public services. Second, it could mean adapting income-tax schedules to take more land income, and less earned income.² Third, it could mean a tax on gains from land sales, totally lacking from the present income tax.³ Fourth, it could include a package of resource-based taxes, like severance or net proceeds taxes on minerals, and on water withdrawals.⁴ Like King Arthur in Camelot, I submit the case in the form of succeeding "Propositions."

A: Tax reform uses existing institutions and professions

- ✓ 1. Tax reform, as just defined, leaves landowners in possession and in place, retaining title. No one is evicted; no land title need be expropriated, condemned, or nationalized.⁵ *as in Zimbabwe. (H. Kissinger psych.)*
2. Tax reform uses existing institutions and trained personnel. It is a matter of raising property tax rates on one base (land value), and lowering (perhaps to zero) the rate on others (buildings and movable property). *Mayor of Cape Town* It could mean dismantling some taxing agencies now in place, if the revenue from land makes it possible. Several South African municipalities already practise the art of valuing land for tax assessment, and enjoy a considerable world reputation. The former ~~Assessor of~~ *Valuer of* Johannesburg, Mr. John McCulloch, has been invited to lecture in the U.S.A. on the practise here, and its impressive results.

✓ Practise in the R.S.A. is limited to ~~certain~~ cities, it is true. Extending it to farmlands will require some innovation. In America rural "counties," and in Canada "regional districts," depend mainly on property taxation for rural services. Rural tax

✓ ²This happened at the inception of the ~~personal~~ income taxes, in the United States (Brownlee, op. cit.)

✓ ³This is a major revenue raiser in Taiwan, and an integral part of its successful land reform programme (Riew, 19~~44~~⁹⁰; King, 19~~44~~⁹⁰).

⁴For those who like consumer taxes, it could also be presented as a tax on "land-consumption," a view not developed here.

⁵This does not preclude restitution, where a strong case can be made on other grounds. Tax reform does, however, have a rationale of its own, and may be considered independently.

"assessors" (valuers) depend in part on soil maps. The R.S.A. has its cadre of soil scientists, and a high level of concern over soil conservation. It only needs to integrate existing skills of valuers and soilsmen.⁶ To be sure, new times and attitudes often call for new people, but they will need and can use many technical skills and the experience of the old.

3. No special "land reform" agency is needed: no new powers, no new bureaucracy, no arbitrary rules for takings. No land claims procedure or special court are required; no delay-ridden case-by-case legal contests (de Klerk, 1991, 17-23). *Trench warfare.*

B. Tax reform is gradualistic, not cataclysmic *or allocation (altho quick.)*

1. Sale of land by present owners will be voluntary with individuals, piece-by-piece, based purely on market criteria. Advocates regard land taxation not as amending the market, but letting it function more perfectly. "... it would not act as a disincentive to production such as existing income taxation does; ..." (de Klerk 15). It is standard economic doctrine that a land tax is "neutral," in its "marginal" effects. In addition, it has strong wealth and liquidity effects, and they are pro-incentive. Its cash drain on landowners attracts their attention, in a compelling way, to use land productively if they will, and sell any surplus.

Some land reformers, indeed, dismiss land taxation as too mild a measure, because it works with market forces. The ANC Land Manifesto, July, 1991, expresses distrust of market-oriented policies. Working with the market does not mean, however, that tax reform underwrites all the market forces that now dominate land markets. It changes credit relations profoundly. Lending institutions are traditionally unwilling to finance black land purchases (Daniels, 1987, 3). Even in Soweto, few of the tiny stands (lots) are owned by the occupants (S.A. 1981, 248, cit. Daniels, 1987, 5). Little wonder ANC people distrust "the market," if that is what the market means. *Credit is of the essence*

✓ However, tax reform completely changes that. Heavy land taxation has the same effect as extending long-term credit to all potential buyers on identical terms (Gaffney, 1981). The simple mathematics of the point is in Appendix A. It is the same as revolutionizing land credit markets. No land credit program in

⁶Riel Franzsen in this volume calls for the use of rural cadastral mapping.

✓ ⁷Instead of paying debt service on a personal loan, whose terms vary with persons, everyone pays an annual tax that is the same for all.

the world has ever, or could ever, remotely approach so egalitarian and efficient a result. Tax reform is powerful land reform. Like tenancy, it makes "farming skills, rather than capital, the primary criterion for occupying land" (de Klerk (ed.), 264).

✓ Tax reform even puts new entrants on the same footing as the present owners. For all alike, the price of holding land becomes the annual tax. The purchase price, i.e. the advantage sellers hold over new entrants, falls. Whoever grasps the full import of that will not see land taxation as "mild": love it or hate it, it is potent.

2. Owners with surplus lands will select for sale those lands that are marginal to their own needs, and most vital to the needs of others as evidenced by what others bid. Most owners will probably retain lands near the farmstead, the nucleus of their operations. Specific choices, however, are theirs to make for their own good reasons. Those good reasons include sentimental attachments to specific places, real economic values which the market weighs in the same balance with cash.

3. There being few legal black tenants in place, it may take time for many black buyers to familiarize themselves with soils and local peculiarities.⁸ Land reform must involve substantial migration and re-orientation. An interventionist, centrally controlled land reform program might foolishly transplant people in "parachute" leaps, inviting failure. Tax reform, working through the market, lets buyers move in individually, in their own time, based on personal wants and abilities, and private negotiations between buyer and seller.

a conservative bromide
C. Tax reform retains and strengthens the means and institutions of production and exchange

✓ ✓ 1. Tax reform resolves the supposed conflicts or trade-offs between growth and redistribution, between efficiency and justice. Some say that a few years' economic growth will do more for the poor than total redistribution of wealth. That is half true, but growth is no substitute for redistribution of land, because land does not grow. The benefits of growth, absent tax

⁸ There may be many "labour tenants" in place. As to that, sources differ. (Claassens, 1991b, 57-58, cit. de Klerk, 1991, 18). We do not know if they are ready to become owners. With tax reform, we do not need to know: when they are ready, the market is ready.

⁹ "Individuals" may include corporate groups, whether familial, business, tribal, or cooperative.

~~because land does not grow. The benefits of growth, absent tax reform, are likely to be distributed in proportion to prior landownership. Two times zero is still zero.~~

✓ The good news, however, is that land redistribution via tax reform actually promotes growth of jobs, capital, and output. It replaces suppressive, distortionary taxes with pro-incentive, non-distorting taxes. Growth and efficiency combined with distributive justice: it is a happy combination, too long denied us by sour counsel that calls them incompatible. "The trade-off mindset."

✓ 2. Tax reform recognizes the need to motivate saving and investing by securing property rights in man-made capital. It secures those rights by downtaxing both capital and the income and sales it generates. It is possible to do so, while raising property taxes and revenues, simply by regarding the difference between land and capital. Man forms capital by producing, saving and investing. God created land, which is appropriated by sovereign states and granted to individuals by politics. What the state grants the state can tax without invading private capital proper, or driving it to flight, or discouraging its import or formation, or encouraging its wasteful consumption.

— Untaxing capital (as proposed here) prevents capital flight, and encourages capital import by raising the after-tax rate of return to investing. It will, to be sure, discourage foreign land purchases, but that is a net plus, considering the political influence that accompanies landownership. At the same time, taxing land induces more domestic capital formation by lowering land prices. Land value substitutes for the value of real capital in the portfolios of individuals, weakening their resolve to add other assets by saving. Lower^{ing} land prices reverses the effect.

Besides raising returns to private capital, the proposal creates a flow of funds for financing infrastructure. The capital to finance internal improvements lies sleeping in the lands to be served. Land taxation is a reveille to awaken and a muster to enlist it.

