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**LAND TENURE:
A TIME BOMB
TICKING IN SOUTH AFRICA**

Godfrey Dunkley

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LAND TENURE: A TIMEBOMB TICKING IN SOUTH AFRICA

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Edited by Professor F. Coleman, former head
of Economic History, Rhodes University.

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Godfrey Dunkley is the author of
"That All May Live"
Guidelines towards a better society.

He has attended five International Conferences
on the subject and is presently Deputy President
of the International Union for Land Value Taxation
and Free Trade.

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*(The concept of rent on land only, excluding)
(any buildings or improvements there-on, is)
(designated throughout by the expression 'Rent'.)*

1. BACKGROUND

Many parts of South Africa are on the razor's edge between peace and spontaneous violence. This is particularly so in many of the black townships and squatters' camps. At first these camps sprang up near large cities but in recent years they have become a familiar sight near small towns and even in the centre of holiday resorts - anywhere that vacant land is available, even if it is prime land. Squatter's camps are only a portion of the total informal settlers problem which includes backyard rooms and garages.

The struggle for access to land, land tenure and land ownership have formed the fulcrum of the power game ever since the first settlers arrived at the Cape of Good Hope in 1652 when the Dutch East India Company asserted its right to the land.

Under Jan van Riebeeck the settlers had only tentative rights to land at the discretion of the Governor for which they paid a land tax or quitrent, according to the agricultural quality, for a fifteen year term, later converted to perpetual quitrent.

Prior to white rule the indigenous black people had a limited degree of stability. The strongest tribes took what they wanted and the others were forced to accept what was left. Many lived in constant fear of attack by stronger tribes.

From the earliest days, white settlers desired land for their own exclusive use and negotiated, bartered and fought for land. Land changed hands and white rule extended in stages over the whole of South Africa, much of it previously unoccupied.

The Boer or Dutch farmers felt insecure under British rule, which had taken over in 1806. They gradually moved further away from authority, mainly into the eastern Cape. In 1820, five thousand British settlers arrived in Algoa Bay where they had been promised land and cheap labour, a political move designed to increase British rule over both the Boer and the blacks in a troubled area. Eventually, from about 1836, the Boers decided to trek away from British rule. During the Great Trek, the Boers rapidly defeated or displaced the various black tribes and settled as farmers well away from British rule, but the British continued to extend their colonization as diamonds and gold were discovered.

The incompatibility between Boer Republic rule and the requirements of the prospectors and miners eventually led to British intervention, culminating in the Anglo-Boer War and the expansion of British rule, which covered the four provinces of South Africa by 1902. In 1910 these four provinces were united under one central government and given independence as the Union of South Africa, a member of the British Empire. In 1961 these ties were cut with the formation of the Republic of South Africa.

Ever since the first white settlement there have been many laws, acts and decrees made by various governments which have gradually eroded the rights of blacks and given increasing ownership to whites. Many of the acts have been promulgated to allay the fears of the whites who are significantly outnumbered by blacks, but others have been a blatant miscarriage of justice motivated by greed and subjecting blacks to poverty. The process was intensified under the apartheid system, now being abandoned.

Apartheid goes back to long before the Nationalist government came to power or the coining of the word 'apartheid' for electioneering purposes and the codifying of laws to enforce what already partly existed. Abandoning statutory apartheid will not, of itself, bring about a more equitable distribution of wealth and opportunity.

The Native Land Act of 1913, for instance, allocated a small part of South Africa as black territory and prohibited black ownership in the remaining areas. Only 10,4 million morgen were available, mainly in reserves and locations. More land was intended but was made available only in 1936 when an additional 7,2 million morgen was added, bringing the total to 13% of South Africa's land area. Most of this was tribal land where blacks could not have private ownership. Even where they had registered ownership in white areas, or tradi-

tional rights on white farms as tenant farmers or share croppers, they were eventually forced off the land.

Mechanization, drought and economic conditions have also displaced many blacks from white agricultural areas. Unlike most other countries South Africa has virtually no black tenant farmers in the traditionally white areas. Therefore, land reform could be far more complex than it was in Taiwan where land reform was the start of phenomenal economic growth.

* * * * *

2. PRESENT SCENARIO (1991)

The Republic of South Africa has a population of 30 million (1989) of which only 5 million are whites, 3 million coloureds and 1 million Asiatics. There are a further 6,5 million blacks in the self governing states which once were part of the Republic of South Africa. Whites represent only 13,8% of the total. The Zulus make up the largest single tribal language group at over 6 million. Estimates of population growth to the year 2000 vary from 36 million given by the Human Sciences Research Council to 48 million calculated by the Urban Foundation.

A major problem in the 1990s is rapid urbanization now taking place. Changing conditions have resulted in a rapid increase in unemployment at the margin of production and in the number of unemployed marginal labourers, many of whom have been replaced by machines and are not re-employable. Together with the withdrawal of pass laws, this has resulted in a flood of unskilled labour to the urban areas in the hope of improving their life style. The acute shortage of housing and employment results in the majority moving into or establishing squatters' camps.

Some squatters are formally employed and squat only because there is a limited amount of affordable accommodation close enough to their place of employment. The majority of squatters are the product of the former political and existing economic system, not only in South Africa but also adjacent territories.

Estimates for "informal" housing vary significantly but the Urban Foundation gives the figure for 1987 as between 4,8 and 5,6 million living in shacks. The present number is approximately 7 million and could double in five years.

