Thailand's Land and Building Tax: A Challenging Fiscal Situation and its Solution

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Thailand's Proposed Land and Building Tax

As the year 2017 ended, the government of Thailand was in the process of implementing a nationwide real property tax – generally referred to as a *Land and Building Tax*. It would be more comprehensive than, and replace, taxes on real estate enacted in 1932 and 1965. The *Bangkok Post* (3 January, 2018) laid out the draft bills as proposed first by the Finance Ministry and then by the National Legislative Assembly as shown in Graphic I.

Newspapers are forecasting that the new property tax regime will likely be imposed in January 2019, pending the completion of the assessment of some thirty million real property parcels throughout the country. The most recent account indicated that the exemption ceiling value for first homes, which had been set at Bt50 million will now likely be capped at Bt20 million. This would effectively triple the number of primary residences subject to the tax from roughly 11,000 to 30,000. Homes assessed at less than Bt20 million would be tax exempt.[1]

1 Wichit Chantanusornsiri, "Tax reform comes in dribs and drabs", *The Bangkok Post*, January 3, 2018. In an article in *The Nation* (June 01, 2017), Mr. Pornchai Thiraveja, deputy director-general at the ministry's Fiscal Policy Office (FPO), earlier said the National Legislative Assembly (NLA) panel was reviewing the proposed shift in taxation conditions for residences, and suggested that "the tax rate has been proposed for property value that exceeded Bt10 million from the earlier Bt50 million. . . Based on a recent survey, an estimated 11,000 residential units had an appraised value of more than Bt50 million each, while about 90 per cent of total residences in the system were those priced less than Bt5 million." The source material for the first section of this paper is largely taken from recent English language newspapers published in Thailand. These are mostly the *Bangkok Post* and *The Nation*. Among these sources, the most inclusive description is the reporting of Wichit Chantanusornsiri of the *Bangkok Post*, Wirot Poonsuwan of *KhaoSot*. Financial data on current revenue streams is taken from the website tables of the Royal Thai Government's Ministry of Finance, Information and Communication Technology Center.

Various rationales have been offered to justify the new revenue stream besides the potpourri of taxes on personal and corporate income, sales (VAT), business, petroleum, tariffs and customs. The primary purpose is to raise more public revenue, but the tax will also add further complexity. Despite the welter of all these, they have not been chosen for their administrability, equity, efficiency, neutrality, or stability. One can surmise that revenue is captured wherever it can be had politically, not much different from nations elsewhere. The normal textbook benchmarks measuring a sound tax regime are largely ignored in Thailand.

The greatest support for the initiative has come from the Thai bureaucracy and academia, both important forces in Thailand's policy designs. Reassurances are given that reliable and up-to-date valuation of property parcels will be performed on a frequent and regular basis. This avowal comes despite recognition that some regions have seen property values skyrocket and then quickly fall in the short space of a few years, especially in Greater Bangkok.[2] Manipulation of land markets by interested parties and institutions has led further to its being subject to cycles of pricing that have had far-reaching consequences for the rest of the economy. This is a thesis only now being adequately understood and documented, and has yet to be incorporated in public policies among various nations of the world.[3] The land tax will discourage land speculation and foster development, reduce inequality, and pay for new infrastructure. It would also decentralize government services by providing localities for the first time their own separate base of finance.

ON THE CARDS

Land and buildings tax
Latest progress: Scrutinised by the NLA's Standing Committee
Expected enforcement: Jan 1, 2019

Category of land	Appraisal value (million baht)	Applicable rate (%)
• First home	<20	Exempted
	>20-50	0.02
	>50-75	0.03
	>75-100	0.05
	>100	0.1
• Second homes	<50	0.02
	>50-75	0.03
	>75-100	0.05
	>100	0.1
• Agricultural use	*<50	Exempted
	*>50-75	0.01
	>75-100	0.03
	>100-500	0.05
	>500-1,000	0.07
	>1,000	0.1
• Other uses	<50	0.3
	>50-200	0.4
	>200-1,000	0.5
	>1,000-5,000	0.6
	>5,000	0.7
• Undeveloped	<50	0.3
	>50-200	0.4
	>200-1,000	0.5
	>1,000-5,000	0.6
	>5,000	0.7

Note: * Applicable only for land owned by individuals

Source: National Legislative Assembly's Standing Committee

BANGKOK POST GRAPHICS

2 Kanana Katharangsiporn and Jon Ferrnquest, "UK embassy land sale: Bangkok land value skyrockets," *The Bangkok Post*, August 30, 2016.

3 Among recently published books that provide detailed study and argument on this thesis are the following: Fred Foldvary, *The Depression of 2008*, Santa Clara University, 2007; Fred Harrison, *Boom Bust: House Prices, Banking and the Depression of 2010*, London: Shepheard Walwyn, 2005; Fred Harrison, *Ricardo's Law: House Prices and the Great Tax Clawback Scam*. London: Shepheard Walwyn, 2006; Phillip J. Anderson, *The Secret Life of Real Estate: How it Moves and Why*. London: Shepheard Walwyn, 2008; Mason Gaffney, *After the Crash: Designing a Depression-Free Economy*. Boston and London: Wiley-Blackwell, 2009. A classic, with equally interesting data is Homer Hoyt's, *One Hundred Years of Land Values in Chicago*. U of Chicago Press, 1933, and Beard Books, 2000.

Although the timetable has experienced setbacks, Deputy Finance Minister Wisudhi Srisuphan of the current administration projects that the new tax would raise about Bt64.2 billion, the equivalent of US$200 million, far more than the Bt29.9 billion collected most recently from the current land tax and local development taxes. This is roughly equal to what is now raised from the personal and corporate income tax, along with various petroleum, VAT, business taxes and stamp duties.[4] Others are not so sanguine. Even if the Treasury Department performs frequent property assessments, and localities set revenue demands and rates, the expense of carrying out regular valuations of a conventional property tax for 30 million parcels is itself a huge cost. Moreover differential rates on commercial, residential and agricultural parcels further involves identifying and categorizing an estimated 61 types of buildings and properties for assessment. As will be noted below taxing buildings results in significant economic productivity loss, as well as influencing other principles of sound taxation. Ultimately, government legitimacy is challenged, not just tax policy. A land tax has no downsides.