3. Tax reform retains and sharpens market incentives to allocate scarce means to their best uses. Conventional economics has no higher praise. *Neutrality, + liq. effect.*

4. Tax reform will strengthen the market system by abating taxes on trade. VAT and income taxes, which we propose abating, are both based on exchange, and are avoided by substituting non-market activity, and unrecorded activity (Loots 1991, p.45).

5. The financial system will adapt by basing loans less on land collateral, and more on capital, personal reputation, and

appraisal of specific projects.¹⁰ On balance this will help stabilize the financial system, whose worst fiascos, from the South Sea Bubble of 1720, through the world banking collapse of 1932, to the American Savings-and-Loan debacle of 1987-91, and the 1992 Japanese collapse, have resulted from loans on speculative land.

✓✓ 6. Tax reform is a source of public funds; conventional land reform is a sink. Conventional reforms spend taxpayer money to finance land transfers. This sharply limits their scope, and also calls for higher counterproductive taxes (like VAT, introduced in 1991, now at 10%, and PAYE or payroll taxes) levied on job-making, demand-generating industry and commerce in cities. The best medicine for farming is higher demand from thriving indigenous cities, which tax reform promotes.

7. Tax reform will slacken the demand for restitution of specific lands to specific people, purely as a redistributive matter, because landownership is now to be coupled with tax obligations. Returning to old homes for sentimental reasons is, in the true sense, economical. It shows up in market demands, and is facilitated by perfecting the market. Restitution merely to secure special privilege, on the other hand, will be discouraged. As Claassens points out, most black families are too dispersed and impoverished to trace their history and claim restitution (1991a, 10, cit. de Klerk, 1991, 22), so restitution is tokenism that would only create a small new black privileged class.

✓✓ 8. Tax reform does not impose either upper or lower limits on scale, but lets the market decide. In the event there are strong scale economies, tax reform lets society reap the gains of scale without suffering inequality, by taxing the rent surplus thus created. If public funds are then spent fairly, tax reform achieves equal distribution of net benefits without necessarily achieving equal division of land tenure. This is the beauty and genius of tax reform. It uses the monetary mechanism to achieve equality of outcomes, under conditions where equal division of land in kind is inefficient.

✓✓ Many land reformers are sceptics of mere pecuniary-fiscal offset: it is too "theoretical," intangible, arguable, and easily reversible. Equality-in-kind is more solid and understandable. Fortunately, tax reform in history usually has had the effect of splitting up large landholdings into smaller operating tenures. (Rhodes; ^{for my case,} Gaffney, 1964; Henley, 1964). The American State of Wisconsin, with the highest rural property tax rate in the

¹⁰ Shem Migot-Adholla, in this volume, cites loans in Kenya secured by crops rather than land titles.

most equal distribution of farm land
nation, and the lowest Gini Coefficient in farming, is a case in point (Gaffney, 1992b).

or infl. hedges Evidence from R.S.A.
Many oversized landholdings are held as stores of value, or speculations, rather than for operating efficiency, and are sold off when land taxes rise. Nick Vink points out in this volume that the unit price of small farms is higher than large, i.e. there is a market pressure toward subdivision. That would seem to attest to the superior operating efficiency of smaller farm units. Van Rooyen et al. provide evidence that smallholder operators are more capital-efficient than large (1987, cit. van Zyl and van Rooyen, 1991, 189). Claassens (1991, 43) ~~writes of~~ observes, "vast tracts of apparently empty 'white' land ..." At the other extreme, the old South Africa, almost alone among nations, has its agricultural anti-subdivision laws, ostensibly for soil conservation purposes. Should these be kept in place, rightly or wrongly, taxation may still be used to equalize the net social gains from landownership.

✓ 9. Truly marginal lands are automatically, probably an adjunct of apartheid left available for subsistence farming. Marginal lands, by definition, have no value, so no tax will be assessed against them. Users need not, therefore, raise any cash to pay tax. Vast areas will thus be left open for subsistence farmers and herdsmen, outside the market system if they desire.

On erosive sloping thin soils, direct controls may be called for to preclude exploitive farming. If and where so, adjustments in tax valuation may and should be made.

D. Tax reform strengthens land tenure and relieves pressures to violate it.

1. Sales of surplus lands to new entrepreneurs, in farm and city, will create a new social climate, and large numbers of motivated people with land tenure, to give mutual aid resisting trespass.
2. Taxation gives an obvious moral basis for ownership. "This land is mine, I pay taxes on it!" is a claim often heard and heeded in jurisdictions that levy property taxes.
3. Tax reform presses landowners to hire more workers, to put their land to full use. Abatement of VAT and PAYE taxes will open up many jobs now aborted by the tax "wedge" between customer and seller, between employer and worker (Dunkley 1991, 8-13).¹¹

¹¹ (1991) Dunkley stresses how abatement of taxes on work, exchange and saving will allow use of lands now made submarginal by taxation. Equally or more important, abatement opens up the "intensive margin" of land use: i.e., intensification of use of

Opening legitimate job, management, and housing opportunities to landless blacks will relieve pressures to trespass and squat. So long as there are landless people, trespass and squatting are inevitable, lowering respect for law and private tenure. When job demand runs high, the state can with a clean conscience protect private tenures against illegal invasions. The state, as land tax receiver, has the highest interest in protecting and cultivating its source of revenue.

✓ 4. Dr. M.P. Lamont of the S.A. Reserve Bank suggests the national government should share in the land tax base.¹² If this be done, let this share be used for a social dividend, or the equivalent (like school support based on attendance). In this manner the central government creates a pecuniary motive for local governments to adjust local institutions (like zoning) to attract and admit new people as local landowners. This, in turn, lowers the pressure to trespass. Coupling this with the proposed relief of labor from work-based income taxation, tax reform will make economic life possible on lands now rendered submarginal by taxation, as expressed by Dunkley (1991, 8-13).

or you want to
keep it local,
like Madim
+ Auster
Chambushu

E. The proposed reform meets many tests of perceived fairness

Loots has written that efficiency demands perceived fairness (1991, pp. 50-51). So has Gaffney (1992), who, not surprisingly, supports Loots. No reform can meet all tests of perceived fairness, because some of these are subjective, or culturally determined. However, tax reform meets many tests.

1. The loss caused by higher land taxes will be offset, for most landowners, by the gain from lower taxes of other kinds. Land income is what remains after all expenses have been met. These expenses include taxes. Ergo, lowering other taxes tends to raise land income and price, just as raising land taxes themselves tends to lower them.

The net social gain in shifting to land taxes is that other taxes impose heavy "excess burdens," i.e. they cost the taxpayer more than they gain the treasury. This theme has been elaborated elsewhere (Gaffney, 196~~x~~).
70

In the short run this offsetting gain might seem to accrue only to those owners who are using and have improved their land intensively. Actually, it applies to all, because land price is derived from anticipated land income. Any owner of surplus land

better lands.

⁶⁵
¹² Colin Clark (19~~xx~~) has published a simple, comprehensive scheme of this sort which I commend.

can take advantage of new opportunities created by untaxing or downtaxing inputs and sales and income. He does this either himself, or by sale.

The thesis that all taxes are shifted to landowners follows logically from two premises. One, after-tax interest rates are determined by world markets, so the local supply of capital is perfectly elastic at a fixed, after-tax rate. Two, labor has been reduced to so low a level that it cannot bear any more tax burden. Anyone may test the premises by observation.

