

DIRECTORS' PERSPECTIVES

WHERE THE RSF BOARD EXPLORES CURRENT APPLICATIONS AND IMPLICATIONS OF HENRY GEORGE'S TEACHINGS.

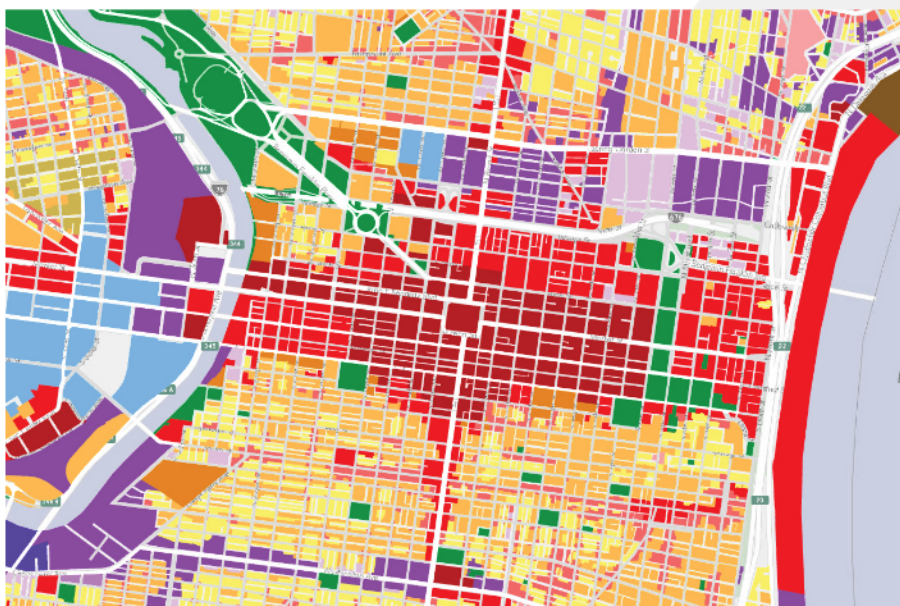
IMPACTS OF LAND TAXES IN THAILAND

BY BILL BATT

In January of 2019, Thailand instituted a land and building tax. Two thirds of the thirty- three million property parcels had been appraised by mid-year, with the revenue intended to finance local (provincial) governments. Political pressures against the implementation of the tax, were intense in the several years prior to its final approval, and there were several delays. Additionally, there was never a viable plan for taxing land values alone. But the final scheme to tax land values at a higher rate than improvements was indeed a signal victory for a policy I have long advocated. I was a Peace Corps Volunteer in Northern Thailand from 1962 to 1964, and have returned in the past thirty years to visit and speak before Ministry and university audiences.

During my visits and speaking occasions, I had regularly pointed to the advantages of land value taxation, particularly with regard to how this taxation could address the growing wealth disparities among Thailand's 65 million people, and, problems resulting from the extraordinary development sprawl consuming rice paddy land at an alarming pace. In a Bangkok presentation before the Asian Constitutional Law Forum in December of 2017, I demonstrated the extent of this haphazard speculation in Bangkok alone, by using land maps and diagrams of inefficient transportation patterns. Bangkok already had a reputation as one of the most inaccessible capitals in the world.

Now, only nine months after the land and building tax regime was instituted, there is demonstrable evidence of its beneficial impact. This is clear both in land market



Zoning map of Center City Philadelphia, courtesy of phila.gov

patterns and in development initiatives. Thailand's leading English language paper, the Bangkok Post, on September 22, 2019, published an article with the following lead sentence:

Land prices in the Thai capital are forecast to plateau, or even drop this year. This would be the first time in more than ten years that Bangkok's land prices have leveled off.

The article continues... (cont'd on pg. 5)

THE ECONOMICS OF LAND USE CONTROLS

BY NICOLAUS TIDEMAN

Restrictions on and regulation of land use are known as "zoning" in the United States and "planning" in the United Kingdom as well as in many other parts of the world. The legitimate purpose of these controls is to prohibit uses of land that are detrimental to both the public and/or the land itself and to prevent the effects such inappropriate land use can have on people who use the land surrounding a particular property.

However, there are limitations to this kind of land use control. They are:

- The one available form of control is the placement of restrictions on how individual plots of land are used.
- There is no provision that requires land to be used in particular ways.
- There are limited means by which to require people who want to change their land use to pay for the social costs of their actions.
- Bribery and other corrupt practices are a temptation.
- There are incentives to use regulation in order to prevent changes which are in the general public interest but which impose additional costs on the localities. (cont'd on pg. 5)

HG Trivia

Henry George came in second in a 1886 bid to become Mayor of New York City, garnering more votes than rival candidate Theodore Roosevelt.