The philosophical grounding of Thailand's *Land and Building Tax*, now looming, has had little abstract discussion. But each part rests on very different foundations. Both parts are ***ad valorem*** taxes, but the tax on land is based on the ***flow*** of what economists call ***rental value***. The flow of rental value of land is derived from the combined social enterprise of everyone; its value stems not from what any one titleholder does but rather from the investment of a neighborhood. This is mostly reflected by investment in infrastructure, both private and public. The tax on buildings, in contrast, is a tax on their ***value as stock***. Income from a building, on the other hand, derives from the owner's private investment. Taxing that income penalizes investment. It discourages the owner from maintaining the building, or from replacing it with a new building when the right time comes. Stock and flow are basic differences in economic theory. Increased land values generated by proximate capital investment has growing understanding, and the Fiscal Policy Office is now drafting a tax that would capture these socially-created windfall gains. The latest portrayal of this thinking is presented in Graphic II.

This presentation makes clear the economic dynamics, as they are understood in textbooks of public finance: that ***capital*** is derivative, the combination of investment of ***labor and past capital***. It reflects both depreciation and consumption of manufactured objects. But land values reflect the yield from the ***primary factor, the socially-created rental flow of places and natural resources generally*** as understood in classical economics. Classical economists knew that "all taxes come out of rent," used the acronym ATCOR, and treated all land for its rental value, payment for which was mostly in the form of either *corvèe* labor or in a share of crop (or other in-kind) yields to royalty, viewed as the owner of all land. As is known full well in economic history, most value was in land, with little monetary value in buildings. Land, like air and water, was part of nature and the commons, and was communal wealth, not regarded as private at all.[5] In Thailand the king owned all the land, and was called the Lord of the Land (***pra-jao-pan-din***). If the Thai government revenue were to rely solely upon land value flows of socially created ground rent as in earlier times, it could today still be recaptured in pecuniary form, even if no longer in the form of labor and goods.

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4 Financial data from the website of the Thailand Ministry of Finance: http://dwfoc.mof.go.th/foc_ eng/menu2.htm

5 For a sweeping history of how land and other elements of nature became "commodified," or "propertized," see H. William Batt. "Saving the Commons in an Age of Plunder." *American Journal of Economics and Sociology*, Vol. 75. No.2 (March, 2016), pp. 346-371.

The Land Value Tax Alternative

Public finance textbooks enumerating principles of sound tax theory today make clear that regimes that tax land alone, the only base with inelastic supply, is ideal.[6] A land tax is totally efficient because it imposes no deadweight loss on the economy,[7] is neutral because its market behavior remains otherwise unchanged,

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6 I have dealt with these ideas extensively elsewhere; See, for example, Painlesstaxation.rtf - UNT Libraries: CyberCemetery Home testimony to the President's Advisory Panel on Federal Tax Reform, on April 24, 2005. *govinfo.library.unt.edu/taxreformpanel/.../Painlesstaxation.rtf* and also accessible at http://commonground-usa.net/painless_0605.htm, http://www.cooperativeindividualism.org/batt-h-william_painless-taxation.html and http://www.wealthandwant.com/docs/Batt_Painless.htm. A new paper by Professor Joseph Stiglitz emphasized this point in "Principles and Guidelines for Deficit Reduction." The Roosevelt Institute, Working Paper No.6. December 2, 2010. A textbook that explicates these dimensions is Brian Hodgkinson's A New Model of the Economy. London: Shepheard-Walwyn, 2008. The Robert Schalkenbach Foundation has many books helpful with this.

7 Tideman, Nicolaus, Ebere Akobundu, Andrew Johns, and Prapaiporn Wutthicharoen, "The Avodable Excess Burden of Broadbased U.S. Taxes." *Public Finance Review*, Vol 30., No 5 (September 2002), pp. 416-441. This study estimates that the efficiency loss (also called excess burden or deadweight loss) of taxes on labor and goods leads to a loss in productivity of approximately 10% of the U.S. economic system. That is to say a shift to a tax on land value "increases the short-run nete benefits of tax shifts by about 10% and the long-run benefits by about 30%."

and because the burden cannot be shifted or evaded.[8] It is equitable because only landholders pay at all, as most expensive plots are usually business and commercial sites with high traffic, unlike residential areas. It is administrable inasmuch as it is easily calculated, enforced, and understood, and stable in that its year-to-year revenue streams can be established by pre-established rates. It is simple enough for all to see, especially when the market values of land sites are publicly presented in land value maps. All this makes it relatively inexpensive to administer. In recent decades claims about the virtue of land value taxation were acknowledged in principle but difficult to demonstrate as investment in buildings grew; today computer data and GIS land value maps have changed all that and make possible the adoption in practice what was earlier only accepted in tax theory.[9] One need not even have the additional fillip of differential rates as the Thai design intends. Doing away with the challenge of putting a market value on buildings not only saves administrative costs but also removes the penalty that such taxes impose on their creation and maintenance.[10] A tax on both land value and building value is like having a train with an engine on each end; they work for opposite purposes.

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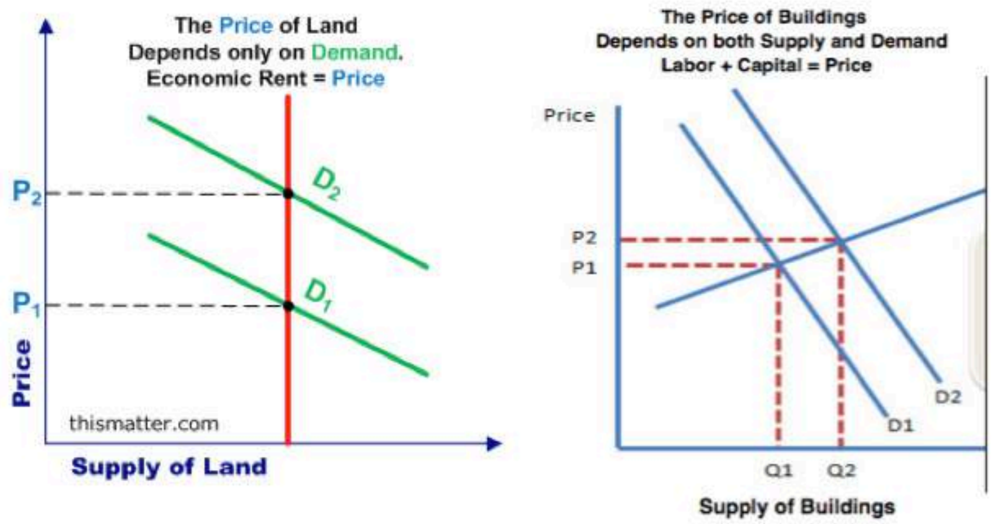

Two other criteria than those typically mentioned in public finance texts also need be mentioned: the first is that a land value tax fosters efficient spatial configurations and reverses the otherwise centrifugal forces

8 Professor Nicolaus Tideman, a foremost expert on land value taxation, argues that it is "better than neutral." See "Taxing Land is Better than Neutral; Land Taxes, Land Speculation and the Timing of Development," in Kenneth C. Wenzer (ed.), *Land-Value Taxation: The Equitable and Efficient Source of Public Finance*. Armonk. New York: M.E. Sharpe and London: Shepheard-Walwyn, (1999): 109-133.

