LAND and LIBERTY

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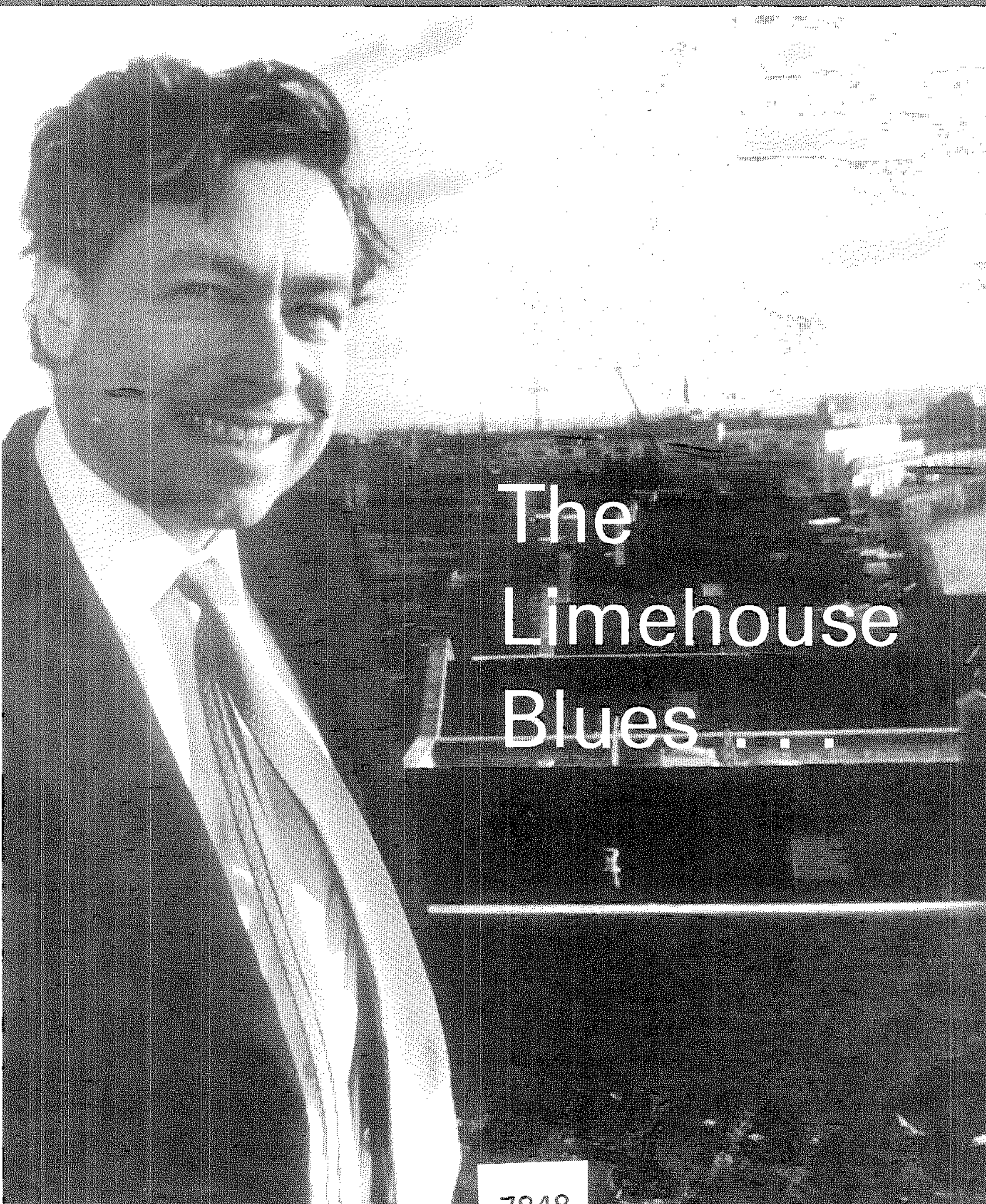
SECRET OF THE BOOMING TOWNS Page 12



LAND and LIBERTY

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• COVER PHOTO: Norwegian land speculator Niels Bugge scans the acres of Limehouse, West London, in which he invested £10m before the Stock Exchange crash. What are they worth today? See pages 7 & 9. Photo by Peter van den Berg.

SCARCELY THE WAY TO PLAN FOR PARADISE

ARE WE suffering from a "surfeit" of land?

Britain's surveyors and town hall planners seem to think so, to judge by the title of their joint conference in November: *Planning for A Surfeit Of Land?*

IT IS TRUE that Britain's cities are afflicted with the dereliction of seemingly abandoned, wide-open spaces – 200,000 acres of it, at least. According to Peter Hall, a professor of geography, the British are now experiencing the urban blight which appeared much earlier – in the 1950s – in the United States.

IT IS TRUE that about 20% of agricultural land could fall out of production, if the criminally wasteful policies of the Common Market are changed to take account of the fact that Europe now produces more than it can consume or dump on the world markets.

But that does not mean there is a surfeit of land, as John Loveless, a lecturer at King's College, London, pointed out. On the contrary, he reminded the experts that land was in fixed supply and therefore had to be treated as *scarce*.

Lord Young, the Minister for Trade and Industry, presented the keynote speech, which took the form of a review of government policies. These, he explained, were designed to renew the inner cities and reduce the high levels of unemployment that afflict these communities.

Partnership was the key concept, said Lord Young: a partnership between government and the private sector. And the objective of this partnership was to encourage individuals to help themselves. How was this to be achieved?

• Not by the government spending much more money: taxpayers could not be tapped for more cash, warned Lord Young.

• But this did not mean the government was pursuing a hands-off policy. On the contrary, jobs-for-the-boys bodies such as the urban development corporations and the so-called "task forces" were charged with the task of co-ordinating action.

But as John Loveless pointed out: new policies had been thrown at all the factors associated with urban blight.

Property taxation too high? Rates are being abolished for home-owners, and the proposed property tax on businesses will be "capped" if councils try to charge too much!

Expensive to reclaim derelict sites? Grants are available!

Owners hoard land? Development corporations have the power to compulsorily purchase and reallocate sites to new users!

And so on.

There is just ONE problem about which the government is doing nothing: high land prices. And that, explained Mr Loveless, was the key problem. He had a matching solution; he reminded the professionals that a tax on the value of land would curb hoarding and reduce prices to levels users could afford.

Mr Loveless is right, but Mrs Thatcher's Minister did not hear him: he had departed to make another speech about the need for the individual to be more self-reliant. Meanwhile, nearly three million workers continue to struggle against their strait-jackets, unaware that their taste of unemployment is apparently evidence of a lack of personal enterprise.

Time is running out. Past mistakes – the ones that now give the impression that there is a lot of free land going begging – are being over-taken by new events, such as the enormous shift in the distribution of the population in favour of the south – similar to the drift to the Sun Belt in the United States.

