

BOOM! SVR MAKES A BIG IMPACT AGAIN!

COLLECTING revenue from the products of labour discourages economic growth. Conversely, collecting revenue from the rent of land encourages 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		1969		1979		1984	
	No. of Towns	%	No. of Towns	%	No. of Towns	%	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

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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			1984			
	No.	%	Value	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

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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	No. of Towns	Previous Study 1959-79			No. of Towns	Present Study		
		Valuation 1959	Valuation 1979	% increase over 20 yrs		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

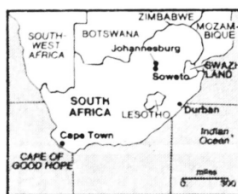
Note: The average rate of growth over the two periods is very similar i.e. $275.6\% \times 276.6\% = 765\%$, very close to the 773% for twenty years.

MAJORTOWNS: 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			Growth
		1974	1984	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



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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-

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• 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!

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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.