9 H. William Batt, Land Value Maps are Not New, But Their Utility Needs to be Re-Discovered, at www.ijtr.org , Vol.4, No.1.

10 In 1995, Professor Nicolaus Tideman of Virginia Tech University and his graduate student, Florenz Plassmann (now a professor at the University of Binghamton) completed a highly technical study of land value taxation as used in the 23 cities in Pennsylvania using such a tax. It concluded: "The results say that in all four categories of construction, an increase in the effective tax differential [between land and buildings] (1) is associated with an increase in the average value per permit. (2) In the case of residential housing, a 1% increase in the effective tax differential is associated with a 12% increase in the average value per unit.... From the perspective of economic theory, it is not at all surprising that when taxes are taken off of buildings, people build more valuable buildings. But it is nice to see the numbers." See "A Markov Chain Monte Carlo Analysis of the Effect of Two-Rate Property Taxes on Construction." *Journal of Urban Economics,* 47(2), 2000, 216-47. Several other studies show equally dramatic impacts. See www.urbantools.org.

of sprawl development.[11] Another consideration follows from the first: that resulting compact development leads to lower infrastructure investment and greater feasibility for public transit service. All this relieves pressure on peripheral localities and the speculative practices that typically divert and sap investment capital from more productive and gainful use. Most importantly, because the value of site parcels is a function not of what any one titleholder does but is a consequence rather of what the total community enterprise generates. All land gains are really socially created wealth and therefore provide a solid moral basis for their public recapture. At a time when tax regimes face growing resentment in almost all parts of the world, it is now possible to restore the legitimacy of their design to a sound moral footing.[12]

The key to understanding the merits of land value taxation is an appreciation of the concept of land rent, sometimes also known as ground rent, or economic rent. In neoclassical economics, rent is trivialized as a separate factor of production and conflated into capital. In classical economics by contrast rent is understood as the flow of value that falls to land sites, most evident in areas of high market activity and productivity. The flow of rent explains why parcel sites have higher market prices in urban cores than they do in remote localities. Absent market vitality in an area, the flow of ground rent falls to zero. Moreover, all rent is socially created value inasmuch as no single titleholder is responsible for the its flow. As community created value, it is the right and proper source of taxation for the community to recover. John Stuart Mill called the failure to recover it the "unearned increment." He understood well that

> landlords grow richer in their sleep without working, risking or economizing. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title.[13]

Rent Payments in Classical Thai Civilization

Using this historic frame of reference, the concept of economic rent has all the more meaning. Its application is less strange to readers of Thai history, because of its similarity to the practices in that nation's past. Accounts of Thai society (Siam) from its earliest records until the beginning of modern times make clear that formulas for payment of rent of land were worked out in great detail centuries ago. They can be traced from the time of King Trailok (1448-1488) of the Ayudhayan state dynasty, which preceded the present Bangkok Chakri dynasty by 300 years. Trailok instituted a social hierarchy called *sakdi na, na* meaning land, governing different grades of social privilege and land ownership. According to Chulalongkorn University professor Kullada Kesboonchoo Mead,

11 H. William Batt, "Stemming Sprawl: The Fiscal Approach," Chapter 10 from the book, *Suburban Sprawl: Culture, Theory, and Politics*, edited by Matthew J. Lindstrom and Hugh Bartling; Rowman & Littlefield Publishers, Inc., 2003; reprinted with permission at http://www.cooperativeindividualism.org/batt-h-william_stemming_sprawl.html, and http://www.wealthandwant.com/docs/Batt_SSFA.htm

12 This theme is in several places, one being http://www.wealthandwant.com/themes/Tax_Justice.html.

13 John Stuart Mill, *Principles of Political Economy*, London and New York: Oxford University Press, (1848, 7th edition, 1871) bk. 5, chap. 2, sec. 5.

All males were incorporated into a single social hierarchy called the *sakdina* system, with each man, except the king, given a place in the pecking order (*sakdina*) starting from a high-ranking prince with 100,000 *sakdina* to a that (slave) with five *sakdina*. The state dictated that all male members of the peasant class or commoners (*phrai*) who had a *sakdina* mark of twenty-five must register under a master (*nai*) who was a noble and had a *sakdina* mark of 400 or higher. Every *phrai* subjected to this corvèe system had to spend six months a year serving his *nai*, who was supposed to look after the welfare of his *phrai*. Each *nai* was given a number of *phrai* as private property, called *phrai som*, and as manpower belonging to an administrative unit (*krom*) or office (*kong*) called *phrai luang*. Those who submitted tax in kind were called *phrai suai*. The last group of manpower was slaves (*that*), who achieved this status either through debt bondage or as prisoners of war. They had a *sakdina* mark of five. All that was considered the private property of his *nai* and had to work full time for his master.[14]

Professor Frank Darling, a long-time American student of Thai society, wrote in 1970[15] that what legal system existed until the Western impact was developed during the Ayudhaya period (1350-1767). It consisted, he says, of four elements and associated ministries (*krom*): The *Thammasat*, the *Rajasat*, the *Code of Manu*, and *Sakdi Na.*[16] The first governed the authority and behavior of the king, the second those of the bureaucracy, the third particular protocols involving the way the people should treat the king, and the last, the *Sakdi Na*, involved land ownership and rights. He noted that one of the titles the king held was *Chao Paendin*, or 'lord of the land.' The land was granted in usufruct according to the social status, competence, and loyalty of particular people toward the king, and this ranking system also determined a person's treatment before the royal court. The ownership was always provisional, a leasehold, and ultimate title remained in the name of the king. One should also note that the "nation" of Siam was defined in that era less by geographic boundaries than by unified rule over the people who called themselves Thai. Only much later did political boundaries, as employed in the West by the 1648 Treaty of Westphalia, define the governing reach of the royal domain.[17]