Lop-sided economic development leads to a waste of land and a maldistribution of wealth. In common with all Western industrial nations, Britain urgently requires a dose of corrective action.

The needs of the individual and of society must be balanced in a sensible political programme from which the reformists of Moscow and Peking could learn a thing or two.

WHEN THE WORLD ECONOMIC CRISIS WILL 'REALLY' COME . . . .

Doomsday in '92 !

By FRED HARRISON

AFTER the Great Crash of October 19, what next?

The collapse of the stock markets hurt people who gambled their money on shares. The real economy has not been directly damaged. Not immediately, anyway. But the serious problems for employees and the captains of industry and commerce will now begin.

To trace the reasons why we should expect far worse, we must go back to the last major stock market shake-out, in 1974, when the market economies dived into the deepest recession of the postwar years.

The drop in the value of shares, in 1974, was a reaction to the recession. The drop did not cause the collapse of two German and US banks: these were symptoms of underlying market weaknesses.

My analysis of the 1974 recession showed that the global problem, between the years 1969 and 1973, was the intense speculation in real estate. This is what happened:

- Money was diverted away from investment in industry and commerce. Speculators could make easy fortunes by buying and selling land. New financial institutions were created – the "secondary" banks in Britain and the Real Estate Investment Trusts in the US – to funnel money away from entrepreneurs who create jobs.
- House prices and rents rose so high that families were left with less to spend on consumer goods such as television sets, cars and refrigerators. This led to a cut-back in employment, and damaged international trade.
- The construction industry contracted, because entrepreneurs could not afford to pay the prices which landowners were demanding for their sites.

This story was repeated in all the major trading nations of the world.

WHO CAN blame the speculators? They were behaving rationally. Profits from industry were on a long-term downward course, while the yields on land deals were on an upward track. So it made sense to switch into land.

But by pushing land prices and rents above the levels that could be supported by the economy, everyone else suffered. The productive sectors, which manufacture goods and provide services, were forced to cut back their activities. This reduced people's spending power and guaranteed the recession.

In other words, even if OPEC had not squeezed more oil rent out of the world's motorists in 1974, the crash would have happened!

WHAT CAN we expect now? Cash-rich investors will turn away from stocks and shares, and look for crash-proof investments which will "guarantee" them growth in capital values.

That means buying land!

The Japanese, who have had their bank balances burnt on Wall Street, will now buy real estate in the capitals of the world. They will certainly not turn to the already over-heated Tokyo property market, where the price of land already makes up 80% of the cost of a house.

This switch in investment policy will generate its own excitement, leading to yet another great period of speculation to match the boom of 1969-73. Based on my reading of historical business cycles, I confidently predict that the next major economic recession – the one that will cause widespread unemployment and business closures – will occur in 1992.

This is not an arbitrary date. The market in land values operates on the basis of an 18-year cycle. An if you add 18 to 1974, you get 1992!

The difference next time, however, is that the market economies will be much less able to cope. Thanks to the Third World debt, the financial system is vulnerable because of past mistakes, and will not have the resilience to bail-out the collapsing banks.

And the prevailing no-nonsense political philosophy of leaders like Prime Minister Margaret Thatcher will make governments less sympathetic to the wails of anguish that led Washington and London to launch the Lifeboat Operation that saved many shaky property companies last time.

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IS IT possible to prevent the next great slump? Not this time. President Reagan's tax-cutting policies have left people with more money in their pockets, and the result – again, proved by history – is the tendency to push up the price of land.

In Britain, Mrs Thatcher's decision to abolish the property tax on private homes will give an extra boost to house prices. According to one analyst, the price of a modest two-bedroomed terrace house in London, valued at £85,000 today, will be priced at £259,000 in 1992. *Consider the impact on High Street sales of such an attack on the family budget!*

In the long run, the only way to stop land speculation is to introduce a tax on the value of land. Denmark has the most sophisticated system of land valuation and taxation in the world. Economists ought to examine the macro-economic implications of the Danish system. Some of the issues they ought to study include this:

• By raising more revenue from the value of land, rather than from wages or profits, people would be left with more money to invest in capital equipment or to buy goods from the shops –which in turn creates jobs.

• A number of countries use land value taxation to a greater or lesser extent – including Jamaica, Australia, South Africa and Taiwan – but they are not gaining the full benefits because the ultimate success of the land value tax depends on the size of the tax rate. *It is most effective when the rate is high – which allows the government to reduce the other taxes which damage people's incentives to work.*

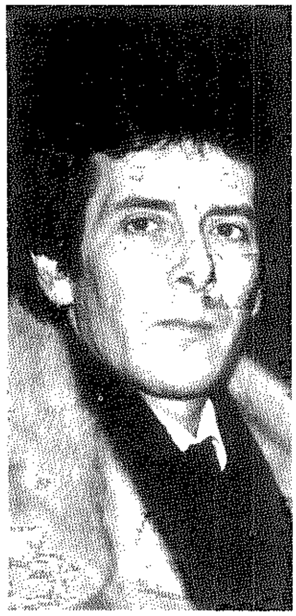
BRITAIN is an example of a country in desperate need of the Danish tax treatment. For although builders say they cannot get enough land to meet the demand for new houses, 500,000 acres lie vacant in the centres of our cities. Because these sites are free of taxation, the cost of speculating in the future value of land is zero.

But if Denmark's land tax was adopted, Britain would immediately enjoy an urban renaissance. The speculators would release the land onto the market at a price which people could afford!

I fear that it is too late to learn the lessons before the next Big Crash of '92: but hopefully land speculation, the economic disease of the 20th century, can be banished by the time we move into the 21st century!

* FRED HARRISON's *The Power in the Land* (London: Shepheard Walwyn, 1983) traces the 200-year history of land value cycles, and analyses them in terms of their impact on four economies: the USA, Australia, Britain and Japan.

'CYCLIST' WHO GETS OFF IN TIME



• *Nicholas van Hoogstraten*

LAND speculator Nicholas Van Hoogstraten believes the best profits have already been reaped out of the current cycle in land values in Britain. The owner of an estimated 400 properties, he says:

"I only have properties as investments, though not for long in Britain. The market is about to collapse. People buying now are mugs. Mugs. People have short memories or no knowledge of the property game." The multi-millionaire, baring his soul to the London *Observer* (Nov. 8) explained: "I got into land in the Bahamas which was going for nothing. Where I was clever or lucky was when I got out. All markets go in cycles. You can't always get in at the bottom and get out at the top. As long as you get in and get out you make money.

"I saw land I had bought for nothing or £300 an acre, go for six, eight, ten thousand an acre. It was colossal money in those days.

"I'm one of these people who's always had a natural instinct for knowing when enough's enough. I pulled the whole lot out and put the money in Switzerland."

Mr Van Hoogstraten, one of London's no-nonsense landlords, has come a long way since he was sent to prison 20 years ago. The judge said: "This young man is a sort of self-imagined devil. He thinks that he is an emissary of Beelzebub."