✓ 2. Tax reform spreads the burden of redistribution over all rent-takers, where conventional land reforms focus on farm owners. Comprehensive rent-taxation would tap rents from urban land. Urban land values far outweigh farm land values, not just per ha. but in the aggregate; not just in the aggregate, but per capita; not just per capita, but relative to building values. In addition, retail and industrial lands are highly concentrated in a few hands, even more than farmland.

Besides urban values, there are rents from mines. These have been falling out of the R.A.S. tax system, as the P.I.T. grew (Loots, 1991¹³, p.43).¹³ There are several other sources of resource rent to tap, as well: rights of way, radio spectrum, air routes and landing slots, fishing rights, waterfronts and accesses, forests, waters, game preserves, discharging effluents in common airs and waters, etc.

✓✓ 3. Subjecting the natural earth to European-style land tenure may be necessary to promote the most efficient use. This has been seized as the occasion to extinguish traditional common rights as well, but it need not be so. We need merely replace the right of common access with a state duty to collect land revenues, and use the proceeds for common purposes.

Land taxation compensates the dispossessed and landless in at least three ways:

a. The tax supports public services and lets other taxes be abated.

b. To raise cash, the owner must produce more goods and services (including housing). By analogy, Cecil Rhodes imposed a flat poll tax on natives, to induce them to work for cash. A property tax based on land value has a bit of the same effect on landowners.

c. To produce the goods the owner hires more labor, or sells parcels to laborers wanting to go into business on their

¹³Falling gold prices are also a factor in this change.

own. The newly employed labor earns incomes to buy the newly produced goods and services. Here is supply-side economics coupled with demand-side economics.

4. Tax reform does comprehensive justice among whites, among blacks, coloreds, Indians, and Malays, not just between groups. Conventional land reform is likely to select a few token blacks (those more organized and articulate) for restitution or subsidy, leaving the mass as wretched as before (Claassens 1991a, 10, cit. de Klerk 1991, 22). Tax reform truly levels the playing field, tapping unearned rents and distributing them equally among all citizens. These rents are now taken by a minority of South Africans, plus jet-setters of great wealth.

✓✓ Today's economic playing field may be visualized as a hill consisting of resource rents. Those on top are higher because of what they stand on, not what they are. Measured differences of ability among persons are dwarfed by measured differences in their ownership of resources. Tapping those rents and dividing them equally will truly "level the playing field."

✓ 5. The proposed reform helps everyone perceive the fairness of rewarding saving. Now, unearned wealth stigmatizes earned wealth, and free markets too, by free-riding on their good names. The rationale for land taxation, widely publicized, helps everyone distinguish assets formed by functional human effort and sacrifice from rent-yielding natural resources taken by force and politics.

F. Landowners are not left helpless, but retain a power base

1. Nothing stops landowners from organizing, and they will certainly continue to do so. If it is true that some 4500 owners control half the farmland, their voting power is small, and they depend on their discretionary wealth, which will be reduced. However, their political power base is automatically augmented as reforms succeed and their numbers rise. Thus, land redistribution, however achieved, may be self-limiting. To the liberal this is a problem, admittedly; to the conservative landowner (whose viewpoint we are simulating) it is a comfort.

2. Selling land to blacks introduces them to the capitalistic market economy, drawing them into the system by easy, natural, and generally advantageous experiences. It will demonstrate to ANC members that the market system can work to their advantage and fulfill their goals.

3. Tax reform, under professional leadership, will demonstrate that those presently in power have the will and the skill to make places for everyone in the ongoing system. Thus it may well preempt any tendency to turn government over to unqualified and

opinionated doctrinaires. Conservatives may well see their enlightened self-interest in forestalling the kind of expropriative program, with no right of appeal, just initiated in Zimbabwe.

~~G. Tax reform lets marginal land remain outside the market system~~

~~The tax base of marginal land is, by definition, zero.~~

G. H. Tax reform will strengthen the economy of the R.S.A., giving it new stature in the world

Viewed from most centers of the world economy, the R.S.A. is a small, distant market, with fewer people than California and a costly, tiresome jet to London. Add to that, most of its people are not even in the market. How much stronger a market might it be if all its people were mobilized consumers; how much more attractive to buyers if all its people were producing and selling goods? ~~The question answers itself;~~ the possibilities are limited only by the imagination.

Viewed by the world media, the R.S.A. is a racist tyranny. Yet the people of this nation are of good will, religious, educated, resourceful, industrious, and eager to set things right. This very meeting is the proof of that. Think what a ^{light} ~~beacon~~ you can ^{show to} ~~light~~ for the world by forging a new South African society wherein all are productive and united in mutual satisfaction with the terms of their association.

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APPENDICES

T = tax levy
 t = property tax rate
 V = market value of land, and base of property tax
 i = interest rate, nominal
 R = gross revenue from land
 e = expenses (current)
 a = R-e = "cash flow" from land
 V/a = the price/earnings ratio of land

I. How property tax rate is capitalized into lower land price

$$V = \frac{a-tV}{i}$$

$$V(i+t) = a$$

$$V = \frac{a}{i+t} \quad (1)$$

At $t=0$, parties with access to cheap money (low i -values) have a differential advantage in bidding for land. The price/earnings ratio is V/a . $V/a=1/i$. As t rises, however, t swamps out i . $V/a \rightarrow 1/t$, the same for all parties.

Thus, a highly discriminatory market (the credit market) is by-passed, and replaced by a non-discriminatory market.

II. How tax cost of holding land displaces interest cost

$$V = \frac{a}{i+t} \quad (1)$$

$$T = tV = a \frac{t}{i+t} \quad (2)$$

$$iV = a \frac{i}{i+t} \quad (3)$$

In (2), as t rises, $T \rightarrow a$. At the same time, in (3), $iV \rightarrow 0$, and becomes a minor element in holding costs. Thus, a high t swamps out the effects of credit discrimination.

"Land Reform through Tax Reform"

Mason Gaffney

Delivered at a public conference, A Land Tax for the New South Africa?, presented by The Centre for Human Rights Studies, The University of Pretoria, 20 March 1992.

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INTRODUCTION

"May you live in interesting times" need not be, as the saying has it, a curse. Many South Africans are rising to these interesting times with hope and zest, tempered with prudence imbued by the several conspicuous failures of applied Marxism. Radicals and conservatives are coming together to negotiate a better social compact. In that spirit, I write from the conservative viewpoint, without representing myself as conservative: this is, admittedly, role-playing. The idea is to "walk a few miles in the other man's mocassins," the better to understand and accommodate his viewpoint. It is also to acknowledge the talent, training, solidarity, commitment, and leadership among conservatives that makes them a continuing force. They reckon ill who leave them out.

That follows the model of America's second Dutch President, Theodore Roosevelt. It was his genius to implement populist policies under elitist leadership. This was the essence of "The Progressive Movement," which achieved probably the healthiest social progress in U.S. history¹. A substantial part of the progress consisted in rapid growth of property taxes, which were higher in the Progressive Era than before or since. Besides being higher, they were more focused on land values, and less on true capital, than at other periods: it was a demand of the times (Brownlee, 1985).

"Conservatives," viewed sympathetically, are those who recognize weaknesses and irrationalities in liberal ideology and leadership. They doubt liberal leaders can or will deliver on promised improvements in human welfare, pointing to Lenin, Stalin, Mao, Hoxha, Castro, Nyerere, Minh, et al. It is up to specific liberal leaders to prove them wrong -- if they are wrong. The thesis here is that tax reform is the kind of land reform most compatible with "good" -- i.e. public-minded, socially responsible -- conservative principles.

¹The other great Progressive President, Wilson, was not Dutch, but certainly was a Calvinist.