Histories of Siam note also that in the earliest period manpower was scarcer than land, and that its availability to the ruling class was the key to administrative control. The use of slaves and corvée labor were the most common and reliable means of provision, even though the slave system was not regarded in this case as particularly harsh. In fact only by the mid-late 19th century was slavery entirely eliminated.[18]

14 Kullada Kesboonchoo Mead, The Rise and Decline of Thai Absolutism. London & New York: Routledge Curzon (2004) 12.

15 Frank Darling, "The Evolution of Law in Thailand," *The Review of Politics*, 32(2), 1970, 197-218.

16 Robert Lingat, "Evolution of the Conception of Law in Burma and Siam," *Journal of the Siam Society*, Bangkok: 38:1 (January, 1950), 9-31, on which Darling may have relied. See also, Andrew Huxley, *Thai Law: Buddhist Law: Essays on the Legal History of Thailand, Laos, and Burma*. Bangkok: White Orchid Press, 1996.

17 Peter Vandergeest and Nancy Le Peluso, "Territorialization and State Power in Thailand," *Theory and Society*, 24(3), 1995, 385-426; and Thongchai Winichakul, *Siam Mapped: A History of the Geo-Body of a Nation*. Honolulu: University of Hawaii Press, 1994.

18 David Feeny, "Competing Hypotheses of Underdevelopment: A Thai Case Study." *The Journal of Economic History*, 39(1), 1979, 124.

Corvée was by far the more common obligation, and varied according to one's status in the society.[19] In its most legitimate sense, it was payment for the privilege of using the king's (i.e. the common) land and was calculated according to the yield of what the land provided. The number of months of labor varied, and continued in connection with constructing the Rangsit canal in the central plain until the early 20th century. Young men of ages 18-20 could, however, buy their way out of this annual obligation by paying a tax of 6 baht; those between 20 and 26 were obligated to three months service or submit payment of 18 baht.[20]

If payments for the right to use land were not made in labor, they were as often made in kind. David Feeny notes that in the central plain, the richest rice-growing areas carried a rent payment of 40 percent of the crop on the "good land" and 12 to 16 percent of the crop on "poor land."[21] The amount due, one should note, was related to the productivity yield of the land and not to its area or to any other measures or standing. Naturally, land that was well irrigated or with better fertility had greater yield and called for higher rent payments. Farmers who attended to their lands regularly were recognized as having *de facto* ownership, but if they were to leave the plots fallow for a period longer than three years, ownership reverted to the king. Given the importance of leaving plots to regenerate their fecundity on a regular basis, this might have had the potential for generating tensions. But since land was plentiful there was little difficulty for farmers in finding new plots on which to work. It constituted in effect a system of crop rotation.

Formalized titles to land sites grew gradually, likely a reflection of grown Western presence and influence, and were traceable from the era of Rama IV (King Mongkut) and the signing of the Bowring Treaty with England in 1855. In good part this evolution followed Western models at least insofar as titling of parcels is involved. The first land code was enacted in 1901 prompted by the growing settlement of land in the Central Plain especially around the growing canal system that spawned aggressive speculation and land disputes. The result was creation of a cadastral survey and the adoption of the Australian Torrens system for documenting records.[22] Subsequent laws further tightened the formality of land titles in ways differing only in small aspects from Western patterns. One observer, writing in 1968, reflects an outsider's view of Thai real property law and the apparent approval accorded it.

19 David Feeny, "The Decline of Property Rights in Man in Thailand, 1800-1913," *The Journal of Economic History*, 49(2), 1989), 285-296.

20 Tej Bunnag, The Provincial Administration of Siam: 1892-1915, London: Oxford University Press, 1977, 9-10.

21 David Feeny, The Political Economy of Productivity: Thai Agricultural Development, 1880-1975, Vancouver: University of British Columbia Press, 1982, Ch. 6. Nicholas Tarling (ed.), *The Cambridge History of Southeast Asia: Volume 2, Part 1* Cambridge: Cambridge University Press, 1992, 1999. 171, 143; B.J. Terwiel, *A History of Modern Thailand: 1767-1942*. University of Queensland Press, 1984.

22 See Jeremy H. Kemp, "Legal and Informal Land Tenures in Thailand," *Modern Asian Studies*, 15(1) 1981, 1-23; and Peter Vandergeest and Nancy Lee Peluso, "Territorialization and State Power in Thailand," *Theory and Society*. 24(3), 1995. 402 ff.

> […] King Rama V (King Chulalongkorn) introduced the modern idea of land ownership, legally distinguishing factual occupancy from ownership, and he created a system in which no protection is given to occupancy but only to ownership. This led to a confusion in Thailand's land tenure system. In 1936 a more flexible land law was legislated, and since then the system has become stabilized. The current land law, *kotmãi thî din phõ sõ* 2497, which was legislated in 1954, adheres in its essentials to the ideas of the 1936 law, recognising three different stages in acquiring land–occupancy, utilization and legal possession.[23]

Yet, as explained below, contemporary Western law, relying on neoclassical economics,[24] gives no place to the significance of economic rent, hence no attention to it in Thai law.

Major Changes in Thai System of Property Rights in Land: 1800-1982

Period	Institutional Change
Early 19th Century	Usufruct rights, paid for in corvèe labor and kind
1811	Survey of land holdings, title deeds based on taxation of land
1836	Removal of tax exemption on rice lands held by nobles
1851-68	Title deeds issued based on tax receipts on paddy land
1861	Edict clarifying private property rights with provision for monarch's right of eminent domain
1867-68	Title deeds based on area harvested
1882-83	Title deeds based on area owned
1880s	Standardized forms and procedures prescribed in an effort to reduce land disputes
1892	Comprehensive land law enacted with provision for title deeds and use of land as collateral
1901	Torrens system of land registration instituted and cadastral surveys conducted
1936	Law of 1901 amended to allow for ownership based on registration with the Land Department of claims on unsurveyed lands
1954	New land law enacted providing for a variety of documents and levels of security of land rights
1972	Use of unrectified aerial photomaps begun to speed issuance of certificates of utilization
1982	Increase in rate of issuance of title deeds is made a priority

Source: James T. Thomson, David Feeny, and Ronald J. Oakerson: "Common Property Resource Management," in Daniel W. Bromley (ed.), *Making the Commons Work: Theory, Practice and Policy*. San Francisco: International Center for Self-Governance, Institute for Contemporary Studies, 1992. 146.