• *Margaret Thatcher*

DANISH MEMO TO MARGARET THATCHER

☐ *In the March/April issue of Land and Liberty Fred Harrison reports from Copenhagen on how Denmark values and taxes its land.*

Congress smiles on landowners

EDWARD DODSON reports from Philadelphia

ASK ANYONE involved in real estate development whether of office parks, high rise buildings or residential homes what the single greatest obstacle to profitable development is, and the answer will be the same: *the cost of land.*

Land values have skyrocketed during the past few years from Maine to Virginia and in many other parts of the country as well. Yet we hear again and again that the bottom has fallen out from under major regional economies from Houston to Anchorage and those "heartland" cities affected by the decline in agribusiness.

Speculative building brought on by rising oil, grain and other commodity prices sits empty as business failures and rising unemployment create a buyer's market. The problem in the Northeast has been just the opposite.

Boston, New York, Philadelphia and Baltimore all experienced their period of decay in the 1960s and early 1970s. They suffered through the abandonment of their urban cores, the loss of manufacturing jobs and an eroding of property values and their tax bases. In response, they slowly diversified into centers of high technology, government operations, finance, insurance and other service-type industries. Global economic forces of the last four years have given these areas a major shot in the arm (although painless only thus far).

Perhaps the most important but neglected observation to be made is that American consumers with fairly stable incomes have benefited immensely by the collapse in world demand for goods and services; the world's debtor nations and their populations have been forced by the need for foreign reserves to curtail domestic demand and export everything they can produce.

As a result, the world's remaining consumers have been flooded with low cost goods. The corresponding decline in global demand for financial credit forced down interest rates as well, despite the ever-growing demand by the US government for deficit-generated borrowings.

What seems to have escaped the attention of economic policymakers and analysts is that each of the reductions in the cost of money and the cost of goods have been effectively capitalized into higher land values.

For owners of land and buildings in areas of strong demand, tremendous unearned gains have been received (admittedly realised only if they have actually sold their properties).

Families who have taken their gain usually put it right back into the purchase of another residential dwelling. Chances are that the new home increased in price as much or more than the one sold. The retiring Boston couple selling their home and moving outside of the Northeast may be taking a good portion of the increased land values with them; and, perhaps we should not begrudge them this "nestegg." But a growing number of families are being seriously harmed by runaway increases in land values, which is a very real social problem.

Unfortunately, our well-intentioned representatives and government officials are moving in a direction that will only make the situation worse. Instead of attempting to understand and work within the dynamics of market conditions, they are ready to put another $11-$16 billion more into the pockets of existing landowners.

Mortgage lenders have become very concerned over the issue of housing affordability for the young and lower income family groups. For these buyers the economic pressures can be very great indeed. A generally-accepted principle of lending is that a homebuyer's monthly obligation, including taxes and insurance, should not exceed 25-28% of total monthly family income; at levels greater than this the likelihood of financial difficulty causing a loan default is an ever-present threat.

Based on a very conservative median housing price of, say, $100,000, a buyer would need around $9,000 in cash and an annual family income of almost $50,000 in order to borrow $95,000 at 10% over 30 years. Based on the median family income figures for even two-income families, a large segment of our population is thus effectively priced out of the market. An additional observation that can be made is that a large number of existing homebuyers could not, based on family income, afford to purchase the homes in which they now reside.

Government now wants to subsidise the purchase of homes for those whose incomes are too low for them to afford housing. Two primary tactics are followed:

- make the financing more affordable by subsidising the rate

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of interest paid by the borrower; and

- subsidize the purchase of land so that housing can be built that will give the developer a market rate of return but permit the purchase price to be lower than if the building lots has been directly acquired.

In the first instance, the tax-paying public (including lower income families themselves) end up absorbing the interest subsidy in the form of higher taxes and/or higher costs for government services. As always, the lessons our elected officials have no desire to acknowledge is that there is no "free lunch". Programs that transfer financial resources must come from either taxation or borrowing.

Interestingly, the distribution of the tax burden tends to treat landownership lightly and labour harshly. As a consequence, that portion of the population best in a position to lend government money for programs — and receive interest income in return – also tend to be the nation's (or the world's) large landowners, who directly benefit from the corresponding rise in land values.

The same principles are at work in the second scenario; we are all putting more money into the landowners' pockets, inasmuch as they receive a market price for any land sold to the government as an intermediary purchase. The subsidy given to the developer is made up for with

• Ed Dodson

revenues raised by taxation of wages and taxes on other productively-earned income.

Public policy fails to address some very clear economic principles. Land is a relatively scarce commodity; its supply cannot be easily increased.

Special opportunities given to buyers or land in the marketplace beyond a certain level will change the relation between supply and demand; and, if lower interest rates or price subsidies or higher maximum loan amounts are granted to a large enough number of potential house buyers, those in control of land will, naturally, increase the asking price.

At the new, higher price level, the number of families able to afford the price demanded will have fallen. A new demand/supply equilibrium price is established. The market capitalizes all of the subsidies and giveaways into higher selling prices.

There is a solution to this dilemma, one that is deceptively simple. If we can agree that the root problem to be solved is the runaway cost of land, public policy tools can be applied that will stabilize land prices and, hence, the price of housing as well. The opportunity to do so rests in the taxing mechanism and the way people react to the taxation of property.

Adam Smith was one of the first to observe that taxes on productive activity (such as housing construction) will tend to add to the cost of the end good or service and thus discourage its production. Taxes levied against static activities (of which land ownership is a prime example) tend, conversely, to stimulate production.

The reason for this is easy enough to see. If I own a parcel of land worth $100,000 today and its value is increasing at 10% per year, the land will be worth $110,000 in a year and I will have gained $10,000 without lifting a finger.

If this land were taxed at 10% of market value, however, my net gain is zero and I will be induced either to develop the land myself or put it on the market for use by someone who will. The more land thus coming on to the market, the greater will be the pressure toward stabilization of the cost of land for development.

The issues raised by this problem involve more than just economics. Is justice not better served by a system of taxation that rewards our citizens for their productive contributions towards society, as opposed to the current structure, which perpetuates the transfer of wealth to those who gain by simply holding onto land? Landowning itself produces nothing, yet gives to titleholders an unearned claim on the fruits of the labour of others. To the extent this continues we not only discourage economic growth but expose our democratic system to a deeply-rooted injustice.

Diplomats in a squeeze

DIPLOMATS in Tokyo are paying the price for the city's high land prices.

Astronomical rents have forced 17 African and Latin American embassies to gather in one office block.

Even relatively rich nations have been forced to economise. Oil-rich Venezuela switched from its opulent building to the diplomatic ghetto, which is at bursting point.

But the escalating land prices provide windfall gains for some of the foreigners. The Philippines now plans to cut its national debt by selling off part of its landholdings in Japan, which are valued at £281m.

The British are (diplomatically) laughing at the misfortunes of their colleagues. For under the terms of their lease, which dates back to 1873, they pay a peppercorn rent for a spacious site which is valued at £1.7 bn.