New townships with minimum services are constantly being established to allow people to move from squatters' camps to more

permanent positions. Building regulations are being relaxed to allow temporary shelters and gradual upgrading.

Finding suitable land at affordable prices is an ongoing problem for government and local authorities and the townships become progressively further away from formal employment. "Leap-frog" or "ribbon" development is aggravated by land speculation. Land is at the hub of the problem, part of the nucleus of the time bomb.

Although "white" housing is generally of a high standard and cheap by world standards, there is a shortage of affordable accommodation at the lower end of the scale. This applies to all race groups but the shortage increases for coloured and Indian housing and is chronic in black areas. The shortage is greater than the total number of existing houses and by 2000 is estimated to increase to 62% of total requirements.

Estimates given by the S.A. Reserve Bank show that 4,6 million housing units need to be constructed by year 2000. At 1986 costs, 400 000 units per year would cost R6,9 billion per year which equals 24% of Gross Domestic Fixed Investment for 1986. This would require a real annual growth rate of 17% to make possible the elimination of the backlog by 2000 compared with a growth rate of 3% at the time of the survey. (These estimates do not consider the possible effects of AIDS.)

The Independent Development Trust, Housing Project, has been set up to assist those who are unable to afford the cheapest of formal housing, conservatively estimated as over 60% of the total black population.

Unemployment has been increasing rapidly over the last few years, compounded by sanctions and the increasing lack of access to land which has prevented many from supporting themselves. The writer will argue that taxation has also been a contributing cause.

Registered unemployment figures are unreliable because of large numbers of migrant workers and squatters in many municipal areas who never register as unemployed. Semi-employed and casual labour cause a further problem regarding reliability of statistics.

The Central Statistic Services give the total 1989 figure as approximately 900 000. If those trying to make a living in the informal sector are included the number of black unemployed would be 2,5 to 3,0 million.

The resulting pressure of increasing numbers of unemployed and badly housed people in the developed areas has brought a new wave of economic and social problems. Dignity and reason are rapidly destroyed. Men women and children become easy prey to the ideas of agitators and desperation can lead to crime, both being a threat to the established community.

The lack of education and training presents a problem in finding employment. Black education has been severely handicapped by the early policies of apartheid and more recently by social unrest and a senseless call by agitators for "liberation before education". School boycotts, burning of books and schools, attacks on children attending school and attacks on teachers have all added to the abysmal failure rate at matriculation level and nearly a generation of under educated youngsters, some 30% being functionally illiterate. An acute shortage of qualified teachers will make it almost impossible to correct the problem within the foreseeable future.

Anger at the regime, brought about by the suppression of the ANC and other black political organizations, together with reaction to poor housing and black education, has been compounded by the present power struggle between the various black organizations and has resulted in violence and destruction. This has been mainly in the black townships and squatters' camps but there has also been an alarming spread of crime, including bank or payroll holdups, to white townships and central business districts.

With the lifting of restrictions since 2nd February 1990 there has been a change in the pattern of violence and faction fighting between tribes has escalated almost to the proportion of full scale war, with the police force caught in the middle.

In spite of good intentions, the supporters of sanctions in the western world have brought hardship to millions of black people by causing a downturn in the economy. Whilst sanctions have helped to expedite reform, it is now necessary to restore the damage if this is still possible.

* * * * *

However, there is one aspect where the writer believes that South Africa is far ahead of the rest of the world, with few if any exceptions, and that is in the sphere of municipal rating.

In the last forty years there has been a pronounced swing away from rating improvements and to-day more than 70% of all rates are collected in cities which are on site value rating. Only two cities are

still on flat or total value rating and there is a strong move in one of them, Cape Town, to change the system and eventually to rate land at ten times the rate on improvements. Port Elizabeth will then be the only remaining city on flat rating.

Two studies carried out by the writer over ten year periods and using figures from the Municipal Yearbook, various years, showed that the group of cities collecting rates from land value only, experienced nearly twice the average growth compared to those rating the total value of land and improvements.* Numerous examples from overseas confirm this trend of better growth where buildings are given tax relief.¹

In fact, the proposed new model for the country is little more than an extension of this municipal experience, to cover the nation as a whole, namely to untax buildings, untax the products of labour and untax the return on capital. Instead, all revenue would be collected from an annual Rent of land.

3. DEFUSING THE TIME-BOMB

Rapid changes are taking place in South Africa. On 2nd February 1990 President F.W.de Klerk announced the unbanning of exiled organizations and the release of many political prisoners. On 1st February 1991 at the opening of parliament, President F.W. de Klerk stated that the remaining apartheid regulations, including the Group Areas Act and the Land Act, would soon be repealed. In fact, the last of the apartheid acts were repealed on the 17th June 1991 and steps are being taken to draw up a new constitution and a bill of rights. This should go a long way to resolving the political problem but will not solve the problem of unemployment and squatters. It will still not give the masses economic access to land or land tenure. A further step is essential which government and the black leaders have still to come to terms with and no one is as yet discussing a workable alternative to nationalization.

Land tenure is at the core of the time-bomb in South Africa. This applies to all land, but the fuse lies in the farming land. The farmers are determined to hold onto their land whilst the ANC has stated that

1 See Dunkley, G R A, "*That All May Live*", A Whyte Publishing, Chapter 14.

land must be made available to all people particularly for farming and housing. Although restrictive legislation has now been withdrawn, few blacks can afford land at present market prices.

Purchasing or confiscating large farms for the purpose of re-settling a larger number of black farmers would do little if anything for the masses and, from the lessons of Africa, could reduce total production.