For better or worse, the evolution of land ownership akin to the Western pattern of fee-simple has unfolded along with other economic changes. The increase in the population from a few million a century ago to over 66 million in the year 2010 has meant that the demand for land has grown as well. Absent any modern policy provision for the collection of ground rent, its flow has been mostly capitalized in the market price of parcel sites. The result is that its growing cost has made it accessible to fewer and fewer people. Moreover, the competition for land has led to opportunistic speculation and to haphazard and wasteful development that is always consequent upon such artificially constrained market forces.

Royal or government collection of rent flows from the productivity of resources and sites was traditionally from labor and yields, as was true in classical economies for most all societies in the pre-modern era. In Asia, however, still another form of income developed for the support of elites known as tax farming. Professor Kullada explains that initially the greatest source of the king's wealth was the "Royal Warehouse" (or Phra Klang Sinkha), through which most trade was carried out. But over time various franchises for the tax farming of goods were passed out which allowed various nobles to develop power bases of their own. In what would come to be known as the practice of "eating the land" (kin muang), some thirty-eight tax farms were established under the mid 19th century reign of Rama III (King Mongkut). Since by this time international trade had expanded substantially, there were ample opportunities to skim surpluses that were linked to commercial transactions, what economists today call "rent-seeking." As she explains it,[25]

> The new tax farms can be divided into three categories. The first represented all newly produced export goods such as sugar, pepper, tobacco and cotton, which were farmed, taxed from producers and also subject to export taxes. The second included six items from the former export monopolies such as ivory, sapan wood, red wood, etc. The inefficient revenue-collecting mechanism employed by the Royal Warehouse through the monopoly system was replaced by the enterprising Chinese tax farmers who realized that assiduous collection was in their own interest.
>
> The third category of tax farm arose from the massive influx of Chinese immigrants, of which the majority worked in new forms of production. The migration produced a huge labour force, which stood outside the traditional system of production. Concentrated in the central plains and eastern provinces, it created a big market for food, consumer goods and services, gambling and lotteries. The Siamese state, like the western colonial governments, found vice to be a major source of revenue. The Chinese immigrants also presented a potential tax farm for opium, which was in great demand….
>
> With the increased revenues from taxation, the state was less dependent on the traditional manpower system. Corvèe began to be replaced with more flexible and easily mobilised waged labour. Building materials were obtained more efficiently by purchase than by suai (tax in kind), because the state could now afford to pay for them. The commutation of the land tax, mentioned earlier, indicates the extent of the money economy.
>
> The strength of Conservative Siam lay in its members involvement in trade and taxation. With their ministry portfolios, the Bunnags (a powerful family) exercised control over major tax farms such as opium, spirits, and the import and export tariffs. [The] land tax also brought in considerable revenue. In their official capacity and in accordance with the practice known as sib lod (taking a tenth), they earned ten percent from these taxes. [These families] used their politically powerful positions in the reign of King Mongkut to hand over to the Treasury a constant revenue irrespective of the expansion of the tax base, and to reserve the excess for their own purposes.

By the advent of the reign of Rama V, a substantial rivalry had evolved between the conservative nobility and the king. Since the conservative families in control of the traditional sources of revenue such as the tax farms and land rent threatened the king's standing, this alternate base of power had to be undermined. She explains how the king managed to disarm these elements:

23 Quoted in Kemp, 5, from Toru Yano, "Land Tenure in Thailand," *Asian Survey* 8(10), 1968, 853-4.

24 For a summary understanding of the difference between classical and neoclassical economics, and its central importance to this discussion, see Mason Gaffney et al, *The Corruption of Economics*. London: Shepheard-Walwyn. 1994. See also www.wealthandwant.com/docs/Batt_HTRGUOTWET.html. (Accessed September, 2010)

25 Kullada Kesboonchoo Mead, The Rise and Decline of Thai Absolutism. London & New York: Routledge Curzon, 2004, 22 ff.

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> The king's strategy for discrediting the Conservative grouping was to publicize how its members had abused their positions. He began by targeting Phraya Ahanborirak (Nut), the Minister of *Krom Na* (Ministry of Land), who had extensive responsibilities for collecting the land tax, one of the main sources of state revenue since the Bowring Treaty. It was not coincidental to the king's purpose that Phaya Ahanborirak was also Somdet Chaophraya's nephew. In addition, the king picked the land tax as a test case because the revenue it raised could easily be checked by calculating internal consumption of rice and the quantities exported." (The king later put Phraya Ahanborirak on trial, as well as other officials of the Ministry of lands. They were convicted of embezzlement.)[26]

With the rival factions to the king effectively eliminated, so were the traditional sources of taxation, which the nobility controlled, the tax farms and the land tax. The king's revenue regime was now largely based on trade and associated tariffs. Land rent, no longer taxed, was now available to be privatized and capitalized in the growing market value of the parcels, leading as a consequence to an even greater competition for titles to real property. The continuing development of infrastructure, in the form of port and canal waterways, rail and road transportation systems, and other investments both public and private, would raise the market price of locations to make land resources in all their forms even more lucrative and pivotal sources of wealth in a modernizing Thai economy. As elsewhere, treating land parcels as a commodity led to speculation along with other attendant maladies that continue to the present.

The obverse of this century long process of privatization was the disappearance of what was once recognized as "the commons" of natural resources. There has been a renewed recognition today that the healthiest and most balanced economies need a public sector, a free market private sector and, perhaps too, a non-profit independent sector where each element can make its own unique contribution. The public and non-profit sector are certainly viable in Thailand, but their protection rests on a very narrow reed, fed by growing challenge and animus toward taxation. Restoring the significance of the commons, as reflected in what is being called "the land ethic," offers a solution to what otherwise is likely to be an increasingly difficult evolution. It is no accident also that a recent Nobel Prize in Economics was awarded to Dr. Elinor Ostrom whose lifetime work has been advocacy for and preservation of the commons of earth's natural resources. Professor Ostrom, it should be noted, is a political scientist not an economist. One research and advocacy organization based in the United States, the Earthrights Institute,[27] suggests that a Global Resource Agency be established as a means of recognizing common wealth. Agencies of the United Nations have recently shown a keen concern about protection of the earth's resources, which are to many, arguably the common birthright of all humanity. Today books and websites are legion that address concerns about the commons in all its dimensions, and the implications of its rediscovery expand by the day.[28] The governments of nations, by contrast, seem too often to be in the grip of resource privatizing elites.