Speculative Disaster in Docklands

NIELS BUGGE: His A-Z zeal induced him to buy all the houses in three streets in London, alongside the Thames – banking on a long-running boom in the City.

NORWEGIAN land speculator Niels Bugge believed the propaganda: London's derelict docklands, just a mile or two east of the flourishing City, was the crock of gold at the end of the rainbow.

On October 18, the day before the stock market crashed, his three-acre site in Limehouse was valued at £10m. That is what it cost him, and there were plans to build houses and a health centre for the city yuppies who were pulling in over £100,000 for buying and selling shares with other people's money.

"This is the area of future prosperity," he predicted, as he cast his eyes over the disused warehouses on the edge of the River Thames.

After the crash, the value of that land is anybody's guess. Property companies that speculated heavily in Docklands were hurt more than most by the crash of '87.

Some good will come from the disaster if the policy-makers learn the lessons from history.

- A vast tract of precious land was allowed to decay into a wasteland for over a decade, their communities allowed to collapse through neglect. Existing land tenure and tax policies failed to pressure the property owners into adapting their assets to the new uses that would allow the local community to organically evolve new forms of economic activity, in order to preserve the vitality of the area.
- The Conservative Government's decision, in 1980, to force action through an Urban Development Corporation – a bureaucratic body with power to compel owners to relinquish land to others, if they did not want to use it themselves – encouraged developers to adopt projects that were singularly inappropriate for the needs of the capital.

ANALYSIS: Fred Harrison

PICTURE: Keith Hammett

The government's agency, backed by the big speculators and their agents, hyped the area with grandiose plans aimed at luring away some of the profits made by the financiers who worked next door in the City. This entailed large, expensive developments. The unemployed dockers and their families were squeezed out by the Big Boys who moved in with schemes for conference halls and yachting marinas for the corporations and the rich playboys.

Some speculators were going to "make a killing" – until the city crash. When that happened, the value of the shares of property companies that put most of their eggs in the Docklands basket suffered more than most.

NEILS BUGGE planned to borrow £150m in 1988 to invest on his Limehouse site. But in a space of two weeks his company, Jacksons Bourne End plc saw the value of its shares drop from 785p to 415p. Big Bang – the computerisation of the Stock Exchange – blew up in the faces of Mr Bugge and his fellow speculators.

Demand from the City for expensive homes and offices near the Bank of England has disappeared. Some financial companies are expected to close down and return to New York and Tokyo; a few had already started sacking employees before the crash. And that is why Mr Bugge's future is in the balance.

Said Robert Beckman, the American financial consultant who has long predicted a major economic crash: "We have had a

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FELIX UGHAMADU on Nigeria's need for a vacant land tax

Glittering prospects

The State Governments of Nigeria are sitting on "gold mines" – the rising value of land, argues the author, who is a lecturer in estate management at Anambra State University of Technology. In the *Nigerian Herald* he wrote: " This 'gold mine' can be compared to a 'sleeping' volcano which can erupt anytime." In this article for *Land & Liberty* he argues that State governments ought to tap this revenue for investment in social services.

IT IS THE duty of a responsible and progressive government to ensure that land, its most valuable resource, is carefully managed and utilised with maximum efficiency for the benefit of all generations.

Some basic social services are in danger of immediate collapse. Most state governments have been hard put to find the funds with which to meet even recurrent commitments. To stay afloat, state governments have had to borrow from domestic and foreign banks and the federal government. This is not to say that the funds are not there in the real sense, but that it has failed to tap revenue from vacant land.

Vacant land is different from other private real estate in the following ways:

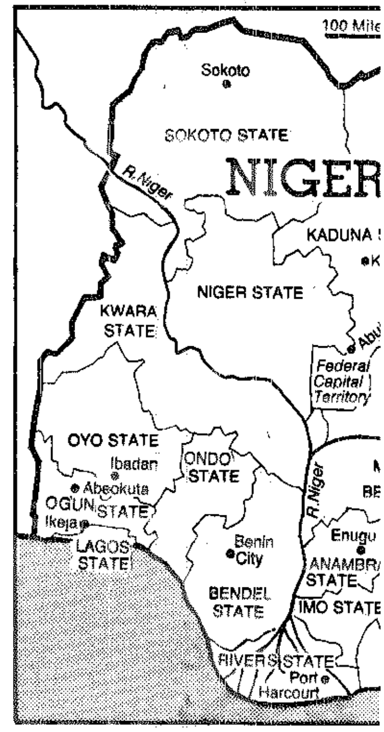
- Vacant land is the only private real property which produces nothing;
- The value of vacant land appreciates, thanks to social efforts: the land owner contributes nothing to this process;
- Vacant land is the only pivate real property which does not depreciate and requires no maintenance.

Vacant land causes unrest because its owners will one day enjoy unearned income, as prices rise. A tax on this land would prevent speculation and bring more land onto the market. This would increase the supply of housing and reduce housing prices. It would also stimulate the development of the construction industry and promote economic progress and prosperity.

FOR THE purpose of taxation in Nigeria, urban vacant land should be defined as private land on which the buildings and other improvements have a value less than the open market value of the vacant land.

Public services and developments enhance site or land values: hence the moral argument that these community-created values should be taxed.

The taxation of urban vacant land encourages new development, stimulates better land use, promotes the replacement of obsolete property and enables local authorities to obtain substantial revenue. Innocent investors lose millions of naira annually through property tax on



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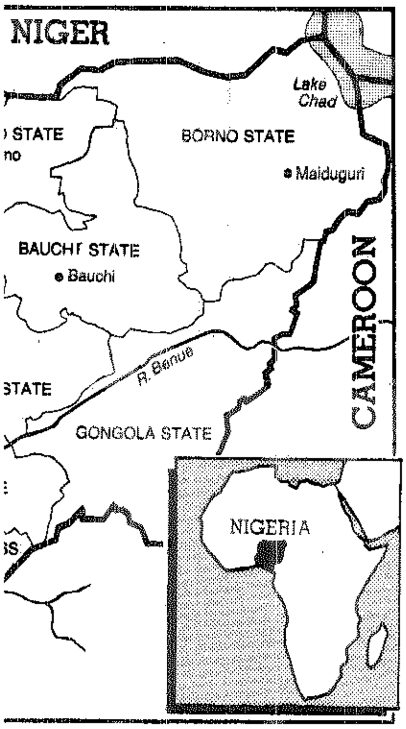

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sued with all the zeal that it deser- Kenya, Zambia, Denmark, Aus- Korea, Colombia, South Africa eneficial results. Hence it can also

DOCKLANDS

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holocaust in the City. Investors should be extremely cautious about lending money to speculators with property in Docklands. It is not a particularly attractive area, and property values have been talked up by the speculators."