Ways must be found to compensate those who until now have been deprived of access to land, a suitable education, training and employment opportunity. This will not be accomplished by nationalization of property and industry nor by the re-distribution of existing wealth. Many experts believe that there can never be a lasting solution because of the increasing number of people and natural limits to economic growth.

It is neither land nor existing wealth that must be distributed but the opportunity for all to compete on an equal footing. The writer will argue that this can only be done by removing many of the existing taxes and collecting the equivalent revenue from the Rent of land or a user charge. This would appear to be the only way of ensuring that land is put to its best use and this concept will be developed in the economic model.

Fear and self-interest have had a great influence in the past and will continue to do so in the future. Whites fear being overrun by and losing property and jobs to the numerically superior blacks. Blacks fear being unfairly treated by capitalism and vested interest. Many of the fears on both sides relate to land ownership or lack of access to land. Without justice there must always be an underdog, a role which nobody wants to fill.

The alienation of black land in earlier times has been the South African equivalent of the Land Enclosure Acts in England. These Enclosure Acts, whilst assisting the industrial revolution, were also one of the direct causes of abject poverty and child labour which was prevalent in Britain at the time Karl Marx wrote the Communist Manifesto. In South Africa it has resulted in a lot of sympathy for communism.

Can there really be a solution in South Africa? Is there a way to distribute opportunity without disrupting the economy or nationalizing land and industry? Is there still validity in the ideas of Adam Smith, David Ricardo and Henry George who all discouraged taxes on the products of labour and the return on capital but advo-

cated collecting the Rent of all land for public revenue? The argument for the New Economic Model given below strongly suggests that this may be so.

* * * * *

4. THE NEW ECONOMIC MODEL

The proposed economic model envisages the devolution of power from central government to regional government in the form of a type of canton system with central government retaining only such essential powers as defense, law and order and justice. Other services such as planning of national roads are perhaps also better under central government.

The model further requires a change in the tax system so that it becomes closely linked to the advantages which individuals derive from land tenure. When a user charge is paid or the Rent on all prime land is collected for the community, represented by different levels of government, then land is more likely to be put to full productive use. This will also encourage the distribution of both land ownership and the opportunity to produce wealth.

The country should be divided into a larger number of provinces, regions or cantons, the latter term being used in this chapter. The area would include the present independent national states and, at a later stage, any bordering states which cared to join the system.

The actual number of cantons is not significant to this discussion, but it is important to realize that some cantons will occupy predominantly prime land and others predominantly marginal land. Under the present system of government and taxation the marginal areas are rapidly becoming depopulated and it is essential that the new system should reverse this situation by providing better conditions at the margin, which is normally though not always, in rural areas.

The ratio of white to black population in any various cantons ought not have any significant effect on the economic model. Each canton would be autonomous except for a limited number of national issues such as defence, national roads and the collection and distribution of revenue.

In addition the new model must provide a solution to the main clash looming over land to prevent this from becoming a "winner take all" situation. Security of tenure must be guaranteed to those who put good land to full productive use and pay the annual Rent. Those

unable to pay the market determined Rent should be encouraged to relinquish title and move to land where the Rent is lower or non-existent, making way for others to put the land to better use.

The writer's concept of Rent and the effect of taxation on the total amount of wealth created within a country is indicated by the diagrams which follow.

* * * * *

Wealth is produced by the application of labour and capital to or on land which, includes raw materials. For the same application of labour and capital some sites will produce a lot more than others, depending on both natural and community given advantages. Diagram 1 shows graphically the relative production extending from prime sites on the left to sub-marginal sites on the right. Beyond the margin of production there cannot be continuous economic production under the present system of taxation. When the return to labour and the return to capital have been subtracted from the value added then the remainder is Rent which will now be considered in greater detail.

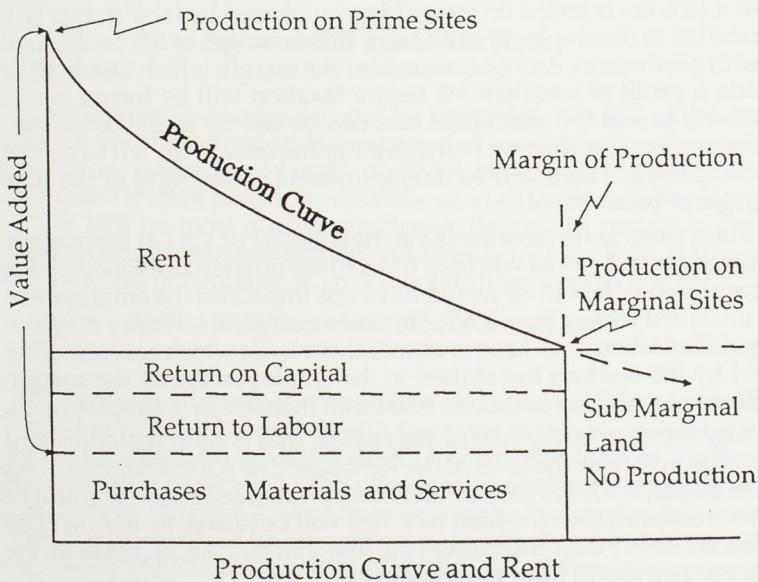


Diagram 1.