26 Kullada, pp 58-60.

27 See www.earthrights.net, especially the institution of a land ethic a Global Resource Agency.

28 Among the most significant recent publications on the subject are Herman Daly and John Cobb, *For the Common Good: Redirecting the economy toward community, the environment and a sustainable future*. Boston: Beacon Press, 1989, Second Edition, 1994; Inge Kaul, et al., (ed.), *Global Public Goods: International Cooperation in the 21st Century*. Published for the United Nations Development Program. London: Oxford University Press, 1999; and Inge Kaul et al., (ed.) *Providing Global Public Goods: Managing Globalization*, Published for the United Nations Development Program. London: Oxford University Press, 2003. Any of the publications by Professor Elinor Ostrom and her students are central to the discourse as well. The most important websites are www.onthecommons.org. There is also an International Association for the Study of the Commons, www.iasc-commons.org.

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There is a resurgent interest in ways of preserving and restoring the place of the common realm and the importance of rent, what has been extirpated from most contemporary political and economic analysis. A misreading of Adam Smith's classic work, *The Wealth of Nations*, has led many to the mistaken idea that the society and economy are self-regulating systems that are guided and managed by an "invisible hand" ever assuring the best of possible outcomes. The impetus for the wholesale privatization of social wealth has been questioned on many fronts, but its foothold is strong and few would argue that protecting public sectors is still on the defensive.

Restoring the Birthrights of Thai People

Were Thailand to re-institute a tax on land rent only, it could serve to recapture wealth that has been expropriated from what was historically, and rightfully, the commons. That wealth which is socially created could easily and gently be recaptured by the community without disruption of the larger economy. It could be phased in gradually so as to easily supplant more economically debilitating tax regimes on which the public presently relies. As was appreciated in early Thai history and by Adam Smith, "Ground-rents and the ordinary rent of land are…the species of revenue which can best bear to have a peculiar tax imposed on them."[29] Because Thailand is heavily reliant upon the world economy in both trade and tourism, a tax on the immobile resource of land sites would preclude the escape of wealth offshore to remote tax havens. It would further have the consequences of redressing many of the distributive inequities currently and acutely felt by broad elements of the Thai population. Lastly, and perhaps most importantly in view of the unfolding, intractable and irreversible patterns of land configurations and use that are of increasing concern, a land value tax has the capacity to reverse the centrifugal forces of sprawl development, the now unrestrained resource consumption, and travel-intensive patterns that have burdened and even incapacitated populations. The unfolding configurations that have reflected economic policies elsewhere need not be adopted and repeated in Thailand.

The failure to recapture the socially created economic rent flow that is now otherwise capitalized and captured in the prevailing market prices of sites or as windfall gains has already led to grave distortions not only in the Thai economy but in the development and configuration of land sites, especially in the areas of highest economic activity, its cities. It has led to the siphoning of wealth from the productive sector by the aforementioned practice of "rent-seeking." But if land rent is captured instead through the instrument of taxation, it becomes unavailable for such unproductive diversion. It can be relied upon to finance the provision of goods and services of government. Momentarily it seems that the financial health of cities in Thailand is not in jeopardy, but that may be due more to the provisional reliance upon artificially priced natural resources such as fossil fuels, extractive industries and agribusiness. Prosperity from tourism is at risk to the extent that the quality of the urban environment and its amenities are endangered. Productive capacity is gravely diminished by practices of rent diversion and rent seeking. Significant amounts of rent flows are now "locked up" in speculative ventures as "frozen capital," and are unavailable as a result in renewed economic flows that can enrich market exchanges.

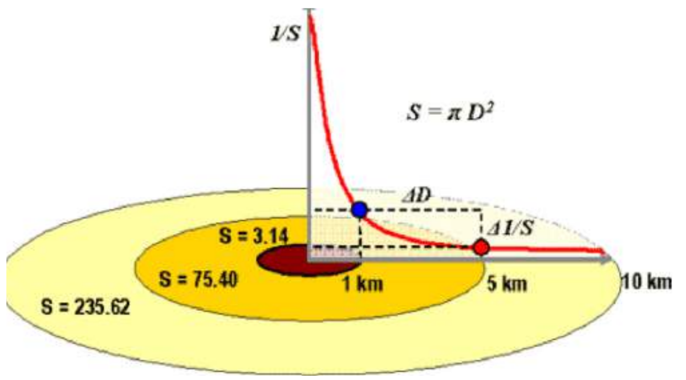
29 Adam Smith, *The Wealth of Nations*, 1776, Section 18, page 833.

It is not difficult to document the problems that land use configurations, and their reciprocal factor transportation services, pose for the nation. Traffic, even with the addition of Bangkok's newly opened skytrain and subway, is often at a standstill, and there is no expectation that matters are likely to improve if the prevailing mindset continues. Whereas most urban environments have easily identifiable cores and sloping land value gradients, Bangkok has nothing of the sort. Most cities are mono-centric; Bangkok is not. Contrast, for example, the visual picture of Bangkok with that of most any other city in the world, even those with a modest tax on land values. The city has reached its limit with respect to its capacity for expansion and efficient transport services. Supply-side solutions in the form of space, transport, and personal time have reached their breaking points.

Most cities evolve with a central core, which is maintained by a combination of planning and pricing, the two instruments at society's command for social regulation. The failure of Thailand to employ either of these in a concerted way has led to the fragmented configuration that is so readily apparent. As transportation planners and land economists have long understood, the costs of access and mobility bear a reciprocal relationship to the rental value of sites. This was understood almost two centuries ago by German economic geographer, Heinrich von Thunen. Von Thunen worked out mathematically the relationship between the cost of transportation of goods to market and the locational value of their market sites. To be sure, not all costs are borne by users of either sites or transit services; many are socially provided. In principle, however, they work in equilibrium, at least in a well designed community.

If sites are not accessible, land value falls, and many areas of Bangkok are reaching the point where accessibility is marginal. Should that "tipping point" arrive, Bangkok will have a very different social and economic environment than it presently enjoys. The nation has already compromised tenets that assure community well-being as well: those implicit in the concept of sustainable development. Although many national leaders are mindful of this, it has yet to be translated into tangible policies.