Observed property analyst Alec Pelmore, of merchant bankers Morgan Grenfell: "People who have assumed a lot of 'hope' value are having to rethink their plans. That's the message of the market. Anyone who has bought sites in Docklands to build residential property may find the values are falling rapidly, and won't be able to make the arithmetic work. Most people are hazarding that property values will fall."

Mr Bugge hopes these forecasts are wrong, and one barometer will be the price of the three streets he bought in Southwark, on the south of the Thames near the City.

Each house was bought for an average of £30,000 and before the crash he placed a value on them – two years after purchase – of £100,000. But according to Mr Beckman:

"Those streets are not in a desirable area. Rich people prefer to live in Mayfair or in the Surrey countryside, the 'stockbroker belt'. The value of the houses depended on a flourishing city market in stocks and shares, but £150 billion was taken away from the value of British assets in two weeks. So those houses near the city are over-valued."

THE FUTURE for property companies – the ones heavily exposed to the North American economy, which is expected to go into recession this year, or the City of London – depends on trends in interest rates.

We can now expect a two-tier interest rate system. This is what happened in the depression of 1974. Financially sound companies benefitted from lower interest rates, but property speculators found themselves paying record-high rates, because their houses were built on the frothy bubbles of a speculative boom.

Whatever happens now, to the economy, the future of the Docklands is bleak. It will take a long time to recover money paid for the land in the last two years. Unfortunately, the financial distress will discourage private sector investments in other inner city areas.

But it is unlikely that Mrs Thatcher's government will learn the lessons of Docklands. Lumpy investments steered by planners of the private and public sectors is no substitute for relatively small-scale developments which meet the perceived needs of a flourishing, diversified – wholesome – community.

Why didn't this happen? The owners, like the Port of London Authority, were unwilling to relinquish their land to other users at affordable prices until they were bullied into it by the government. They were able to get away with this dog-in-the-manger strategy because there is no carrying-cost on vacant land.

That suggests the need to impose a tax on site values, to ensure that land is continuously recycled into new uses in tandem with the changing technology, trading patterns and tastes of the community.

Just how will a kind of land tax play in Peoria?

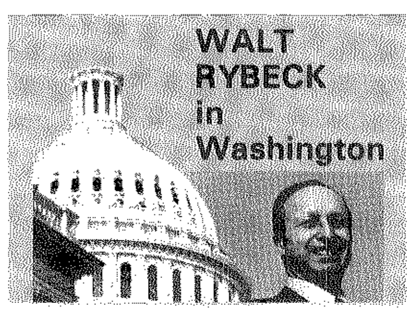
• Downtown Peoria and the Illinois River. The impact is going to be considerable. Picture: PEORIA JOURNAL STAR

SEEKING to emerge from a crippling recession, Peoria, Illinois, has voted that new construction in a large sector of the city will be nearly tax-free for the next decade. There will however, be no abatement of taxes on land values.

This is not a land-only property tax of the Australian variety. Nor is it the Pennsylvania approach of uniformly higher tax rates on land than on buildings. Yet the Peoria measure effective as of January 1987 substantially shifts taxes off improvements and on to land values.

"See how it plays in Peoria."

According to an old cliché, this is where one tests new ideas. Mayor James Maloof takes this cliché about his mid-American city of 130,000 people as a compliment: "We have a reputation



of being kind of fussy about what we like."

The mayor enthusiastically promotes the abatements. "This is what I campaigned on two years ago. I took on City Hall and the Chamber of Commerce, saying we had an Enterprise Zone but no incentive package to go along with it."

The abatement applies within the 6.2-square-mile Enterprise Zone which, explained City Development Director Quentin E. Davis, has two parts. First is a somewhat decrepit industrial area along the Illinois River, with buildings dating back to the turn of the century, and adjacent commercial portions of the downtown.

Second is Pioneer Industrial Park at the northwest edge of the city, developed in the 1960s. The two areas, miles apart, are connected by a three-foot-wide strip down the center of a street.

New buildings in the first section will enjoy 75% tax abatement of their property tax rate for five years and then 45% for the next five years. Abatements in the second section will be 50% for five years, then 42% for the following five years.

Why these different formulae? Residents pay property taxes not only to the city and county, but also to separate jurisdictions that manage schools, parks, a junior college, the airport, mass transit, sewers and so forth. Many of these taxing jurisdictions have noncontiguous borders.

The city and county, for example, "went all the way" with 100% abatement for 10 years, said John L. Kelly, vice president of Shearson Lehman Brothers, who has campaigned intensely since 1984 for untaxing improvements.

The Peoria School District, whose territory includes the riverfront-commercial area, adopted a 50% abatement for five years.

"We're behind it and hope it works," said Marilyn Ketay, president of the Peoria School Board. "If it helps the city grow, the tax base will grow. Without business, we won't need schools. It's a circular thing." If abatements work, she feels the board may extend its participation beyond five years.

The Dunlap School District, in contrast, which covers the Pioneer Park portion of the Enterprise Zone, did not approve the abatement, fearing it would lose revenue.

"Lose money from abatements? Heavens no!" challenged Mayor Maloof. "You win because you are attracting business that might have gone to South Bend or some other city. You are helping existing, home-town businesses to stay and grow.

"These firms supported the city for years; they have paid their dues. You are creating new jobs, new salary base, new tax base, and we are not giving up the land tax base."

The mayor called adoption of the new tax policy "an awakening procedure" for Peoria, a city that had been affluent for years, a city proud of its symphony, ballet and museums, but a city seriously wounded by the decline of Caterpillar and other manufacturers.

"Now we are aggressively competing with other cities across the country and even around the world, and the benefits of the tax incentives are going to be wonderful," added Mayor Maloof.

Mayor James Maloof

Bob Marcusse, President of the Economic Development Council for the Peoria Areas, said: "My feeling is that this kind of property tax relief is going to have a very positive impact. Companies are already showing interest."

Marcusse called abatements "the most significant part of the package" of state-local incentives for firms within the Enterprise Zone. Other features include elimination of sales tax on materials for new construction; applying the cost of a new physical facility as a credit against state income tax; and modest grants for the rehabilitation of older buildings.

Janice Kepple, vice president of Peoria's Commercial National Bank, who serves on the Designated Zone Organization, appointed by the mayor to help make the Enterprise Zone succeed, said the group spent a year seeking "innovative ways to make our area attractive."

One thing she likes about tax abatement is that "it doesn't erode the current tax base". Ms. Kepple is planning a direct mail campaign and other methods to alert businesses to their new opportunities.

How will abatements affect assessments? "Not at all", responded Bradley E. Horton, the elected assessor of Peoria Township which embraces the city. "I just go about valuing properties the same as before.

"Since we already assess land and buildings separately, this poses no change for us. I determine how much value has been added to buildings and to land, equalized according to Illinois law at 33% of market value. I simply report these values to the county clerk and treasurer, and the county applies the rates and abatements enacted by each governing body."