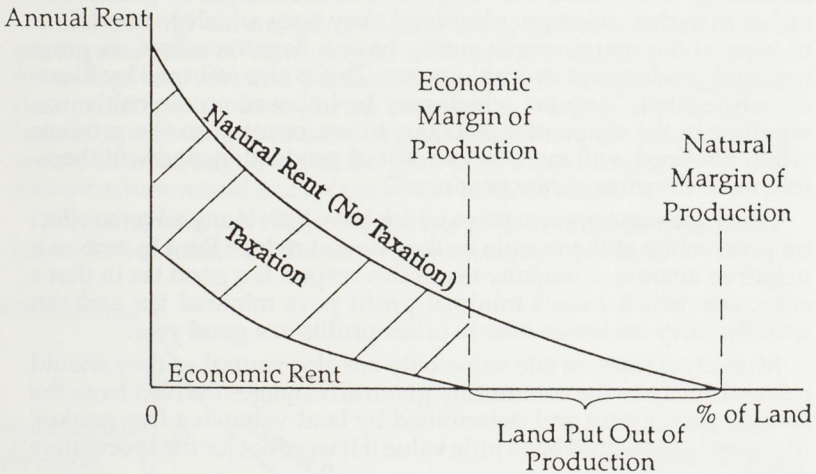
Whilst both wages and interest will vary according to a number of factors and from place to place or time to time, they are still influenced to a large extent by conditions at the margin of production. Lack of demand because of poor conditions at the margin will tend to reduce either wages or interest, or both.

Many of the present taxes have a negative effect which extends beyond the obvious. It can be argued that most taxes are paid by the employer and that income tax (or PAYE) and value added tax are taxes on employment. Before the change from general sales tax (GST), at 13% on most items except certain food, to value added tax (VAT), at 12% on almost all items, the trades unions were asking for 5% increase in wages to cover the extra cost. It was subsequently decided to introduce VAT at 10% and to increase the tax on petrol and diesel fuel, which will still have a bad effect on food prices. Antagonism runs high!

In Diagram 1 it can be seen that, in the absence of any taxes at the margin of production, the viable economic curve will end at the margin as shown. Any tax at this point will put marginal operations out of production. If wages constitute 50% of the cost of production and a 10% tax is levied on everything purchased by labour, this will be shifted to the employer as an extra 10% on wages or 5% on the total cost of production. Any operation near the margin which would have made a profit of less than 5% before taxation will be forced out of business unless the additional cost can be shifted to the consumer. The margin of production will move significantly to the left as shown in Diagram 2. There will be unemployment to the right of the new margin of production!

Many other taxes have the same effect as GST or VAT at the margin. Income tax and pay as you earn (PAYE) are not normally paid by the lower levels of labour so would have less impact on the employment of unskilled labour than VAT. However marginal industry employing skilled labour will have to absorb these taxes which are ostensibly paid by the workers but shifted to the employer. Again the margin will move to the left and there will be an increase in unemployment.

Any increase in the cost of purchases, that is both materials and services, will raise the level of the Rent base line AB in Diagram 1. As an example, if VAT is paid on electricity, water, telephone account or even transport, then the Rent base line will be raised, i.e. Rent will be reduced on all land including near the margin. An increase in the price of petrol will have the same effect.



Natural and Economic Rent

Diagram 2.

Since salaries and wages account for approximately 50% of the cost at each level of production, if compounded over only three levels of production, wages would make up 87,5% of the material cost at the subsequent level of production. As labour, at all levels, will be paying VAT at 10% on most of their purchases, the cost of materials purchased at this level of production will already include VAT at 10% of 87,5% = 8,75% of total cost, even before the direct application of VAT.

VAT on VAT on VAT! Where does it end?

All increases in the cost of materials and services, brought about by taxes at any level, together with increases in wages or interest as a result of taxes, will have the effect of raising the level of the Rent base line AB in Diagram 1. The effect will be similar to lowering the Rent curve in Diagram 2. Does this not give the impression that taxes come out of Rent? If so, are not taxes responsible for shifting the margin of production to the left in Diagram 2 and thereby increasing unemployment?

The writer firmly believes that it is essential to evaluate all taxes according to the effect that they have at the margin of production rather than their effect on prime land. Any taxes which do not reduce to zero at the margin must surely have a negative effect on gross national product and unemployment. This is also affirmed by Ricardo who stated; "Any tax which may be imposed on the cultivator, whether in the shape of a land-tax, tithes, or a tax on the produce when obtained, will increase the cost of production, and will therefore raise the price of raw produce."²

There are some present taxes which have little if any adverse effect on production at the margin as they do not reduce Rent to zero or a negative amount. Company tax in this respect is a good tax in that a company which makes minimal profit pays minimal tax and can usually carry tax losses over to offset profits in a good year.

Municipal rates on site value only are also neutral as they should relate directly to the community given advantages derived from the use of specific sites and determined by land value in a free market. Marginal sites would have little value if it were not for the speculative value.

From the above discussion it would seem reasonable to argue that ultimately most if not all taxes within the productive economy can be considered to come out of the natural Rent. If that is indeed so then removing all existing taxes should restore the total national Rent to that shown in Diagram 1. At the same time the land put out of production in Diagram 2 would gradually be restored to production and unemployed labour re-employed. The margin of production would be restored to the position shown in Diagram 1.

Both central and local government do require revenue for basic services which has to be found somewhere. What would be the effect of collecting this revenue as a percentage of Rent? Would this have an adverse effect on production and employment?

