

Controversy in Johannesburg

Land-Value Rating or Municipal Income Tax?

Justice F. A. W. Lucas, president of our International Union, recently crossed swords with Mr. Brian Porter, town clerk of Johannesburg. The latter had suggested that a municipal income tax should be imposed instead of, or in addition to, the present rate on land values. Mr. Lucas' rebuttal was published in the Johannesburg "Star" and reprinted in our June issue. It evoked the following published reply from Mr. Porter.

MR. LUCAS has always urged that something should be done about what he calls "the unearned increment" on land values. He seems to think from this that every landowner is receiving a free gift from the public without any effort on his part. He should surely realise, however, that there are scores of people who have bought private properties in the last three or four years who cannot sell today for as much as they paid, so where is this "unearned increment"?

His idea that a rate on the site value of land does not add to the cost of living today is contradicted by the most elementary economic theories. In any event he overlooks the fact that while site values only are rated in Johannesburg, the power exists to rate improvements as well, and this power will undoubtedly have to be exercised ultimately unless some other source of revenue is made available to the local authority.

It is surprising, therefore, that the suggestion that such other source of revenue should take the form of a local income-tax raises such a vehement protest from Mr. Lucas. The proposal has only been put up in principle, the details of which may admittedly raise difficulties but can no doubt be ironed out in the same way as national income-tax arrangements.

I do not necessarily support the idea of a local income-tax but certainly think it should be thoroughly investigated. The fact that it is adopted in other parts of the world is significant and at least ensures that there is as true a relation between the amount paid and the ability to pay as there is in ordinary income-tax.

Such a tax would surely be more equitable than singling out only one form of capital increment for taxation—i.e., an increase in market value of land, as this increase is no more solely due to public and communal action than is the increase in value of any other sort of commodity which is marketable. The question is one of supply and demand.

We all try to take advantage of the opportunities created by the community in which we live and, while some of us are not as lucky as others, we can at least redistribute a little of the luck if there is too great a gulf between rich and poor and the best way of doing so is by means of an income-tax and not a local rate. The former can be progressive in its incidence while the latter is basically regressive.

Refutation of these commonly encountered objections presents no difficulty. Unfortunately, however, the following rejoinder by Mr. Lucas was not published.

MR. PORTER makes a number of statements that will not stand up to examination. He disputes the assertion that the value of land, as distinct from the improvements on it, "is a direct gift from the public to the landowner without any effort on his part," by saying that there are many people who have bought private properties in the last few years and cannot sell them today for what they paid for them. That does not dispose of the question. By "properties" he probably includes both land and buildings on it. Various matters might influence the sale price of the buildings but my argument is not concerned with them. The value of the land is created entirely by the presence and the activities of the community and not by the owner. If he were living in Timbuctoo that value would still exist. It is completely unearned by the owner. It should accrue to the community whose presence and services make it and keep it from day to day.

There have been in South Africa towns which have been abandoned by the inhabitants. When they departed the value of land in those towns vanished into thin air.

Every new useful public service adds to the value of the land in the area it serves, almost, if not always, invariably more than the cost of giving that service. If we took for our public revenue the community created value of land we need never hesitate in embarking on any useful public service. Under our present system we tax the public to pay for public undertakings and make a present of their value to landowners.

Some years ago the Minister of Irrigation announced in Parliament that a small dam, to cost about £800,000, would be built in the Cape. Within a few days the price of the land to be served by the dam went up by £4 million. The taxpayers were to pay the £800,000; the landowners pocketed the £4 million and paid no income tax on it!

Then Mr. Porter says that the site value rate will have to be supplemented by some other tax, presumably because the rate will not yield sufficient revenue for the city's needs. He seems to overlook the fact that by raising the present site value rate to the legal limit the income from rates can be raised by over £1½ million and with the consent of the Administrator a much greater sum can be obtained. Thus to raise the required amount of revenue neither a rate on improvements nor an income tax is or will be necessary.