Horton said he takes a wait-and-see attitude about the impact of abatements. Yet, looking at what other areas are doing, he commented: "We may need something like this to compete to keep industries like Keystone Steel and Wire and to attract regional insurance offices, for example."

Meanwhile, Horton's assessment office will track the value of all new construction within the Enterprise zone so analysts may compare this data to construction activity in areas outside the zone.

The Real Tests. Will this partial land tax within a restricted segment of one city make a noticeable difference? If it does, says Kelly, jurisdictions which were reluctant to go "all the way" within the Enterprise Zone, may change their minds for the second five years. "Beyond that, we may see that it makes sense to adopt something like this for the entire city or the entire county – not only for a decade but as a permanent policy."

In Britain and the United States, enterprise zones have been criticized because special provisions to help depressed areas tended to bestow excessive benefits to landlords within the zones. By specifically not abating taxes on rising land values, Peoria's approach is intended to spread benefits to the general community. This heightens interest in the ten-year experiment that Peoria has just launched.

BOOM! SVR MAKES A BIG IMPACT AGAIN!

GODFREY DUNKLEY reports from Johannesburg

COLLECTING revenue from the products of labour discourages economic growth. Conversely, collecting revenue from the rent of land encourges a healthy economy. That much was established in theory 100 years ago, and it has been proved in practice here in the Republic of South Africa.

A study in 1982 showed that there had been a steady swing away from rating improvements and towards collecting revenue from land values only. It can now be shown that about 70.6% of all township growth has taken place in towns and cities that rate land values only.

DEFINITION OF TERMS

Rating: collection of municipal revenue based on the valuation roll expressed as cents in the rand per annum. This can also be expressed as a percentage.

Flat Rating: Rating based on the total value of land or site plus improvements.

Composite Rating: A two rate system; higher on site value and lower on improvements.

Site value Rating (S.V.R): Rating based on site value only; nothing on improvements.

Out of 256 towns for which information was available in the 1985 South African Municipal Year Book, 96 towns each had a total valuation of land and improvements below R20 m and together account for only 1% of total valuation for South Africa. A further 48 towns with values of between R20 m and R30 m account for only a further 1.36%. Divisional councils and Peri Urban Boards or new townships made up a further 10¢ 10%. The main municipal valuation lies in 112 towns with a total valuation of approximately R60,000 m or say 86% of total improvement value.

The tables describe the trend in township growth.

TABLE 1: The Swing from Taxing Buildings to Taxing Site Values

RATING SYSTEM	1951 No. of Towns	%	1969 No. of Towns	%	1979 No. of Towns	%	1984 No. of Towns	%
Flat Rate	187	58	114	37	100	32	61	23.8
Composite	99	31	108	35	102	33	97	37.9
S.V.R.	36	11	88	28	108	35	98	38.2
TOTAL	322	100	310	100	310	100	256	100

In 33 years the number of towns on Site Value Rating has increased from 11% to 38.2% and Flat Rating reduced from 58% to 23.8% The towns remaining on Flat Rating include a large number of small towns which show little growth. The figures are more significant when one looks at the larger towns where the growth takes place. Table 2 compares 112 towns each with a total value of over R30 million in 1984 official figures compared to the top 125 studied in 1979.

TABLE 2: Large Towns: Each Over R30 Million Total Valuation

Rating System	1979 No.	%	Value	1984 No.	%	Total Value Rands, m	%
Flat or Total Value	20	16	15.5	12	10.7	6232.5	10.4
Composite	45	36	24.2	38	33.9	12103.5	20.2
Site Value	60	48	60.3	62	55.4	41506.7	69.4
TOTAL	125	100	100	112	100	59842.7	100

Towns below R30 m account for only 2.4% of the total value so can have very little significance on conclusions drawn from this study. The difference between 125 towns compared in the 1979 study and 112 towns in the 1984 study consists mainly of towns now below R30 m total valuation. Figures for four towns included in the 1979 study which helped make up the total of 125 were not available for inclusion in this study. Allowing for omissions it is estimated that this study would have less than 2% error.

Significant points brought out by Table 2 are as follows:-

- Nearly 70% of the total growth in urban valuations has taken place in townships which are now on S.V.R. The swing continues towards S.V.R. and away from Flat Rating.

- The towns remaining on Flat Rating are almost exclusively in the Cape Province and, with the exception of those directly related to the two ports of Cape Town and Port Elizabeth, play an insignificant part in the economic growth of R.S.A.
- The serious property and industrial investor is not generally attracted to towns which rate improvements. This is confirmed by Table 3.

TABLE 3: Comparison of Ten Years Growth in Total Valuation of 112 Towns (All Towns with Value Above R30 Million in 1984)

Rating Categories 1979-1984	Previous Study 1959-79 No. of Towns	Valuation 1959	Valuation 1979	% increase over 20 yrs	Present Study No. of Towns	Valuation 1974	Valuation 1984	% increase over 10 yrs
I Flat Rating	20	705.7	4491.8	536.5	12	2297.3	6232.5	171
II Change to Composite	8	59.1	564.9	855.8	5	338.9	842.9	148
III Composite Rating	36	889.6	6476.2	628.0	33	3586.3	11260.6	214
IV Change to S.V.R.	15	157.5	1753.3	1013.2	7	249.1	1138.0	357
V Site Value Rating	46	1512.8	15737.9	940.3	55	9420.2	40368.7	328
TOTAL	125	3324.7	29024.1	773.0	112	15891.8	59842.7	276.6

Note: The average rate of growth over the two periods is very similar i.e. 275.6% × 276.6% = 765%, very close to the 773% for twenty years.

MAJOR TOWNS: We looked at a further category of the largest towns and cities, those with a total valuation of over R200 m. This produced even more startling results than the earlier study. Table 4 gives the results of this analysis:-

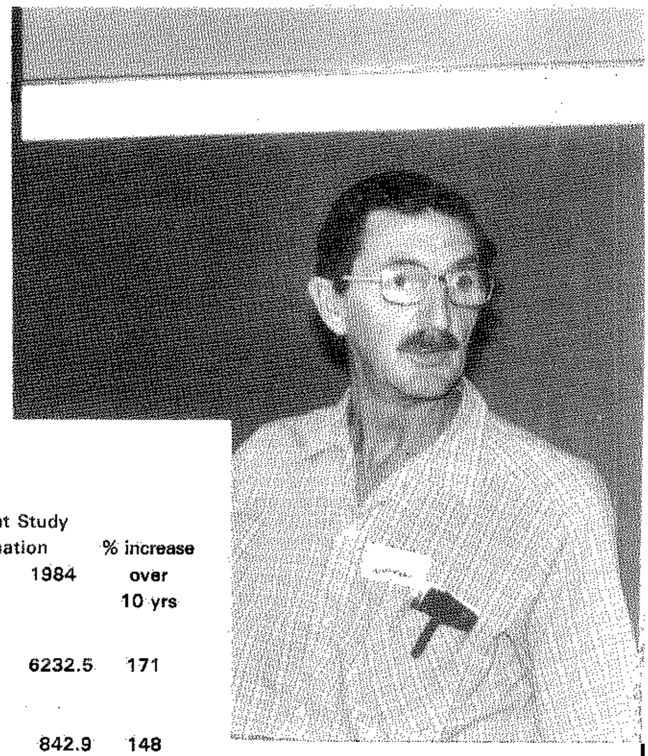
TABLE 4: Ten Year Growth in Improvement Value (Towns Over R200 Million Total Value)

Present Rating System	No. of Towns	Improvement Value Rand Millions 1974	1984	Growth	Growth
Flat Rating	2	1411.9	4080.1	2668.2	189%
Composite	13	1856.8	7085.4	5228.6	282%
Site Value Rating	33	5084.9	26084.9	21000.0	413%
	48	8353.6	37250.4	28896.8	345%

NOTE: These valuation figures cannot be compared directly with the totals given in Table 2, which were total value of land and improvements; these are improvements only.