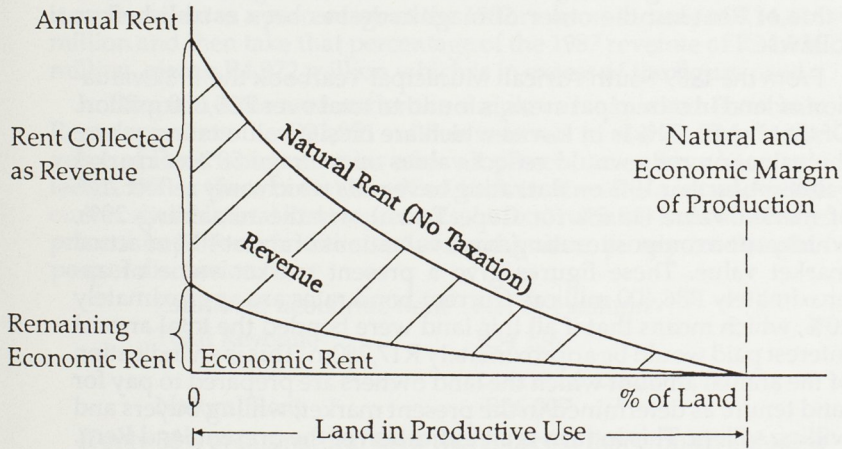
Diagram 3 shows the effect of collecting 80% of the Rent, all the way from prime to marginal sites. At the margin, since the Rent, by definition, is zero, so is the tax or revenue collected. Near the margin, that land which has been restored to production by the removal of

2 David Ricardo; *The Principles of Political Economy and Taxation*, page 98.

present day taxes, such as VAT and PAYE, will still be left with 20% of the Rent and will continue to be viable.

Land beyond the margin will have no commercial value from a production point of view; people who care to live there would pay no taxes of any sort and pensioners would still be able to augment their income without incurring taxation. A variety of institutions would be encouraged to use marginal land where the cost of living would be relatively low and the growth of supporting services and infrastructure would encourage others to those areas.

Everyone who pays Rent for the use of land must be guaranteed protection of tenure by the society which enjoys the Rent.



Revenue From Rent

Diagram 3.

5. MAGNITUDE OF ANNUAL RENT

There has been much discussion about the ability of land Rent alone to meet the fiscal requirements of central government in addition to that already being collected by local government in the form of rates. A study carried out by Prof. Steven Cord in USA and recorded in 'Incentive Taxation' May - June 1982, gave the annual Rent in USA in 1981 as \$1020 billion. He stated that this amount would have been greater than all the taxes for that year.

A.R.Hutchinson in an essay titled "Land Rent as Public Revenue in Australia", published by the Economic and Social Science Research Association, UK, (page 36) gave figures for Australia: "Adding to the \$6,600 million already collected (from Rent) as public revenue the estimated \$5,283 millions remaining in private hands, the potential land revenue yield under the conditions applicable for the year 1976/77 would have been \$11,883 millions for Australia as a whole. (Out of the total receipts of \$28,745 millions for the Federal, State and Local Governments combined.)" This study does not take into account the add back factor of present taxes which would be removed in stages as increasing portions of land Rent are collected as revenue.

There are no figures available in South Africa to give the national value of Rent but the order of magnitude has been established as follows:

From the 1989 South African Municipal Yearbook the 1987 valuation of land in municipal areas is found to total over R36,000 million. Of that figure, 70% is in towns which are on site value rating where the valuation rolls would reflect values on average 50% of market values. A further 10% on flat rating have rolls which only reflect 20% of market value (19.6% for Cape Town) and the remaining 20%, which are on composite rating, have valuations of about 40% of actual market value. These figures give a present market value of approximately R86,400 million. Current bond rates are approximately 20%, which means that if all this land were bonded the total annual interest paid would be approximately R17,280m. This is an indication of the annual amount which the land owners are prepared to pay for land tenure as determined in the present market; willing buyers and willing sellers. This in turn is an indication of the present land Rent.

Agriculture and forestry now exploit approximately 86 million hectares of land. Average annual rental values for land only were given in a survey by Symond Fiske in 1982 as follows:

Irrigation land	R40 to R600	Average R200
Dryland	R 8 to R160	" R 56
Grazing	R 4 to R 35	" R 15

Applying these figures to land areas taken from the 1982 Official Yearbook, (page 592) the following rental values are obtained:

Irrigation land	900 000ha. at R200 = R180 million
Dryland	14 179 000 " " R56 = R794 "

Grazing, poor	38 300 000 " "	R4 = R153 "
" medium	29 900 000 " "	R15 = R448 "
" good	15 000 000 " "	R35 = R525 "

R2,100 million

Projecting this to 1987 at an average inflation rate of 15% gives the annual Rent as R4,591 million for farming land excluding forestry. Add to this the R17,280 million for urban land gives R21,871 million which excludes mining and fishing. This represents 64% of the total revenue of R34,136 million for 1986/87.

As a cross check for the extension of farming land from 1982 to 1987 it can be taken as a percentage of the 1982 revenue income of R14,416 million and then take that percentage of the 1987 revenue of R34,136 million, giving R4,972 million which is in excess of the figure used.

In Diagram 2 the area under the simple curve marked Economic Rent represents the R21,871 million referred to above. This is the value of Rent which remains after all present taxes have been collected. When these taxes are added back in, then the area under the curve called Natural Rent represents the total national Rent under the present imperfect conditions. A nominal value, purely for the purpose of discussion, is:

Estimated Economic Rent	R21 871 million
Total Revenue	R34 136 "
Natural Rent	R56 007 "

If only 80% of this natural Rent was collected that would represent R56,007 million x 80% = R44,806 million. This exceeds the 1987 revenue by R10,670 million. Even if only 70% of the Rent were collected, ie. R39,205 million, this would still have made it possible to eliminate all existing taxes for that year.