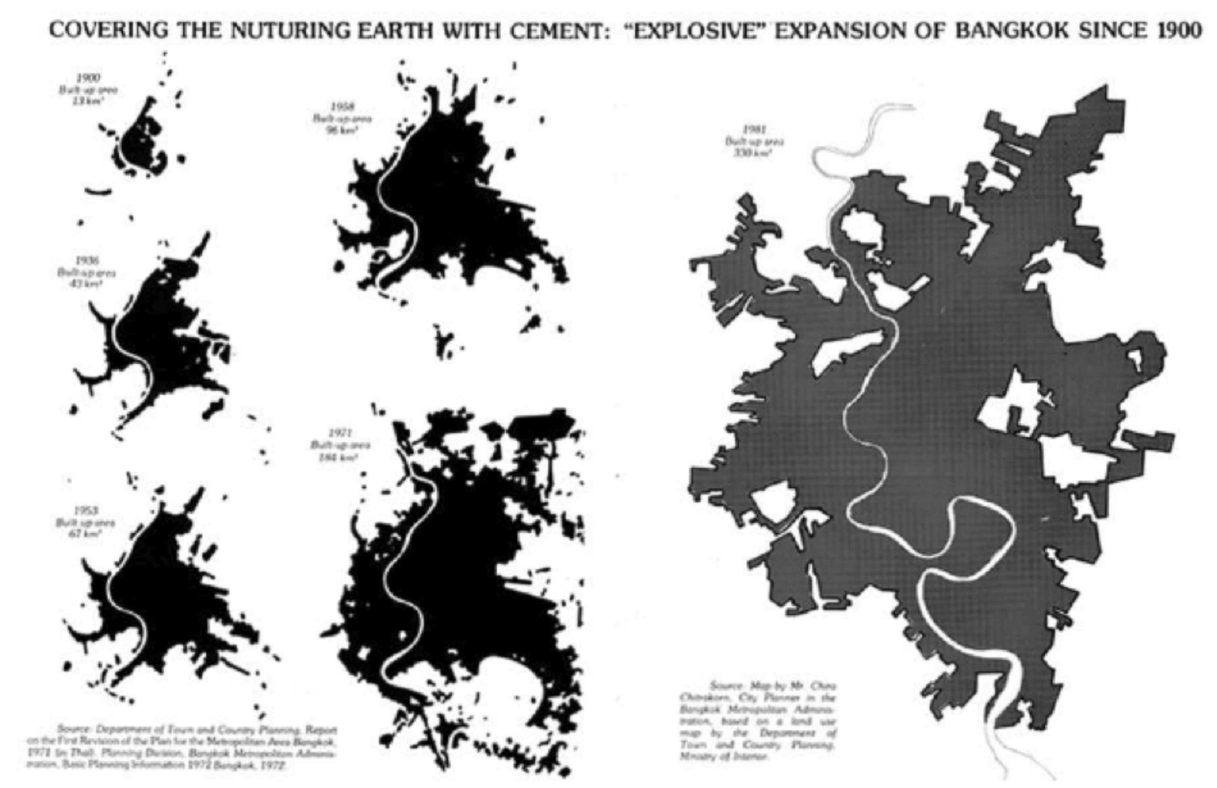
Graphics IV and V



Von Thunen's Site Rent & Travel Costs

Bangkok's Most Intensely Developed Areas

The extent of sprawl development in Bangkok is shown in the map contrasts that identifies the urban development pattern from 1900 to 1981.[30]



In the past thirty years since the last portrayal above, it appears that the total expansion of Bangkok has doubled once more, to 1,568.737 square kilometers, or 605.7 square miles. The identifiable metropolitan area is now (December, 2010) listed as 7,761.50 square kilometers, or 2,996.7 square miles. This expanse, and the transportation demands of living there has led to one commentary deeming it the "second most expensive city in Southeast Asia behind Singapore."[31] This counts only pecuniary costs. There is good reason to believe that many additional costs, especially people's time and health, are not included.

One can appreciate the extent of this growth by accessing a recent portrayal (December, 2010) on the Wikipedia site for Bangkok. There is the usual bow to describe the city's superficial prosperity of course, but equally noted are its traffic problems and sprawl:

30 The following graphical presentations are taken from Danai Thaitakoo and Brian McGrath, "The Landscape of Bangkok's Agricultural Fringe and City Region Sustainability: An Ecological and Cultural Co-Evolution," A PowerPoint presentation at the International Workshop on Sustainable City Region, February 24, 2009, Bali, Indonesia. Other photos and graphics are graciously provided by Dr. Charasroj Bothdamrih, Director, Office of the Secretariat of the Prime Minister, Bangkok, Thailand

31 City Mayors Statistics, "The Most Expensive Cities in Asia," ECA International, June, 2009. http://www.citymayors.com/statistics/expensive-cities-asia.html.

As the city expanded on the outskirts, the inner city has nowhere to grow but up. The city has a registered 1,000 skyscrapers and ranks 17th as the world's tallest city. This does not include hundreds of new buildings predicted as part of the construction boom in 2007 and the coming years. Areas such as Silom-Sathon and Asok have for decades been Thailand's business center. From 1985 to 1996, Thailand experienced the world's highest growth rates and underwent an economic transformation, Bangkok went through dramatic changes. The Ratchadaphisek area was turned into a business district which continued through the Asok area up north for five kilometers (3 mi). The Sukhumvit area, stretching 15–20 km (9–12 mi), gradually turned into a mixed commercial and residential area. Wireless Road and Chitlom are where some of Bangkok's most expensive land plots exist. Part of the British Embassy on the corner of Wireless and Rama I Roads, nine rai or approximately 14,400 m2 (155,000 sq ft) in area, was sold for USD 92 million or THB 3.24 billion.

As the nation learned during its last financial crisis in 1997, bubbles in land value hardly constitute increases in wealth. The self-serving description, however, belies the quasi-rational and haphazard nature of the city's evolution, explained largely by the fact that many strategically located parcels that should be available for improved use are underused and/or being held off the market for anticipated speculative gain. Aerial views reveal an enormous number of land parcels unused or underused relative to their market value that would warrant development in a system of governance based upon sustainable configurations. The Wikipedia site is correct in noting (December, 2010) that

> Several elevated highways, newly rebuilt intersections, and many partially finished road and rail projects dot the landscape around greater Bangkok, but have done little to overcome the notorious traffic jams on Bangkok's surface roads as private vehicle usage continues to outstrip infrastructure development.