Mr. Porter also makes the serious error of confusing land with capital. These two things are entirely different in origin. Land is a natural resource. It cannot be created or increased by man. Capital on the other hand

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is a product of man's labour on land, part of the wealth he produces in that way. It can be increased in quantity indefinitely where man has access to the use of land. A tax on capital or wealth is a tax on man's labour. A tax on the value of land is a charge by the community for benefits conferred by it on the owner of land, a person in no way responsible for creating it.

We all live on land and out of what is produced by labour from it. This gives the landowner the power to demand from the landless, for permission to live and work, the full rental value of the land. The owner of capital has no such power, because more of what he has can be manufactured to an indefinite amount. New public services and inventions make it easier and cheaper to produce more capital or wealth. They do not make more land but they raise its price for the benefit of the

landowner. This latter benefit Mr. Porter regards as luck for the landowner. I regard it as something immoral that it should go into the pockets of a relatively few individuals while the great majority of the people should be taxed on their industry and thrift to provide it for the few who make no return for it. A local income-tax would add still more to the burdens of the poor and give relief to the rich.

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In a letter to *LAND & LIBERTY* dated June 18, Mr. Lucas wrote: "The Town Clerk (of Johannesburg) recently sent me a copy of *The South African Treasurer* in which was a long article advocating a local income tax. I have replied and my article will appear next month. I have also written one for *Municipal Affairs* but have not yet heard whether that will be published or not."

International Union Notes and News

PROGRESS IN NEW ZEALAND

CONSIDERABLE progress was achieved in New Zealand last year. The annual report of the N.Z. League for the Taxation of Land Values, just received, records that seven of the nine polls of ratepayers held in November to decide whether to adopt the rating of land values was successful. Voting was:—

	To adopt L.V.R.	Against
Waiapu County	550	202
Vincent County	1,046	521
Franklin County	2,245	1,641
Kaitangata Borough ...	160	132
Wyndam Town	78	28
Fairlie County Town ...	211	89
Kaikoura County Town ...	256	197

In all these polls the League or individual League members played an active part. The unsuccessful polls were:—

Lower Hutt City	2,397	3,123
Richmond Borough	231	260

There are special difficulties in conducting a rating poll in Hutt City, not the least of which is the implacable opposition of the very popular mayor. This was the second attempt made there, and it is obvious that a well-prepared campaign, requiring intense propaganda and adequate funds will be necessary if success is to be achieved there. The narrowness of the defeat in Richmond Borough leaves little doubt that a further attempt may be successful.

In February this year a successful poll was held in Kaiapoi Borough, voting being 368 for, and 183 against adoption of land value rating.

The N.Z. Henry George School of Social Science held two classes in Wellington last year, using *Progress and August, 1957*

Poverty and Protection or Free Trade as textbooks. Total enrolment was 28.

It is disappointing to learn from the report that the N.Z. Government is not likely to introduce legislation in line with the findings of the Local Government Commission which described the rating of land values as "ethical, expedient and equitable" and recommended that it should apply throughout the country. The Minister of Internal Affairs is quoted as having said "It appears that the Commission's proposals are not generally acceptable to local authorities and it might be necessary to find some other answer to the difficult and important question." The proposals, which were extensively reported in our columns last October, are described in the League's report as "on the whole, very satisfactory . . . a milestone in the progress of the movement towards land value taxation in the realm of local government."

The League believes that in time a rating poll will be organised in Auckland. A special sub-committee on rating under the chairmanship of Professor V. J. Chapman set up by the city council had come out in favour of land-value rating. Its report (see *L&L* Aug.-Sept., 1956) received wide publicity in the city.

SPANISH GEORGEISTS ACTIVE

DESPITE considerable difficulties, our friends in Spain are doing excellent educational work. Forty-nine students have attended the recently completed classes in Barcelona by Messrs. J. Paluzie-Borrell, Soler Corrales and Serra Gasulla. So successful was the class given in the Industrial School of Barcelona that the sponsors, the Association of Industrial Teachers, have decided to create a seminary for economic studies so as to provide regular courses on the teachings of Henry George. Mr. Gasulla has also delivered a series of lectures on the influence of basic economic factors in history to a Catalan youth organisation. These activities are supplemented by a steady stream of articles on economic and philosophical