The effect of municipal rating on annual Rent has not been taken into the calculations nor has municipal revenue. The two would tend to cancel out when Rent is collected as revenue.

The remaining Economic Rent for 1987 would have been:

Natural Rent	R56 007 million
Less revenue (80%)	R44 806 "
Economic Rent	R11 201 "

The Economic Rent curve in Diagram 2 would be slightly flattened, reducing the amount of Rent remaining on prime land and increasing it near the margin. This line can now be extended beyond the present margin and would only cross the base line at the natural margin, as shown in Diagram 3. A large amount of presently unproductive land could be brought back into production to provide a living for many now in squatters' camps.

NOTE: There has been a tendency to talk of a land value tax (LVT) as the method of collecting the rent but this is rather misleading. Whilst under given conditions the rental value will remain relatively stable irrespective of the amount collected, land prices will vary considerably. Land prices will relate to the uncollected portion of the annual Rent - in the above case 20%.

6. THE INCREASED SOURCE OF REVENUE

Within the present area of production bounded by the Economic Margin of Production as shown in Diagram 2, there is at present a large quantity of potentially productive land which is withheld from production by speculation or under-utilization. Collecting a large portion of the annual Rent will put significant pressure on the owners either to put the land to full economic use or sell at a reduced and more realistic price. As the price of prime land reduces so will the tendency to move to better land increase. Gradually the gaps in better land will be filled and larger quantities of less productive land will become available to those with less capital and productive experience. Thus land will soon come into full productive use and contribute towards a growing economy.

Again, as more desirable land becomes available and competent people on less productive land tend to upgrade, the chain reaction will make marginal land freely available for resettlement. Land will become available to the landless, and, with the absence of harmful taxes such as VAT and PAYE, the growth of self-supporting villages and towns will become more feasible. Were not the "platteland" or rural towns economically viable some twenty years ago? Did not the move to squatters' camps accelerate at about the time that GST was first introduced? Could there be a connection? After all, the British introduced the poll tax in southern Africa because labour was needed in industry and mining. Both taxes have an impact at the margin of production.

In time the economic margin of production shown in Diagram 2 will move outwards until it coincides with the natural margin. This is shown in Diagram 3 which shows clearly the expansion of the economy and of the Rent available for collection. The amount could be quite significant.

In time the total economy will expand significantly and the natural Rent line will be raised above that shown in Diagram 3, extending further into what is at present sub-marginal land. Will this not create more employment than the present system where both labour and land lie idle?

7. VALUE ADDED STATEMENTS

Little has been said world wide about the importance of value added financial statements instead of the present format of annual reports. Value added statements should become an essential part of the conversion from present taxes to the collection of land Rent or user charge.

In the present system various aspects of taxation are hidden in different items of expenditure in such a manner that it is not possible to obtain a true reflection of the value added by the economic venture.

General Sales Tax (GST) or VAT can be hidden in a number of different items, namely;

1. All capital items subject to GST, at present 13%, require 13% more loan financing at 20% per annum. This additional amount should be grouped under taxes until the final amount is paid off.

2. All wages are inflated by more than half of the present 13% GST so that employees can live at the same standard as they would if there were no GST. Trades unions were already demanding an increase in wages of 5% to compensate for the then pending change from GST to 12% VAT as this would have include food formerly exempt. The GST or VAT portion of salaries and wages should be grouped under taxes in the company's books.

3. The cost of all purchases even before GST is added will be inflated by a significant portion of the GST or VAT content of wages right through from raw material to finished article. (As explained in section 4 above.) This cannot be shown in the company's accounts as tax but could be shown at all previous levels of manufacture.

We would argue that Pay As You Earn (PAYE) and individual income tax, although ostensibly paid by the employee, are additional charges on the employer and should be grouped together under

taxes, not under wages. If the employee was not called upon to pay these taxes he would work for that much less as it is "take home" pay that he is interested in. This is more clearly seen when these tax rates are increased and employees demand more money to cover the additional cost.

Property rates and taxes should also be grouped under taxes. Even if the property is rented at an inclusive amount the rates section should be shown under taxes and not under rental. Licences, stamp duty and transfer fees are amongst other costs that should also appear under taxes.

Services such as electricity, water and communications are input costs along with materials purchased and do not form part of the value added. However, any taxes which increase their cost to the manufacturer or producer, will either increase the selling price to the consumer or decrease the Rent on land. Wages and interest on money borrowed along with taxes are part of the value added by the company's operation.

The value added less wages and interest gives a fair measure of the Rent relating to the land occupied. Naturally entrepreneurial skill will have a significant bearing on the total production.

8.METHOD OF COLLECTION

The first step would be to establish realistic land values under present conditions of taxation. The accuracy of these values would be more important on prime land than on marginal land. In the Transvaal updated municipal valuation rolls would be suitable in the first instance. This would not apply in the Cape which operates under a different Ordinance. At present the Cape Town valuations vary from about 5% to 60% of market values on individual properties and from 9% to 35% for complete wards. The average is only 19,6%, calculated from valuation roll figures compared to actual sales. These figures would not be acceptable as the Rent basis and it could even be better to allow individual assessment by owners provided all figures were made public and readily available for scrutiny by all interested parties.

Using sample sales and deducting improvement values on a replacement cost less depreciation basis, land values can be obtained which can be spread within similar areas by allowing for individual factors which may affect market price.