The "tax reform" in question means first raising the property tax rate on the land-value base, whether to replace other taxes or to increase public services. Second, it could mean adapting income-tax schedules to take more land income, and less earned income.² Third, it could mean a tax on gains from land sales, totally lacking from the present income tax.³ Fourth, it could include a package of resource-based taxes, like severance or net proceeds taxes on minerals, and on water withdrawals.⁴ Like King Arthur in Camelot, I submit the case in the form of succeeding "Propositions."

A. Tax reform uses existing institutions and professions

1. Tax reform, as just defined, leaves landowners in possession and in place, retaining title. No one is evicted; no land title need be expropriated, condemned, or nationalized.⁵

2. Tax reform uses existing institutions and trained personnel. It is a matter of raising property tax rates on one base (land value), and lowering (perhaps to zero) the rate on others (buildings and movable property). It could mean dismantling some taxing agencies now in place, if the revenue from land makes it possible. Several South African municipalities already practise the art of valuing land for tax assessment, and enjoy a considerable world reputation. The former Valuer of Johannesburg, John McCulloch, has lectured in the U.S.A. on his practise, and its impressive results.

Practise in the R.S.A. is limited to certain cities, it is true. Extending it to farmlands will require some innovation. In America rural "counties," and in Canada "regional districts," depend mainly on property taxation for rural services. Rural tax "assessors" (valuers) need and use soil maps. The R.S.A. has its

²This happened at the inception of the personal income tax in the United States (Brownlee), ~~op. cit.~~

³This is a major revenue raiser in Taiwan, and an integral part of its successful land reform programme (Riew, 1990; King, 1989).

⁴For those who like consumer taxes, it could also be presented as a tax on "land-consumption," a view not developed here.

⁵This does not preclude restitution, where a strong case can be made on other grounds. Tax reform does, however, have a rationale of its own quite apart from specific cases of restitution, and may be considered independently. It would also lower the public cost of restitution, as will be shown.

cadre of soil scientists, and a high level of concern over soil conservation. It only needs to integrate existing skills of valuers and soilsmen.⁶ To be sure, new times and attitudes often call for new people, but they will need and can use many technical skills and the experience of the old.

3. No special "land reform" agency is needed: no new powers, no new bureaucracy, no arbitrary rules for takings. No land claims procedure or special court are required; no delay-ridden, trench-by-trench legal contests (de Klerk, 1991, 17-23).

B. Tax reform is gradualistic, not cataclysmic

1. Sale of land by present owners will be voluntary with individuals, piece-by-piece, based purely on market criteria. Advocates regard land taxation not as amending the market, but letting it function more perfectly. "... it would not act as a disincentive to production such as existing income taxation does; ..." (de Klerk 15). It is standard economic doctrine that a land tax is "neutral," in its "marginal" effects. In addition, it has strong wealth and liquidity effects, and they are pro-incentive. Its cash drain on landowners attracts their attention, in a compelling way, to use land productively if they will, and sell any surplus.

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However, tax reform completely changes that. Heavy land taxation has the same effect as extending long-term credit to all potential buyers on identical terms (Gaffney, 1973). The simple mathematics of the point is in Appendix A.⁷ It has the same effect as revolutionizing land credit markets. No land credit program in the world has ever, or could ever, remotely approach

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⁷Instead of paying debt service on a personal loan, whose terms vary with persons, everyone pays an annual tax that is the same for all.

so egalitarian and efficient a result. Tax reform is powerful land reform. Like tenancy, it makes "farming skills, rather than capital, the primary criterion for occupying land" (de Klerk (ed.), 264).

Tax reform even puts new entrants on the same footing as the present owners. For all alike, the price of holding land becomes the annual tax. The purchase price, i.e. the advantage sellers hold over new entrants, falls. Whoever grasps the full import of that will not see land taxation as "mild": love it or hate it, it is potent.

2. Owners with surplus lands will select for sale those lands that are marginal to their own needs, and most vital to the needs of others as evidenced by what others bid. Most owners will probably retain lands near the farmstead, the nucleus of their operations. Specific choices, however, are theirs to make for their own good reasons. Those good reasons include sentimental attachments to specific places, real economic values which the market weighs in the same balance with cash.

3. There being few legal black tenants in place, it may take time for many black buyers to familiarize themselves with soils and local peculiarities.⁸ Land reform must involve substantial migration and re-orientation. An interventionist, centrally controlled land reform program might foolishly transplant people in "parachute" leaps, inviting failure. Tax reform, working through the market, lets buyers move in individually,⁹ in their own time, based on personal wants and abilities, and private negotiations between buyer and seller.

C. Tax reform retains and strengthens the means and institutions of production and exchange

1. Tax reform resolves the supposed conflicts or trade-offs between growth and redistribution, between efficiency and justice. Some say that a few years' economic growth will do more for the poor than total redistribution of wealth. That is half true, but growth is no substitute for redistribution of land, because land does not grow. The benefits of growth, absent tax

⁸There may be many "labour tenants" in place. As to that, sources differ. (Claassens, 1991b, 57-58, cit. de Klerk, 1991, 18). We do not know if they are ready to become owners. With tax reform, we do not need to know: when they are ready, the market is ready.

⁹"Individuals" may include corporate groups, whether familial, business, tribal, or cooperative.

reform, are likely to be distributed in proportion to prior landholdings. Most hold none: twice zero is still zero.

The good news, however, is that land redistribution via tax reform actually promotes growth of jobs, capital, and output. It replaces suppressive, distortionary taxes with pro-incentive, non-distorting taxes. Growth and efficiency combined with distributive justice: it is a happy combination, too long denied us by sour counsel that calls them incompatible.

2. Tax reform recognizes the need to motivate saving and investing by securing property rights in man-made capital. It secures those rights by downtaxing both capital and the income and sales it generates. It is possible to do so, while raising property taxes and revenues, simply by regarding the difference between land and capital. Man forms capital by producing, saving and investing. God created land, which is appropriated by sovereign states and granted to individuals by politics. What the state grants the state can tax without invading private capital proper, or driving it to flight, or discouraging its import or formation, or encouraging its wasteful consumption.

Untaxing capital (as proposed here) prevents capital flight, and encourages capital import by raising the after-tax rate of return to investing. It will, to be sure, discourage foreign land purchases, but that is a net plus, considering the political influence that accompanies landownership. At the same time, taxing land induces more domestic capital formation by lowering land prices. Land value substitutes for the value of real capital in the portfolios of individuals, weakening their resolve to add other assets by saving. Lowering land prices reverses the effect.

Besides raising returns to private capital, the proposal creates a flow of funds for financing infrastructure. The capital to finance internal improvements lies sleeping in the lands to be served. Land taxation is a reveille to awaken and a muster to enlist it.

3. Tax reform retains and sharpens market incentives to allocate scarce means to their best uses. Conventional economics has no higher praise.

4. Tax reform will strengthen the market system by abating taxes on trade. VAT and income taxes, which we propose abating, are both based on exchange, and are avoided by substituting non-market activity, and unrecorded activity (Loots 1991, p.45).

5. The financial system will adapt by basing loans less on land collateral, and more on capital, personal reputation, and

appraisal of specific projects.¹⁰ On balance this will help stabilize the financial system, whose worst fiascos, from the South Sea Bubble of 1720, through the world banking collapse of 1932, to the American Savings-and-Loan debacle of 1987-91, and the 1992 Japanese collapse, have resulted from loans on speculative land.

6. Tax reform is a source of public funds; conventional land reform is a sink. Conventional reforms spend taxpayer money to finance land transfers. This sharply limits their scope, and also calls for higher counterproductive taxes (like VAT, introduced in 1991, now at 10%, and PAYE or payroll taxes) levied on job-making, demand-generating industry and commerce in cities. The best medicine for farming is higher demand from thriving indigenous cities, which tax reform promotes.