Impacts of Land Taxes in Thailand (cont'd from pg. 3)

on the same page, to report (I have slightly edited the text):

[C]hanges can be blamed on the general economic slowdown and the Land and Buildings Tax that takes [continued] effect in early 2020. There is a lot of new land coming up for sale as owners gear up for the [further rise in the] tax next year.

CBRE [a Thailand consulting firm] noted that there is an increasing number of landowners with large tracts of land for sale. They say that owners, affected by the slowdown in the country's economy, are offering up slices of Bangkok land and properties with "negotiable deals or flexible prices."



Photo by Geoff Greenwood on theisthain

Worried about the upcoming Land and Buildings Tax, some owners are trying to divest themselves of some of their property assets. Some landowners are also offering leasehold options to minimize new costs from the new tax.

The new Land and Buildings tax will tax vacant land at .3 – .7%, with a rise of .3% every three years. To put that into perspective, for a one-rai vacant plot on Phloenchit Road, Bangkok, the tax rate will be 2 million baht per year. (1 rai = 0.29 acres)

New appraisal prices for land take effect for four years starting from Jan 1, 2020. According to the Treasury Department, the revised appraisals will mean an average increase of 2.5% in Bangkok and 8.3% nationwide.

According to CBRE, with so many plots coming onto the market at more negotiable prices, land prices in Bangkok could drop by 5-10% from last year or at

least remain flat, for the first time since 2009. CBRE reports that the average increase in land prices across Thailand per year has been around 2-3%, and 5-6% for Bangkok. But that has accelerated in recent years with land prices in Bangkok rising more than 10% per year over the past couple of years.

[Another consulting firm] says that the 'sellers' market is now turning into a 'buyers' market around Bangkok.

"We're still seeing a steady surge of buyers, both local and international, but the heat from the last couple of years has cooled, and that's a good thing."

This is a signal victory for proponents of land value taxation. It adds one more country to the list of places in the Eastern Hemisphere, where land value taxation is now employed. These countries include Australia, Hong Kong, Singapore, and Taiwan. South Korea, which has a strong Georgist network, may soon follow in implementing a land value taxation policy.

The Economics of Land Use Controls (cont'd from pg. 3)

Land developers are sometimes required to build streets and other infrastructure as a condition of being allowed to build a new subdivision, but this practice does not go so far as to include a regulatory means by which people who want to make changes in land use are required to pay for the costs of the changes that they want to make.

From an economic perspective, an ideal system of land use controls would be one that charged every user of land for the harm their land use caused those who used surrounding land, and that would also give each land user a cash credit for the benefit of their land use to those using surrounding land. It would be easier to create such a system of land use controls in a society in which, as Henry George advocated, all or nearly all of the rental value of land was collected. Such a system could work as follows:

The land assessor in each locality would determine the rental value of each parcel of land; they would also determine the monetary value that the use of each plot of land would add to

or subtract from the rental value of surrounding sites. This determination would be compared to the alternative of fencing off the land and preventing all human use. These assessments would not be detailed inquiries, property by property, but rather generalizations based on statistical studies; the underlying rental values would be estimated on a steady curve whose peaks represented where rents were known to be highest. The local government would then collect a tax equal to 90% of base rental value plus 100% of harmful consequences minus 90% of beneficial consequences.

If the holders of title to land were compensated for the publicly beneficial effects from their land usage, this would tend to raise the rental value of land in an immediate and direct way. If the holders of title to land had to pay for the harmful consequences of their land usage, this would raise rental values indirectly: When someone was charged for a harmful consequence, the corresponding penalty payment would offset the reduction in rental value elsewhere. That the land title holder was willing to pay would evidence that his property was made more valuable by the opportunity to act in a harmful way and pay the penalty than it would have been by regulatory prohibition of this action. When a land title holder refrained from a harmful act because of the ensuing penalty payment, it would demonstrate that such an action would not have been worth the harm it caused; this forbearance would thus keep total land rents higher than they otherwise would have been.

While such adjustments to rental value take appropriate account of the on-going consequences of land value uses, there are effects from changes in land value for which they do not account. A change in land use tends to change the optimal use of surrounding land. This can cause the obsolescence of surrounding buildings more quickly, and therefore a loss in value. It also tends to change the demographic of residents and businesses that would optimally occupy the area, which generates moving costs for current residents and businesses. To compensate for these costs, there should be one-time payments to the building owners, the residents, and the businesses that are renting space in the area.