In business areas where buildings are demolished, accurate land prices can be obtained from total property price plus cost of demolition. These values can be used as a yardstick to test the accuracy of other values.

Land banks have little trouble determining farming land values according to type of land, weather conditions and distance from relative markets. Farmers could establish their own values at a price at which they would be prepared to sell some or all of their land excluding improvements and buildings. Given an opportunity to compare their values with adjoining values they will soon reach realistic values.

Historically, land values were set at twenty years rent on land only. That was when interest was still approximately 5% per annum. High interest rates and inflation have changed the rate of capitalization but when the two are offset against each other the effective interest is still near 5%. This complicates the accurate assessment of values but the market still has the ability to come up with workable values.

The amount of Rent collected will not be in direct proportion to the percentage of land value collected as the market value will reduce as the percentage goes up. The actual amount collected by any formula would vary according to the prevailing interest rates and rate of inflation. It would also depend on the type and rate at which other taxes are reduced or removed.

There are different effective ways of going about the assessment and collection of land Rent instead of taxes, the following being only one of the possibilities. First reduce the General Sales Tax or VAT by half and introduce a land value tax geared at a level estimated to make up the loss; (approximately 2,5% of market value). In the second year remove VAT entirely and increase the land tax accordingly; (approximately 5% of original land value) Land values will start to fall as the tax increases.

It will then become necessary to change from a percentage of land value to a percentage of annual Rent. By the time half of the Rent is being collected the land values will also have halved, not allowing for natural increases as the economy starts to pick up. At this stage the Rent collected would be equal to, say, 10% of the new deflated land value or, put the other way round, the land value will be ten years' Rent. Thus, in the third year the Rent should be set at 10% of the new market value. As other taxes are progressively removed the Rent collected should be increased as a percentage of the reducing

land market value by relating this latter to the number of years Rent, reducing in time progressively from ten years to two years.

At this point, with all other taxes removed, the amount collected should be approximately 80 % of the total Rent. The amount collected should be in excess of the existing budget, apart from the natural increase due to expanding population and a rapidly growing economy. Even if AIDS prevents a growth in population, or results in a decrease, the more efficient use of both land and labour will still give results better than under the present system.

When the market value equals two years Rent and the return to the community is approximately 80% of the country's total natural Rent, the remaining 20% would still provide a large incentive for the most competent entrepreneurs to occupy the best prime land. Even if the total rent was collected by the various levels of government, the most efficient producers of wealth would still gravitate to the best land as they would receive their highest rewards for skill and hard work in these areas.

Many Georgists and Geocrats³ are adamant that the total Rent should be collected; but leaving 20% would allow the market forces to operate in determining Rental values better than officials could do. Fine tuning could be done later when experience has been gained in how the market works under these new conditions.

Many of the less efficient people would be able to make a reasonable living on marginal land or in marginal towns and villages where they would pay little if any tax. There would be a natural movement of pensioners, handicapped and less productive people towards these areas where the cost of living would be very low. Many schools, colleges, hospitals and rehabilitation centres would also be better situated away from prime land.

Were this system to be introduced, there would be little need for the government to impose restrictions on the movement of people or to provide subsidies to encourage business and industry to decentralize. Squatting would be reduced, if not eliminated.

3 Geocrat: One who studies the science of the use of the earth in ways best suited to meet the needs of society, hence a study of land and natural resources for the benefit of all people.

Naturally, this would cause other problems relating to recent purchases and existing bonds which would have to be cleared. However, set against increasing land rental values arising from the economic growth of the country, very soon existing debts would pale into insignificance. In some cases it may be necessary to relieve temporary hardship which individual circumstances may cause during the transition period. As an interim measure it might be necessary to offset loan repayments on land only against a portion of the Rent due. A slight drop in prime interest rates would also assist with a smooth transition.

9. DISTRIBUTION OF RENT REVENUE

If the revenue collected increased to, say, 80% of the annual Rental value of all land throughout the country this total budget could then be distributed in such a manner that it would meet the total revenue needs of the entire population. For the purpose of this discussion only approximate values are given. The final distribution would form part of the total package to be negotiated for both the political and economic settlement. This would have to be reviewed on an annual basis during the first few years.

The suggested distribution is as follows:-

1. Central Government - to cover security of the country by means of armed forces, law and order in the form of police and law courts, plus minimal central government legislation and foreign affairs, etc., also major roads, railways, harbours and international airports:- 33,3%
2. Canton and municipal government - to include education, health and local infrastructure necessary to develop the economy of the canton as a direct pro rata of the amount collected in Rent from each canton:- 33,3%
3. A secondary distribution to cantons for social security and pensions, frail care, adult education and improvement of the infrastructure, in direct proportion to the total number of people resident in each canton:- 33,3%

The per capita distribution of one third of the total budget is an essential part of the final solution. It is necessary to bring about a redistribution of the natural wealth of the nation without destroying the means of production. In extreme cases a portion of this may be

paid to individuals as a subsistence allowance. This may apply to unemployed marginal labour in rural areas, not in squatters' camps.

Collecting the annual Rent on land and a redistribution of one third of it per head of capita across the whole nation is the only way in which almost all bureaucratic controls can be removed and a truly free market economy established. This could be given free reign without the fear of exploitation of the masses and without the fear of monopolies gaining strength. This should reduce the tendency of land collecting into fewer and fewer hands and give people the incentive to develop to their full capacity. Progress should no longer lead to greater poverty.