7. Tax reform will slacken the demand for restitution of specific lands to specific people, purely as a redistributive matter, because landownership is now to be coupled with tax obligations. Returning to old homes for sentimental reasons is, in the true sense, economical. It shows up in market demands, and is facilitated by perfecting the market. Restitution merely to secure special privilege, on the other hand, will be discouraged.

Most black families are too dispersed and impoverished to trace their history and claim restitution (Claassens, 1991a, 10, cit. de Klerk, 1991, 22), so restitution is tokenism that would only create a small new black privileged class. Restitution has the additional cost of clouding tenure and aborting investment to improve vast lands, for years or decades, while history is reviewed and claims sorted. Tax reform bypasses that highly counterproductive stage.

8. Tax reform imposes neither upper nor lower limits on scale, but lets the market decide. In the event there are strong scale economies, tax reform lets society reap the gains of scale without suffering inequality, by taxing the rent surplus thus created. If public funds are then spent fairly, tax reform achieves equal distribution of net benefits without necessarily achieving equal division of land tenure. This is the beauty and genius of tax reform. It uses the monetary mechanism to achieve equality of outcomes, under conditions where equal division of land in kind is inefficient.

Many land reformers are sceptics of mere pecuniary-fiscal offset: it is too "theoretical," intangible, arguable, and easily reversible. Equality-in-kind is more solid and understandable.

¹⁰Shem Migot-Adholla, in this volume, cites loans in Kenya secured by crops rather than land titles.

Fortunately for our case, tax reform in history usually has had the effect of splitting up large landholdings into smaller operating tenures (Rhodes, 1945; Gaffney, 1969; Henley, 1969). The American State of Wisconsin, with the highest farm property tax rate in its nation, and the most equal distribution of farm landholding, is a case in point (Gaffney, 1992b).

Many oversized landholdings are held as stores of value, or speculations, or "inflation hedges," rather than for operating efficiency, and are sold off when land taxes rise. Nick Vink points out in this volume that the unit price of small farms is higher than large, i.e. there is a market pressure toward subdivision. That would seem to attest to the superior operating efficiency of smaller farm units. Van Rooyen et al. provide evidence that smallholder operators are more capital-efficient than large (1987, cit. van Zyl and van Rooyen, 1991, 189). Claassens (1991, 43) observes "vast tracts of apparently empty 'white' land ..." At the other extreme, the old South Africa, almost alone among nations, has its agricultural anti-subdivision laws, ostensibly for soil conservation purposes. Should these be kept in place, rightly or wrongly, taxation may still be used to equalize the net social gains from landownership.

9. Truly marginal lands are left available for subsistence farming. Marginal lands, by definition, have no value, so no tax will be assessed against them. Users need not, therefore, raise any cash to pay tax. Vast areas will thus be left open for subsistence farming, for those who choose it.

On erosive sloping thin soils, direct controls may be called for to preclude exploitive farming. If and where so, adjustments in tax valuation may and should be made.

D. Tax reform strengthens land tenure and relieves pressures to violate it.

1. Sales of surplus lands to new entrepreneurs, in farm and city, will create a new social climate, and large numbers of motivated people with land tenure, to give mutual aid resisting trespass.

2. Taxation gives an obvious moral basis for ownership. "This land is mine, I pay taxes on it!" is a claim often heard and heeded in jurisdictions that levy property taxes.

3. Tax reform presses landowners to hire more workers, to put their land to full use. Abatement of VAT and PAYE taxes will open up many jobs now aborted by the tax "wedge" between customer

and seller, between employer and worker (Dunkley 1991, 8-13).¹¹ Opening legitimate job, management, and housing opportunities to landless blacks will relieve pressures to trespass and squat. So long as there are landless people, trespass and squatting are inevitable, lowering respect for law and private tenure. When job demand runs high, the state can with a clean conscience protect private tenures against illegal invasions. The state, as land tax receiver, has the highest interest in protecting and cultivating its source of revenue.

4. Dr. M.P. Lamont of the S.A. Reserve Bank suggests the national government should share in the land tax base.¹² If this be done, let this share be used for a social dividend, or the equivalent (like school support based on attendance). In this manner the central government creates a pecuniary motive for local governments to adjust local institutions (like zoning) to attract and admit new people as local landowners. This, in turn, lowers the pressure to trespass. Coupling this with the proposed relief of labor from work-based income taxation, tax reform will make economic life possible on lands now rendered submarginal by taxation, as expressed by Dunkley (1991, 8-13).

E. The proposed reform meets many tests of perceived fairness

Loots has written that efficiency demands perceived fairness (1991, pp. 50-51). So has Gaffney (1992), who, not surprisingly, supports Loots. No reform can meet all tests of perceived fairness, because some of these are subjective, or culturally determined. However, tax reform meets many tests.

1. The loss caused by higher land taxes will be offset, for most landowners, by the gain from lower taxes of other kinds. Land income is what remains after all expenses have been met. These expenses include taxes. Ergo, lowering other taxes tends to raise land income and price, just as raising land taxes themselves tends to lower them.

The net social gain in shifting to land taxes is that other taxes impose heavy "excess burdens," i.e. they cost the taxpayer more than they gain the treasury. This theme has been elaborated elsewhere (Gaffney, 1970).

¹¹Dunkley stresses how abatement of taxes on work, exchange and saving will allow use of lands now made submarginal by taxation. Equally or more important, abatement opens up the "intensive margin" of land use: i.e., intensification of use of better lands.

¹²Colin Clark (1965) has published a simple, comprehensive scheme of this sort which I commend.

In the short run this offsetting gain might seem to accrue only to those owners who are using and have improved their land intensively. Actually, it applies to all, because land price is derived from anticipated land income. Any owner of surplus land can take advantage of new opportunities created by untaxing or downtaxing inputs and sales and income. He does this either himself, or by sale.

The thesis that all taxes are shifted to landowners follows logically from two premises. One, after-tax interest rates are determined by world markets, so the local supply of capital is perfectly elastic at a fixed, after-tax rate. Two, labor has been reduced to so low a level that it cannot bear any more tax burden. Anyone may test the premises by observation.

2. Tax reform spreads the burden of redistribution over all rent-takers, where conventional land reforms focus on farm owners. Comprehensive rent-taxation would tap rents from urban land. Urban land values far outweigh farm land values, not just per ha. but in the aggregate; not just in the aggregate, but per capita; not just per capita, but relative to building values. In addition, retail and industrial lands are highly concentrated in a few hands, even more than farmland.

Besides urban values, there are rents from mines. These have been falling out of the R.A.S. tax system, as the P.I.T. has grown (Loots, 1991, 43).¹³ There are several other sources of resource rent to tap, as well: rights of way, radio spectrum, air routes and landing slots, fishing rights, waterfronts and accesses, forests, waters, game preserves, discharging effluents in common airs and waters, etc.

3. Subjecting the natural earth to European-style land tenure may be necessary to promote the most efficient use. This has been seized as the occasion to extinguish traditional common rights as well, but it need not be so. We need merely replace the right of common access with a state duty to collect land revenues, and use the proceeds for common purposes.

Land taxation compensates the dispossessed and landless in at least three ways:

a. The tax supports public services and lets other taxes be abated.

b. To raise cash, the owner must produce more goods and services (including housing). By analogy, Cecil Rhodes imposed a flat poll tax on natives, to induce them to work for

¹³Falling gold prices are also a factor in this change.

cash. A property tax based on land value has a bit of the same effect on landowners.

c. To produce the goods the owner hires more labor, or sells parcels to laborers wanting to go into business on their own. The newly employed labor earns incomes to buy the newly produced goods and services. Here is supply-side economics coupled with demand-side economics.