In this group of 48 towns, each with a total value of over R200 m, only the two ports of Cape Town and Port Elizabeth are still on flat rating. No other towns in R.S.A. on flat rating have grown to this size. These two large ports, and the legislative capi-

Continued on Page 15 ►



• Godfrey Dunkley – his meticulous examination of a host of South African statistics confirms Australian and American studies about the imposition of taxes on the unimproved value of land, or site value only.

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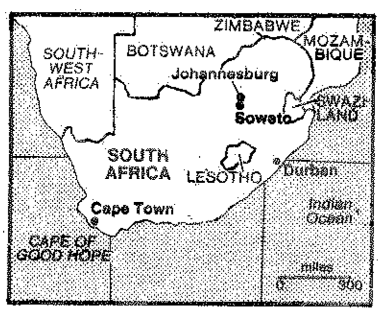

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NINE HUNDRED NOT OUT . . .

REVIEW: Ronald Rennie

SPANNING the last nine centuries of Scottish history, R.F. Callander's book, *A Pattern of Landownership in Scotland* must rank as the most comprehensive work so far available on this subject.

Scotland's system of land ownership differs from the rest of Britain in that it is defined by Scots Law and the method under which land is owned is legally classified as feudal. All rights of ownership derive from the Crown who, as the ultimate owner, is known as Paramount Superior to whom all other owners are vassals.

The highest level of rights is the interests of the Crown known as *regalia*, e.g. the ownership of coastal waters. The second level is the interests of superiority known as *dominus directum*, whose rights are commonly reserved in minerals, sport and the erection of buildings. The third level is the interests of the vassal in possession of the land, known as *dominium utile*. Below that comes the tenants who derive their rights of occupation and use from the vassal.

Feudal land ownership was firmly established in Scotland by the 11th Century and has survived largely unaltered to the present day, though it was abolished in England in 1290. It has given Scotland the most concentrated pattern of land ownership in Europe.

- 75% of all privately owned land is still held in estates of 1,000 acres or more.
- 90% of Scotland's 19.1 million acres belong to 1500 landowners.
- The remaining 10% is divided among the 5 million other inhabitants.

Valuation, or tax rolls, were first introduced in 1643, and based on a system of "valued rent" which was replaced in 1656 by the real value of each property. These valuation rolls were completed for each parish and the landowners in that parish (the "parish inheritors") were listed along with the rent of the land they owned within the parish.

Aberdeenshire (1.25 m acres) is one of the few counties for which these valuation rolls still exist. In 1667 the county had 82 parishes, 779 heritors and a combined rental of £21,000 in modern currency.

The heritors had parochial commitments to the upkeep of the buildings and staff of churches and schools and for the provision of poor relief. Here lies historical proof that in Scotland 320 years ago the entire burden of local rates rested on the landowners.

During the 1745 Jacobite rebellion many Scottish landowners and their vassals fought for the Young Pretender, Bonnie Prince Charlie. Some lost their lives and most forfeited their estates, the majority of which were eventually restored to their heirs.

It is interesting that, in an Act of Parliament passed shortly after the rebellion abolishing the heritable jurisdictions, £15,200 compensation was paid to the feudal landlords for the loss of this outrageous privilege.

The possession of land in Scotland has always given to landowners extensive powers over the use of their land and the people living on it. It was not until 1970 that the superior's right of pre-emption – to buy back feues whenever the property was going to be sold –was reduced to once only.

Once granted feu duty is payable in perpetuity, but in 1974 the imposition of new feu duties was prohibited and feu-holders were given the right to commute their feu duties by making a single payment to their superior.

The author concludes the last chapter with the following paragraph:- "For nine centuries, feudal landownership has controlled the relationship between people and place in Scotland. The ideas and values of this ancient system, developed as legal theory and expressed as law, represent one way of governing this fundamental relationship."

It is to be hoped that the Law of the Land will not have to be re-written to achieve justice in our society. When the whole rental value of the land provides the public revenue landowners may well lose interest in land which they do not occupy and which yields them no income.

Then the ancient rights of superiority may simply wither away.

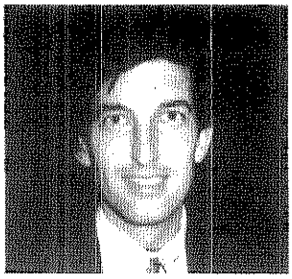
□ *A Pattern of Landownership in Scotland* is available from Haughend Publications, Finzean, Aberdeenshire AB3 3PP.

Concern for first-time home buyers

BRITAIN'S housebuilders are worried about the low proportion of first-time buyers able to afford new homes. Says House-Builders Federation President Peter Short: "This is the result of high land prices requiring builders to build higher priced houses in order to remain profitable." The fears were measured by the state of trade enquiry last July, in which builders were asked to identify the constraints on future sales. This is what they revealed:

	Degree of Constraint		
	Major	Minor	No current problem
Mortgage availability	2%	17%	81%
Labour availability	18%	47%	35%
Materials availability	11%	50%	39%
Lack of purchaser confidence	5%	18%	78%
Delays/chains "down the line"	23%	56%	21%
Inadequate supply of land to meet demand	62%	20%	18%
Purchasers inability to pay house prices irrespective of land availability	11%	49%	41%

Note: Percentage figures may not add due to rounding



• Richard Bate

Nasty catch of creeping alfalfa

FARMERS in the United States love the "set aside" programme that raises their incomes while cutting production, writes Peter Poole.

They are literally paid not to produce food. Now Britain proposes to follow suit, in a bid to cut the food mountains which – across Europe – cost the taxpayers £250m *a week* just to store the stuff before it's fed to pigs, sold at knock down prices to the Russians or ploughed back into the ground.

Mrs Thatcher's free enterprise government wants to cut back on food subsidies. The plan is to pay farmers to reduce by 20% their land devoted to cereals, or cut their beef herds by 20%.

This policy, however, has nothing to do with market economics, and everything to do with politics. And it will fail, insists Richard Bate of the Council for the Protection of Rural England.