The above method of taxation and distribution should provide a solution to the economic problem inherent in the suggested canton system. It would also remove the need felt by communists and the A.N.C. completely to destroy capitalism and the bourgeoisie. There is no need to hand over government to an unqualified and economically ignorant proletariat as proposed by Karl Marx and practiced with disastrous results by communist states.

Sub-marginal cantons, far from becoming depopulated by mass migration to prime cantons, could attract a net inflow of people to economically viable retirement centres. Land, buildings, labour and services would be relatively inexpensive. Educational facilities, training colleges, frail care and special hospitals would be better placed in these less congested areas. They would be away from the smog and pollution of industrial and mining areas. The dying infrastructure of many platteland areas could well take on new growth. Employment opportunities could be offered to those presently living under adverse conditions in squatters' camps which are a major threat to both those who live in them and the surrounding cities and towns.

Central government should have no power to tax citizens directly. Government would have to tailor its budget to fit within the one third of total Rent collected. In good years, provision could be made for national emergencies. Central Government would also handle the statistics of redistribution of one third on a per capita basis to cantons but charge no handling fee; there should be no encouragement to proliferate bureaucracy.

Central government would not be encouraged to impose any form of tariffs or customs on international trade. In due course protective tariffs would become unnecessary. As production increases the cost

of production would decrease. The country would be better prepared to enter the export market and would rapidly improve its balance of trade.

Collecting tolls on national roads would also be completely unnecessary as the presence of these roads would automatically increase the annual Rental value of all property which gained an advantage from these roads. The capital cost of roads and other infrastructure would soon be amortized by increased Rent arising therefrom.

10. INCENTIVES

Once all other forms of taxation had been removed, the Rental value of land would increase significantly and the total revenue collected could well be higher than required. A portion of this excess could be used to give a variety of desirable incentives. Of particular interest would be an incentive to encourage individual ownership of farms, business, and industrial or domestic property. This could be achieved by giving a base line rebate to all who owned, lived on and worked farms or owned and worked industrial sites, or owned and lived on residential land. Only one rebate on annual Rent would be given per family. This would help to create a stable society at very little cost. Rental values would again adjust to absorb most of the economic advantage while still discouraging the growth of monopolies at the expense of small business and individual enterprise.

The system of a base line rebate would mean that those people occupying land near the margin of production would pay no Rent. However, the land would still have a small Rental and market value.

Land beyond the margin, by definition, is not workable on a continuous basis under present conditions. With the proposed system and a base line rebate, much of this land would become productive or at least be occupied. In the absence of a Rental value, the full rebate would become a subsidy payable in cash to the occupier. This would encourage the sick, lame and aged to move away from prime and good land and settle on sub-marginal land where they would not be condemned to live in poverty. Anything that they produce on sub-marginal land would bear no tax and added to the cash amount received as a rebate would improve their quality of life.

11. ECOLOGY AND HERITAGE

Concern is sometimes expressed about the effects on both the ecology and heritage buildings if the development of land is encouraged by a change in taxation.

Recently, conservationists have come to realize that the correct change would in fact assist their cause when the greedy eyes of unearned profit are tamed. Collecting the Rent on land, or a user charge, is the only way to reduce the powerful force generated by the expectation of unearned profit; profit available through land speculation or obtaining improved user rights. When this force is reduced then it will become easier to carry out conservation programmes. More land will be available as wilderness areas rather than being withheld as long term speculation. "Leap-frog" and "ribbon" development of urban areas will be reduced and there will be less encroachment on rural areas.

To preserve historical buildings and outstanding architecture it will only be necessary to match the consent use in the title deeds to the existing building and Rental value will drop. There will be no long term speculative value and no advantage in demolishing the existing structure. This will be more effective than a market in transferable air space or consent use.

12. CONCLUSION

The problem of land tenure must be resolved before a united and peaceful nation can be built. It is in the interest of the whole nation that incompetent and unproductive people should not withhold good land from productive use. Land should be available to those best able to put it to good use. It is also in the best interest of the more competent and productive people that the Rent value of the land on which they enjoy tenure should help to subsidize those unable to support themselves provided that they are prepared to move away from economically productive land. This would assist the less productive people to live above the bread line on the less productive marginal and sub-marginal land. Here, whatever they can produce would be theirs and they would live completely free of taxes. They would also receive a small subsidy from the Rent collected on prime land. This is far better than having them completely unproductive and fully reliant on society, either legally or illegally. In the absence of taxes, an informal economy could be developed on marginal land

but any taxation imposed on that marginal land would again tend to destroy that informal economy, as explained in Diagram 2.

Many well known authors and leaders have been concerned by the age-old problem of poverty but few have provided a workable solution. The well-tried methods have not worked. By collecting the Rent of land for public revenue and untaxing both labour and capital, speculation in land will be reduced and idle land will be made available to unemployed labour. The age old problem of poverty would be significantly reduced.

Backing the above proposals is the fact that a group of some thirty top western economists including three Nobel prize-winners are signatories to an open letter to Mikhail Gorbachev. The economists urge the Soviet President to retain land in public ownership, and to raise government revenue by charging rent for the use of land. They state 'In particular, there is a danger that you may follow us in allowing most of the rent of land to be collected privately.' Henry George said that it is not necessary to confiscate the land but only necessary to confiscate the Rent.

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G. R. A. DUNKLEY
10 CONSTANTIA CLOSE
MARINA DAGAMA
MUIZENBERG 7951
TEL. (021)7886015