I propose the following procedure for dealing with these costs. The party wishing to make a change in land use would propose a total compensation amount for the building owners, the residents, and business owners in the area. Then the land use administrator would allocate shares in the proposed compensation to the affected parties, according to her best estimate of their relative costs. There would then be a vote of the affected parties, with votes weighted by their assigned shares of compensation. If 60% of the shares voted that the compensation was adequate, then the proposed land use change would be approved and the compensation would be distributed. Otherwise, the proposed land use change would be disapproved.

One land use issue that the proposed system does not address is the tendency of localities to disapprove the construction of multi-bedroom apartments, due to the consequent increase in school costs when families with multiple children move into those apartments. The land use administrator can correctly say that the need to pay for the educations of the children who would live in the proposed apartments would raise everyone's taxes and be likely to lower total property values. We say that we believe in public schools, but we are not happy with the prospect of paying for the schooling of all the children who would move into our communities if there were no constraints on building housing for them. To deal with this difficulty, we would either need to say that land use administrators were not allowed to count the cost of providing services for new residents as a harm charged to a proposed change in land use, or we would need to find a source of financing education other than taxes on those who live in the same community as the children to be educated.

To reiterate what was previously stated: one purpose of land use controls is to prohibit uses of land that are detrimental to both the public and/or the land itself and to prevent the effects such inappropriate land use can have on people who use the land surrounding a particular property. Current systems of land use controls have significant limitations as to their effectiveness. A more economically efficient system of land use controls would charge people for the harm incurred from land use and credit them for the beneficial effects of

land use, both on an on-going basis of evaluation. There would also be a one-time charge for changes in land use. Some further reform would be needed to deal with the reluctance of communities to allow the construction of housing for low-income families.

The Minneapolis 2040 Plan Is Unlikely to Provide Affordable Housing (cont'd from pg. 4)

Now that we know that, in fact, the Minneapolis 2040 plan will not lead to a building boom, why should we be skeptical of its housing plan on theoretical grounds?

First of all, "upzoning," as the Minneapolis 2040 plan calls for, does not work, and for counter intuitive reasons. Sure, adding more housing to a city with a fixed area should make shelter cheaper. Yet, in reality, this isn't how attempts to expand affordable housing have worked. The greatest challenge isn't in adding more units, but in adding the right kinds of units, at the right costs, and for the right people. Creating housing is easy, but creating it for the poor is not.

Relying on the established norms of land economics, developers will buy up real estate, build fairly expensive buildings, and the neighbors will benefit from the spillovers of higher land values. Poor households will not be able to afford the new residences. In fact, it may be even worse than this: One study in Chicago, Illinois found that after five years upzoning increased property values without expanding the housing supply.

So what approaches can cities try as effective alternatives to upzoning?

Fundamentally, if upzoning alone doesn't pay to house the poor, then the solution is to make it pay. One recent discussion paper found that the best option was to make "inclusionary zoning" more efficient. (The Minneapolis 2040 plan does have some inclusionary zoning provisions, but they're negligible.) Inclusionary zoning is a series of regulations that require developers to set aside some amount of space in their new properties for below-market rental units. Would-be residents would participate in a lottery and then meet an income qualification threshold.

Inclusionary zoning could be made more efficient by reducing that threshold and requiring tenants to

requalify every few years, in order to keep lower-income households in the units.

The trick, though, is making inclusionary zoning affordable.

Developers, who want to build expensive housing for high-income residents, claim it isn't economical to set aside units for below-market tenants. If their criticism is correct, then one option U.S. urban planners can look at, to the extent their state governments allow it, is to abate the building tax on new structures for a certain period of time, or, ideally, to eliminate it altogether.

One city facing a housing crisis took this approach: New York City in the 1920s.

Back then, New York City allegedly had a 0 percent vacancy rate and rents were sky high. Governor Al Smith signed a law that modified the state's property tax system largely in the manner discussed above. The results were dramatic: New York City rapidly built new housing, and the city's population grew even during the Great Depression, in the following decade, when housing growth in other regional cities stopped. It does not appear that inclusionary zoning played any role in the law's land-value taxation system. Interested readers can learn more by reading economist Mason Gaffney's essay, "New Life in Old Cities."

Like most other states, Minnesota property-tax law does not authorize municipalities to treat buildings differently from the land they sit on, but there is a bill before the Minnesota House of Representatives that would permit them to do so. Consequently, Minneapolis lacks the legal authority to make the Minneapolis 2040 plan work better. If the plan does falter, as I predict it will, maybe housing advocates should look back to the last century for guidance.



Photo by Gregory Hayes on Unsplash