4. Tax reform does comprehensive justice among whites, among blacks, coloreds, Indians, and Malays, not just between groups. Conventional land reform is likely to select a few token blacks (those more organized and articulate) for restitution or subsidy, leaving the mass as wretched as before (Claassens 1991a, 10, cit. de Klerk 1991, 22). Tax reform truly levels the playing field, tapping unearned rents and distributing them equally among all citizens. These rents are now taken by a minority of South Africans, plus jet-setters of great wealth.

Today's economic playing field may be visualized as a hill consisting of resource rents. Those on top are higher because of what they stand on, not what they are. Measured differences of ability among persons are dwarfed by measured differences in their ownership of resources. Tapping those rents and dividing them equally will truly "level the playing field."

5. The proposed reform helps everyone perceive the fairness of rewarding saving. Now, unearned wealth stigmatizes earned wealth, and free markets too, by free-riding on their good names. The rationale for land taxation, widely publicized, helps everyone distinguish assets formed by functional human effort and sacrifice from rent-yielding natural resources taken by force and politics.

F. Landowners are not left helpless, but retain a power base

1. Nothing stops landowners from organizing, and they will certainly continue to do so. If it is true that some 4500 owners control half the farmland, their voting power is small, and they depend on their discretionary wealth, which will be reduced. However, their political power base is automatically augmented as reforms succeed and their numbers rise. Thus, land redistribution, however achieved, may be self-limiting. To the liberal this is a problem, admittedly; to the conservative landowner (whose viewpoint we are simulating) it is a comfort.

2. Selling land to blacks introduces them to the capitalistic market economy, drawing them into the system by easy, natural, and generally advantageous experiences. It will demonstrate to ANC members that the market system can work to their advantage and fulfill their goals.

3. Tax reform, under professional leadership, will demonstrate that those presently in power have the will and the skill to make places for everyone in the ongoing system. Thus it may well preempt any tendency to turn government over to unqualified and opinionated doctrinaires. Conservatives may well see their enlightened self-interest in forestalling the kind of expropriative program, with no right of appeal, just initiated in Zimbabwe.

G. Tax reform will strengthen the economy of the R.S.A., giving it new stature in the world

Viewed from most centers of the world economy, the R.S.A. is a small, distant market, with fewer people than California and a costly, tiresome jet to London. Add to that, most of its people are not even in the market. How much stronger a market might it be if all its people were mobilized consumers; how much more attractive to buyers if all its people were producing and selling goods. The possibilities are limited only by the imagination.

Viewed by the world media, the R.S.A. has been a racist tyranny. Yet most leaders of this nation are benign, religious, educated, resourceful, industrious, and eager to set things right. This very meeting is proof of that. Think how you can inspire the world by forging "The New South Africa" as a society wherein all are productive, and united in mutual satisfaction with the terms of their association.

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APPENDICES

T = tax levy
 t = property tax rate
 V = market value of land, and base of property tax
 i = interest rate, nominal
 R = gross revenue from land
 e = expenses (current)
 a = R-e = "cash flow" from land
 V/a = the price/earnings ratio of land

I. How property tax rate is capitalized into lower land price

$$V = \frac{a-tV}{i}$$

$$V(i+t) = a$$

$$V = \frac{a}{i+t} \quad (1)$$

At $t=0$, parties with access to cheap money (low i -values) have a differential advantage in bidding for land. The price/earnings ratio is V/a . $V/a=1/i$. As t rises, however, t swamps out i . $V/a \rightarrow 1/t$, the same for all parties.

Thus, a highly discriminatory market (the credit market) is by-passed, and replaced by a non-discriminatory market.

II. How tax cost of holding land displaces interest cost

$$V = \frac{a}{i+t} \quad (1)$$

$$T = tV = a \frac{t}{i+t} \quad (2)$$

$$iV = a \frac{i}{i+t} \quad (3)$$

In (2), as t rises, $T \rightarrow a$. At the same time, in (3), $iV \rightarrow 0$, and becomes a minor element in holding costs. Thus, a high t swamps out the effects of credit discrimination.

"Land Reform through Tax Reform"

Mason Gaffney

Delivered at a public conference, A Land Tax for the New South Africa?, presented by The Centre for Human Rights Studies, The University of Pretoria, 20 March 1992.

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INTRODUCTION

"May you live in interesting times" need not be, as the saying has it, a curse. Many South Africans are rising to these interesting times with hope and zest, tempered with prudence imbued by the several conspicuous failures of applied Marxism. Radicals and conservatives are coming together to negotiate a better social compact. In that spirit, I write from the conservative viewpoint, without representing myself as conservative: this is, admittedly, role-playing. The idea is to "walk a few miles in the other man's mocassins," the better to understand and accommodate his viewpoint. It is also to acknowledge the talent, training, solidarity, commitment, and leadership among conservatives that makes them a continuing force. They reckon ill who leave them out.

That follows the model of America's second Dutch President, Theodore Roosevelt. It was his genius to implement populist policies under elitist leadership. This was the essence of "The Progressive Movement," which achieved probably the healthiest social progress in U.S. history¹. A substantial part of the progress consisted in rapid growth of property taxes, which were higher in the Progressive Era than before or since. Besides being higher, they were more focused on land values, and less on true capital, than at other periods: it was a demand of the times (Brownlee, 1985).

"Conservatives," viewed sympathetically, are those who recognize weaknesses and irrationalities in liberal ideology and leadership. They doubt liberal leaders can or will deliver on promised improvements in human welfare, pointing to Lenin, Stalin, Mao, Hoxha, Castro, Nyerere, Minh, et al. It is up to specific liberal leaders to prove them wrong -- if they are wrong. The thesis here is that tax reform is the kind of land reform most compatible with "good" -- i.e. public-minded, socially responsible -- conservative principles.

¹The other great Progressive President, Wilson, was not Dutch, but certainly was a Calvinist.

The "tax reform" in question means first raising the property tax rate on the land-value base, whether to replace other taxes or to increase public services. Second, it could mean adapting income-tax schedules to take more land income, and less earned income.² Third, it could mean a tax on gains from land sales, totally lacking from the present income tax.³ Fourth, it could include a package of resource-based taxes, like severance or net proceeds taxes on minerals, and on water withdrawals.⁴ Like King Arthur in Camelot, I submit the case in the form of succeeding "Propositions."

A: Tax reform uses existing institutions and professions

1. Tax reform, as just defined, leaves landowners in possession and in place, retaining title. No one is evicted; no land title need be expropriated, condemned, or nationalized.⁵

2. Tax reform uses existing institutions and trained personnel. It is a matter of raising property tax rates on one base (land value), and lowering (perhaps to zero) the rate on others (buildings and movable property). It could mean dismantling some taxing agencies now in place, if the revenue from land makes it possible. Several South African municipalities already practise the art of valuing land for tax assessment, and enjoy a considerable world reputation. The former Valuer of Johannesburg, John McCulloch, has lectured in the U.S.A. on his practise, and its impressive results.

Practise in the R.S.A. is limited to certain cities, it is true. Extending it to farmlands will require some innovation. In America rural "counties," and in Canada "regional districts," depend mainly on property taxation for rural services. Rural tax "assessors" (valuers) need and use soil maps. The R.S.A. has its

²This happened at the inception of the personal income tax in the United States (Brownlee, op. cit.)