Mr. Chakkrit Parapuntakul, Director General of the Treasury Department recognizes this problem. *The Bangkok Post* recently wrote:[32]

> The official appraised value of land, which is used as a factor to determine land and buildings tax bills, will vary depending on property locations but that of buildings will be a flat rate across the country.
> This means the wealthy would be liable for a higher property tax if they live in more expensive areas, said Chakkrit Parapuntakul, director-general of the Treasury Department.
>
> However, the assessed value of buildings will be the same nationwide to facilitate the tax process, as otherwise the department would have to hire appraisal advisers to evaluate the price of each and every building, he said.
>
> Mr. Chakkrit said the department is accelerating appraisals of every land parcel. The value of 17 million individual plots have been assessed, leaving 15 million plots unappraised.
>
> Assessment is expected to be finished by year-end, at which point the Treasury Department wants to form a national land price database linked to the Land Department's database. The database information will be sold to the private sector in the future, he said.
>
> Replacing appraisal prices for block areas with land parcels is meant to make property tax evaluation fairer, as the latter will be closer to real market prices, said Mr. Chakkrit.

Bangkok at one time reflected the rational and unfolding pattern evident in most cities, wherein urban cores developed with the highest capital investment and peripheral areas reflected falling land value gradients. American cities too have for the most part lost their understanding of site rent and the importance of engendering its market vitality. The two contrasting maps a century apart show that sprawl development is not natural, normal or inevitable.

32 Wichit Chantanusornsiri, "Location Factor for Land Tax Charges," *The Bangkok Post*, April 10, 2017.

Rather its explanation can be found in the identification of economic rent flows and the utility of its recapture by government for public service provision.

Bangkok in 1890 (Sternstein 1982) Bangkok in 2004 False color ASTER VNIR Image

Bangkok circa 1890 (left) and 2004 (right): the two views show how the Bangkok urban morphology follows the pattern of water-based rice and fruit framing.

It is possible to impose a tax on parcels of land according to their capitalized value, but the practice may also be applied as a tax on its "rental value." The capitalized parcel rent is likely the estimated sale value, which may be close to the asssessed value. Failure to tax by either method, however, simply rewards windfall gains, what John Stuart Mill called the speculative "unearned increment"[33] and "lazy income" by British Statesman William Gladstone.[34] By whatever name it is socially and economically desctructive. The tax on buildings (so-called improvements), has no benefits at all, and should be abandoned because it simply penalizes constructive enterprise. Furthermore, land parcels ought not to be treated as a commodity, any more than air, water, time, the electromagnetic spectrum or the weather. The political economics that prevailed until the end of the 19th century period was corrupted by powerful financial interests bent on altering the theoretical framework of public finance so that they would be relieved of tax burdens. This has been amply recounted in several books, most notably by Professor Mason Gaffney in his 1994 book, *The Corruption of Economics*.[35] Still another book, *The Nobel Factor*, has just been released that documents how the banking industry has sought to capture and consolidate its influence

33 "The Unearned Increment," Fabian Tract No. 30, August, 1895, http://webbs.library.lse.ac.uk/50/1/Fabian Tracts30.pdf

34 William Gladstone Speeches, Archivs, #207.

35 Mason Gaffney et al, *The Corruption of Economics* (London: Shepheard-Walwyn. 1994); online at http://homepage.ntlworld.com/janusg/coe/!index.htm. See also H. William Batt, "How the Railroads Got us on the Wrong Economic Track," *The Torch Magazine*, Vol. 71. No. 3 (Winter 1997-98), online at http://www.cooperative-individualism.org/batt-h-william_how-the-railroads-got-us-on-the-wrong-economic-track-1998-01.htm.

over economics.[36] As tax theory is now recovering and is coming now to be more widely appreciated by government officials and the general public, classical ideas of taxation are being noticed.[37] Stemming from re-emerging 19th century classical economic theory, its renewed understanding comes from a recognition of the ideas of its culminating advocate, Henry George. With the advent of computer power, available data, and its extensive applications and dissemination, these lessons can easily now be employed in Thailand.

Such changes are being realized among nations worldwide. It is is the result of the collapse of the economic paradigm that supplanted classical economic thought at the beginning of the 20th Century. With the discovery of the classical tradition and its growing examination by scholars and government agencies the growing appreciation of the value of taxing land rent in lieu of labor and goods offers exciting possibilities. In just the past few years, several books and studies have been done that demonstrate the merits and validity of this approach.[38]

I last returned from Bangkok for the sixth time at the end of 2013, the previous visit being 2010 when I presented a paper at a conference on Environmental Taxation. Most troubling of all to me was the failure of the nation's leadership to look more seriously at the looming crisis so close at hand. I dealt with this issue at a more theoretical level in a separate paper.[39]

36 Avner Offer and Gabriel Soderberg, *The Nobel Factor: The Prize in Economics, Social Democracy, and the Market Turn*. Princeton and Oxford: Princeton University Press, 2016. This writer's review of the book can be accessed by scrolling down to his name at http://www.cooperative-individualism.org/georgists_unitedstates-ba-be.htm.

37 New economic organizations like www.evonomics.com, the www.worldeconomicsassociation.org and www.neweconomy.net have also been started.

38 See Appendix attached. Several books in the past three years are based on the classical ideas of taxing rent, also called ground rent, Ricardian rent, and economic rent. Among significant books since 2014 are Anne Haila, *Urban Land Rent: Singapore as a Property State*. Wiley-Blackwell, 2015; Josh Ryan-Collins, Toby Lloyd, and Laurie Macfarlane, *Rethinking the Economics of Land and Housing* (in the UK), London: Zed Books, 2017; Vince Mangioni, *Land Tax in Australia: Fiscal reform of sub-national government*. Routledge, 2016; Emer Ó Siochru (editor), *The Fair Tax: Supported by History, Agreed by Economists, Feared by the 1%.*, London: Shepheard Walwyn, 2012; Andrew Purves, *No Debt, High Growth, Low Tax: Hong Kong's Economic Miracle Explained*. London: Shepheard-Walwyn, 2015; Andy Wightman, *The Poor Had no Lawyers: Who Owns Scotland*. Birrlinn Ltd. 2015.

39 See H. William Batt, "Taxing Land Rents for Urban Livability and Sustainability, Presented at The 11th Global Conference on Environmental Taxation, 3 – 5 November 2010, Bangkok, Thailand. It is printed, pp. 99-110, in its annual proceedingsas Volume X in the series, Critical Issues in Environmental Taxation. It is titled, *Environmental Taxation and Climate Change*, edited by Larry Kreiser, Julsuchada Sirisom, et al,, Cheltenham, UK and Northampton, MA: Edward Elgar, 2011.