- Drawing on evidence from the USA, we can expect the most marginal land to be set aside, so the cut in output will be far less than 20%.
- There is nothing to stop farmers from intensifying production on the remaining 80% of their land.
- Some farmers are already bringing extra acres into cultivation, so that they can be paid to set it aside again.

"Production will therefore not come down very much," declares Mr Bate. "Nor will the cost to the Exchequer." Joseph Heller satirised the "set aside" logic in **Catch 22:**

He was a long-limbed farmer, a God-fearing, freedom-loving, law-abiding rugged individualist who held that the federal aid to anyone but farmers was creeping socialism...

His speciality was alfalfa, and he made a good thing out of not growing any. The Government paid him well for every bushel of alfalfa he did not grow. The more alfalfa he did not grow, the more money the Government gave him, and he spent every penny he didn't earn on new land to increase the amount of alfalfa he did not produce...

He invested in land wisely and soon was not growing more alfalfa than any other man in the country.

He was a outspoken champion of economy in Government, provided it did not interfere with the sacred duty of the Government to pay farmers as much as they could get for all the alfalfa they produced that no one else wanted or for not producing any alfalfa at all!

◄ from Page 13

tal of R.S.A. (Cape Town), should logically keep pace with the average growth of major towns. Instead their percentage growth has been only just over half of the average and less than half of those on S.V.R.

COMMENTS

- Categories 1, 3 and 5 stayed on the one system of rating from 1974-1984. Their growth in total value for the ten years 1974-1984 was greater for towns on S.V.R. and least for those on Flat Rating.
- The towns in category 4 which changed to S.V.R. again showed the largest growth. This was more than double the rate of growth in Flat Rating and 66% higher than category 3 on Composite Rating.
- In the previous survey (1979) it was shown that 61.6% of the growth in total value took place in towns on S.V.R. This has now increased to 69.4% (total valuation).
- After the previous survey was published in the S.A. Treasurer there were several comments to the extent that the results were unreliable because of a major weakness in the relative Cape Ordinance. This allows for updating the valuation roll on a ten years basis. In addition when new valuation rolls appear they could be three years out of date. Since all figures compared in both surveys cover a ten or twenty year period any lag in figures should average out. However this study is spaced by five years from the former and still shows the same trends.
- The conclusions confirm experience reported from similar studies in the U.S.A. and Australia, namely that imposing taxes on the unimproved value of land, or site value only, discourages land speculation and the withholding of land from use: they encourage increased utilization of land and economic growth.

WHO'D BE SCARED OF 1990 IF LVT WERE IN ACTION ?

*Bob Clancy, **left**, reviews Ravi Batra's best-seller, published by Simon & Schuster, New York, 1987*

THE RECENT gyrations in the stock market have roused widespread apprehensions. Wall Street sneezes and world markets catch cold. What next? The ghost of 1929 walks again.

All this has given new significance to the best-selling book, *The Great Depression of 1990* by Ravi Batra.

As its title says loud and clear, we're in for it in a couple of years. Many are wondering if it will take that long.

The business magazine *Forbes* is not impressed. In a review of the book it said: "Batra's bafflegab is awful, appalling, terrible, no redeeming features whatever."

But the book's popularity reflects a serious concern on the part of many that all is not well in our economy.

Batra, a professor of economics, is of the cyclical school, and no doubt because of his Indian origin, there are some Hindu features in his analysis, such as the division of society into four castes (warriors, intellectuals, acquisitors, workers), as well as the cyclical interpretation of history.

In his analysis of cycles, Batra finds that a depression is overdue which has been staved off, but it should hit us by 1990.

One interesting point is that he finds a dangerous disparity in the distribution and ownership of wealth in America approaching an all-time high, with the richest 1% possessing greater wealth than the bottom 90%.

This with a shaky banking system and a speculative bubble, which when it bursts during a recession, will cause it to deepen into a serious depression.

His remedy for individuals is to convert to cash or gold. Get out of the stock market by 1989. He thinks real estate will also go down in value, therefore sell and take the cash. He does not seem to entertain the prospect of money losing its value.

And he does not distinguish between money and real assets, whether land or wealth. Nor does he consider that, if a depression hits, a person with land and a house has some place to live and some productive possibilities.

As for his social remedies, they are not very specific, even though he calls them "fundamental reforms". He would like to see a "planned free economy" with new New Deal measures such as controls over wages, over large corporations, a ceiling on wealth, etc.

We can understand why a conservative magazine like *Forbes* (and others) would not like Batra's book. It criticizes the policies of the Reagan administration, and the Conservative view is that the economy is doing well because of these policies.

But, whatever the shortcomings of Batra's un-fundamental analysis, the criticism that America is growing in wealth disparity is confirmed by other sources, incliding the U.S. Bureau of the Census (hardly a left-wing organization); and by M.I.T. economist Lester C. Thurow.

Thurow wrote a foreword to Batra's book. Without endorsing it and with a caveat on the complexity of economic problems, he said it is worthy of study.

Thurow was angered at the title that was given to the book which was supposed to be *Regular Cycles of Money, Inflation, Regulation and Depressions*. He does not want to go along with the prophecy game. (But would the book have sold with its original title?)

Backing for depressing talk

However, Thurow does support – in the present – a main point of Batra's that the distribution of wealth is becoming more unequal.

In no less a publication than *Scientific American* (May 1987) an article by Thurow appeared entitled "A Surge in Inequality."

He stated that "the rich are getting richer, the poor are increasing in number and the middle class has trouble holding its own".

He traces the problem to a slowdown in productivity. "The ultimate causes of this slowdown are harder to find, somewhat mysterious and a subject of controversy among economists."

Though a "liberal", Thurow does not primarily blame the Reagan administration which has not changed policies that much, despite all the fanfare.

He attributes the present plight to two major factors: intense international competition and a rising proportion of female workers who get lower wages than men.

Raise productivity, he urges as the remedy.

How? By education. Improve workers' skills so that they may become more competitive with Japan and Europe. And raise the earning power of women. But this does not address the question of great disparities in distribution.

Thurow speaks of the "feminization of poverty", but other low income groups have been cited – blacks, Hispanics, the rural poor, the unskilled. With economic opportunities restricted, some group or other is going to get the short end.

As for "education", we have been that route. After World War II there was an eduction explosion. The result has been that one might as well not look for a decent job without a college degree, preferably an advanced degree.

In the last century, people flocked to America from all countries – the tired, the poor, the uneducated – and they managed to get ahead. The big difference is that there was then an abundance of free land.

With most of the free land gone today, and much of it held out of use for speculation, that would explain the "mysterious" slackening of production.

It would greatly increase economic opportunities, stimulate production, lessen gross income disparities, and ease recessions by fully taxing land values and removing other taxes.

This would release a great reserve of land that would become available for production and for living. With such a remedy, we could say, "Who's afraid of 1990?"

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