³This is a major revenue raiser in Taiwan, and an integral part of its successful land reform programme (Riew, 1990; King, 1989).

⁴For those who like consumer taxes, it could also be presented as a tax on "land-consumption," a view not developed here.

⁵This does not preclude restitution, where a strong case can be made on other grounds. Tax reform does, however, have a rationale of its own quite apart from specific cases of restitution, and may be considered independently. It would also lower the public cost of restitution, as will be shown.

cadre of soil scientists, and a high level of concern over soil conservation. It only needs to integrate existing skills of valuers and soilsmen.⁶ To be sure, new times and attitudes often call for new people, but they will need and can use many technical skills and the experience of the old.

3. No special "land reform" agency is needed: no new powers, no new bureaucracy, no arbitrary rules for takings. No land claims procedure or special court are required; no delay-ridden, trench-by-trench legal contests (de Klerk, 1991, 17-23).

B. Tax reform is gradualistic, not cataclysmic

1. Sale of land by present owners will be voluntary with individuals, piece-by-piece, based purely on market criteria. Advocates regard land taxation not as amending the market, but letting it function more perfectly. "... it would not act as a disincentive to production such as existing income taxation does; ..." (de Klerk 15). It is standard economic doctrine that a land tax is "neutral," in its "marginal" effects. In addition, it has strong wealth and liquidity effects, and they are pro-incentive. Its cash drain on landowners attracts their attention, in a compelling way, to use land productively if they will, and sell any surplus.

Some land reformers, indeed, dismiss land taxation as too mild a measure, because it works with market forces. The ANC Land Manifesto, July, 1991, expresses distrust of market-oriented policies. Working with the market does not mean, however, that tax reform underwrites all the market forces that now dominate land markets. It changes credit relations profoundly. Lending institutions are traditionally unwilling to finance black land buyers (Daniels, 1987, 3). Even in Soweto, few of the tiny stands (lots) are owned by the occupants (South Africa 1981, 248, cit. Daniels, 1987, 5). Little wonder ANC people distrust "the market": that is the land market as they know it now.

However, tax reform completely changes that. Heavy land taxation has the same effect as extending long-term credit to all potential buyers on identical terms (Gaffney, 1973). The simple mathematics of the point is in Appendix A.⁷ It has the same effect as revolutionizing land credit markets. No land credit program in the world has ever, or could ever, remotely approach

⁶Riel Franzsen in this volume calls for the use of rural cadastral mapping.

⁷Instead of paying debt service on a personal loan, whose terms vary with persons, everyone pays an annual tax that is the same for all.

so egalitarian and efficient a result. Tax reform is powerful land reform. Like tenancy, it makes "farming skills, rather than capital, the primary criterion for occupying land" (de Klerk (ed.), 264).

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4. Tax reform will strengthen the market system by abating taxes on trade. VAT and income taxes, which we propose abating, are both based on exchange, and are avoided by substituting non-market activity, and unrecorded activity (Loots 1991, p.45).

5. The financial system will adapt by basing loans less on land collateral, and more on capital, personal reputation, and

appraisal of specific projects.¹⁰ On balance this will help stabilize the financial system, whose worst fiascos, from the South Sea Bubble of 1720, through the world banking collapse of 1932, to the American Savings-and-Loan debacle of 1987-91, and the 1992 Japanese collapse, have resulted from loans on speculative land.

6. Tax reform is a source of public funds; conventional land reform is a sink. Conventional reforms spend taxpayer money to finance land transfers. This sharply limits their scope, and also calls for higher counterproductive taxes (like VAT, introduced in 1991, now at 10%, and PAYE or payroll taxes) levied on job-making, demand-generating industry and commerce in cities. The best medicine for farming is higher demand from thriving indigenous cities, which tax reform promotes.

7. Tax reform will slacken the demand for restitution of specific lands to specific people, purely as a redistributive matter, because landownership is now to be coupled with tax obligations. Returning to old homes for sentimental reasons is, in the true sense, economical. It shows up in market demands, and is facilitated by perfecting the market. Restitution merely to secure special privilege, on the other hand, will be discouraged. As Claassens points out, most black families are too dispersed and impoverished to trace their history and claim restitution (1991a, 10, cit. de Klerk, 1991, 22), so restitution is tokenism that would only create a small new black privileged class.

8. Tax reform does not impose either upper or lower limits on scale, but lets the market decide. In the event there are strong scale economies, tax reform lets society reap the gains of scale without suffering inequality, by taxing the rent surplus thus created. If public funds are then spent fairly, tax reform achieves equal distribution of net benefits without necessarily achieving equal division of land tenure. This is the beauty and genius of tax reform. It uses the monetary mechanism to achieve equality of outcomes, under conditions where equal division of land in kind is inefficient.

Many land reformers are sceptics of mere pecuniary-fiscal offset: it is too "theoretical," intangible, arguable, and easily reversible. Equality-in-kind is more solid and understandable. Fortunately for our case, tax reform in history usually has had the effect of splitting up large landholdings into smaller operating tenures (Rhodes, 1945; Gaffney, 1969; Henley, 1969). The American State of Wisconsin, with the highest farm property

¹⁰Shem Migot-Adholla, in this volume, cites loans in Kenya secured by crops rather than land titles.

tax rate in its nation, and the lowest Gini Coefficient in farm landholding, is a case in point (Gaffney, 1992b).

Many oversized landholdings are held as stores of value, or speculations, or "inflation hedges," rather than for operating efficiency, and are sold off when land taxes rise. Nick Vink points out in this volume that the unit price of small farms is higher than large, i.e. there is a market pressure toward subdivision. That would seem to attest to the superior operating efficiency of smaller farm units. Van Rooyen et al. provide evidence that smallholder operators are more capital-efficient than large (1987, cit. van Zyl and van Rooyen, 1991, 189). Claassens (1991, 43) observes "vast tracts of apparently empty 'white' land ..." At the other extreme, the old South Africa, almost alone among nations, has its agricultural anti-subdivision laws, ostensibly for soil conservation purposes. Should these be kept in place, rightly or wrongly, taxation may still be used to equalize the net social gains from landownership.

9. Truly marginal lands are left available for subsistence farming. Marginal lands, by definition, have no value, so no tax will be assessed against them. Users need not, therefore, raise any cash to pay tax. Vast areas will thus be left open for subsistence farming, for those who choose it.

On erosive sloping thin soils, direct controls may be called for to preclude exploitive farming. If and where so, adjustments in tax valuation may and should be made.

D. Tax reform strengthens land tenure and relieves pressures to violate it.

1. Sales of surplus lands to new entrepreneurs, in farm and city, will create a new social climate, and large numbers of motivated people with land tenure, to give mutual aid resisting trespass.

2. Taxation gives an obvious moral basis for ownership. "This land is mine, I pay taxes on it!" is a claim often heard and heeded in jurisdictions that levy property taxes.

3. Tax reform presses landowners to hire more workers, to put their land to full use. Abatement of VAT and PAYE taxes will open up many jobs now aborted by the tax "wedge" between customer and seller, between employer and worker (Dunkley 1991, 8-13).¹¹

¹¹Dunkley stresses how abatement of taxes on work, exchange and saving will allow use of lands now made submarginal by taxation. Equally or more important, abatement opens up the "intensive margin" of land use: i.e., intensification of use of

Opening legitimate job, management, and housing opportunities to landless blacks will relieve pressures to trespass and squat. So long as there are landless people, trespass and squatting are inevitable, lowering respect for law and private tenure. When job demand runs high, the state can with a clean conscience protect private tenures against illegal invasions. The state, as land tax receiver, has the highest interest in protecting and cultivating its source of revenue.

4. Dr. M.P. Lamont of the S.A. Reserve Bank suggests the national government should share in the land tax base.¹² If this be done, let this share be used for a social dividend, or the equivalent (like school support based on attendance). In this manner the central government creates a pecuniary motive for local governments to adjust local institutions (like zoning) to attract and admit new people as local landowners. This, in turn, lowers the pressure to trespass. Coupling this with the proposed relief of labor from work-based income taxation, tax reform will make economic life possible on lands now rendered submarginal by taxation, as expressed by Dunkley (1991, 8-13).

E. The proposed reform meets many tests of perceived fairness

Loots has written that efficiency demands perceived fairness (1991, pp. 50-51). So has Gaffney (1992), who, not surprisingly, supports Loots. No reform can meet all tests of perceived fairness, because some of these are subjective, or culturally determined. However, tax reform meets many tests.

1. The loss caused by higher land taxes will be offset, for most landowners, by the gain from lower taxes of other kinds. Land income is what remains after all expenses have been met. These expenses include taxes. Ergo, lowering other taxes tends to raise land income and price, just as raising land taxes themselves tends to lower them.

The net social gain in shifting to land taxes is that other taxes impose heavy "excess burdens," i.e. they cost the taxpayer more than they gain the treasury. This theme has been elaborated elsewhere (Gaffney, 1970).

In the short run this offsetting gain might seem to accrue only to those owners who are using and have improved their land intensively. Actually, it applies to all, because land price is derived from anticipated land income. Any owner of surplus land

better lands.

¹²Colin Clark (1969) has published a simple, comprehensive scheme of this sort which I commend.

can take advantage of new opportunities created by untaxing or downtaxing inputs and sales and income. He does this either himself, or by sale.

The thesis that all taxes are shifted to landowners follows logically from two premises. One, after-tax interest rates are determined by world markets, so the local supply of capital is perfectly elastic at a fixed, after-tax rate. Two, labor has been reduced to so low a level that it cannot bear any more tax burden. Anyone may test the premises by observation.

2. Tax reform spreads the burden of redistribution over all rent-takers, where conventional land reforms focus on farm owners. Comprehensive rent-taxation would tap rents from urban land. Urban land values far outweigh farm land values, not just per ha. but in the aggregate; not just in the aggregate, but per capita; not just per capita, but relative to building values. In addition, retail and industrial lands are highly concentrated in a few hands, even more than farmland.

Besides urban values, there are rents from mines. These have been falling out of the R.A.S. tax system, as the P.I.T. has grown (Loots, 1991, 43).¹³ There are several other sources of resource rent to tap, as well: rights of way, radio spectrum, air routes and landing slots, fishing rights, waterfronts and accesses, forests, waters, game preserves, discharging effluents in common airs and waters, etc.

3. Subjecting the natural earth to European-style land tenure may be necessary to promote the most efficient use. This has been seized as the occasion to extinguish traditional common rights as well, but it need not be so. We need merely replace the right of common access with a state duty to collect land revenues, and use the proceeds for common purposes.

Land taxation compensates the dispossessed and landless in at least three ways:

a. The tax supports public services and lets other taxes be abated.

b. To raise cash, the owner must produce more goods and services (including housing). By analogy, Cecil Rhodes imposed a flat poll tax on natives, to induce them to work for cash. A property tax based on land value has a bit of the same effect on landowners.

c. To produce the goods the owner hires more labor, or sells parcels to laborers wanting to go into business on their

¹³Falling gold prices are also a factor in this change.

own. The newly employed labor earns incomes to buy the newly produced goods and services. Here is supply-side economics coupled with demand-side economics.

4. Tax reform does comprehensive justice among whites, among blacks, coloreds, Indians, and Malays, not just between groups. Conventional land reform is likely to select a few token blacks (those more organized and articulate) for restitution or subsidy, leaving the mass as wretched as before (Claassens 1991a, 10, cit. de Klerk 1991, 22). Tax reform truly levels the playing field, tapping unearned rents and distributing them equally among all citizens. These rents are now taken by a minority of South Africans, plus jet-setters of great wealth.

Today's economic playing field may be visualized as a hill consisting of resource rents. Those on top are higher because of what they stand on, not what they are. Measured differences of ability among persons are dwarfed by measured differences in their ownership of resources. Tapping those rents and dividing them equally will truly "level the playing field."

5. The proposed reform helps everyone perceive the fairness of rewarding saving. Now, unearned wealth stigmatizes earned wealth, and free markets too, by free-riding on their good names. The rationale for land taxation, widely publicized, helps everyone distinguish assets formed by functional human effort and sacrifice from rent-yielding natural resources taken by force and politics.

F. Landowners are not left helpless, but retain a power base

1. Nothing stops landowners from organizing, and they will certainly continue to do so. If it is true that some 4500 owners control half the farmland, their voting power is small, and they depend on their discretionary wealth, which will be reduced. However, their political power base is automatically augmented as reforms succeed and their numbers rise. Thus, land redistribution, however achieved, may be self-limiting. To the liberal this is a problem, admittedly; to the conservative landowner (whose viewpoint we are simulating) it is a comfort.

2. Selling land to blacks introduces them to the capitalistic market economy, drawing them into the system by easy, natural, and generally advantageous experiences. It will demonstrate to ANC members that the market system can work to their advantage and fulfill their goals.

3. Tax reform, under professional leadership, will demonstrate that those presently in power have the will and the skill to make places for everyone in the ongoing system. Thus it may well preempt any tendency to turn government over to unqualified and

opinionated doctrinaires. Conservatives may well see their enlightened self-interest in forestalling the kind of expropriative program, with no right of appeal, just initiated in Zimbabwe.

G. Tax reform will strengthen the economy of the R.S.A., giving it new stature in the world

Viewed from most centers of the world economy, the R.S.A. is a small, distant market, with fewer people than California and a costly, tiresome jet to London. Add to that, most of its people are not even in the market. How much stronger a market might it be if all its people were mobilized consumers; how much more attractive to buyers if all its people were producing and selling goods. The possibilities are limited only by the imagination.

Viewed by the world media, the R.S.A. has been a racist tyranny. Yet most leaders of this nation are benign, religious, educated, resourceful, industrious, and eager to set things right. This very meeting is proof of that. Think how you can inspire the world by forging "The New South Africa" as a society wherein all are productive, and united in mutual satisfaction with the terms of their association.

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APPENDICES

T = tax levy
 t = property tax rate
 V = market value of land, and base of property tax
 i = interest rate, nominal
 R = gross revenue from land
 e = expenses (current)
 a = R-e = "cash flow" from land
 V/a = the price/earnings ratio of land

I. How property tax rate is capitalized into lower land price

$$V = \frac{a-tV}{i}$$

$$V(i+t) = a$$

$$V = \frac{a}{i+t} \quad (1)$$

At $t=0$, parties with access to cheap money (low i -values) have a differential advantage in bidding for land. The price/earnings ratio is V/a . $V/a=1/i$. As t rises, however, t swamps out i . $V/a \rightarrow 1/t$, the same for all parties.

Thus, a highly discriminatory market (the credit market) is by-passed, and replaced by a non-discriminatory market.

II. How tax cost of holding land displaces interest cost

$$V = \frac{a}{i+t} \quad (1)$$

$$T = tV = a \frac{t}{i+t} \quad (2)$$

$$iV = a \frac{i}{i+t} \quad (3)$$

In (2), as t rises, $T \rightarrow a$. At the same time, in (3), $iV \rightarrow 0$, and becomes a minor element in holding costs. Thus, a high t swamps out the effects of credit discrimination.