

In the Netherlands, municipal leasing of land to citizens for housebuilding is common. Georgists there are concentrating on persuading municipalities that leases should provide for periodic revision of the rent. This article is from their journal *Grondvest*.

THERE follows a true history, shocking for taxpayers and perhaps very interesting for members of local councils, county councils and of Parliament.

This story is based on the current lease contract between The Hague council and D. Reiche, a committee member of the Grondvest Foundation. It refers to the plot 40, Papegaailaan, The Hague (Vogelwijk). The lease contract runs from 1925 to 2003. The annual canon (rent) amounts to 190.40 guilders!*

1925: beginning

A citizen wants to build a home and for this, land is necessary. In the Vogelwijk district of The Hague there is a vacant plot of about fourteen by twenty metres. It is council property. The citizen cannot buy it, but can rent it. That is called a lease.

The council reasons and calculates as follows: the price of that piece of land must be 4,000 guilders. The rent at present stands at five per cent. The amount to be paid annually must thus be five per cent of f 4,000 - f 200 per year.

The citizen reasons and calculates as follows: if I buy the land with my own savings, then I miss paying f 200 rent each year. If, to buy the land, I have to borrow money, then I must pay f 200 each year in interest. So a lease contract is good sense, as I do not have to put any money of my own, or borrowed money, into the land. In this way I really have more financial room for manoeuvre for the building of my house.

The citizen and The Hague agree on a contract for seventy-eight years, i.e. until the year 2003. Each year the council must get f 200. Under a lease the ground rent is called "canon." The land remains the property of the municipality,

the house on it the property of the citizen. If the citizen sells his house to another citizen, then the rights and obligations of the lease are bought with it. Then the new user of the land must, from then on, pay f 200 to the council.

The houseowner is thus in no way burdened or injured by the fact that the land on which his house stands is not his property. As the landowner, The Hague thus has at its disposal a vast source of income for the Hague community. Land cannot wear out or perish and remains to bring in money each year. The lease is simple and logical and can be quite just. If you start from the idea that land, the gift of nature, should belong to all men in common, then with leasing all men can share in the yield. If everybody paid for the use of land, then taxes could be reduced and even abolished.

The world of finance obstructs

In 1925, our citizen did not have enough money to pay the whole cost of building his house himself. He had to borrow money and take a mortgage on his house. But the world of finance was not in favour of it. Leasing keeps the land out of their business. They can no longer get interest from it. They lose their power over the land and with it their chance of great speculative gains. The world of finance realizes quite well that its real power lies anchored in the land.

But The Hague then set up its own mortgage bank which was willing to lend money for house building on leased land. The citizen had to pay off two per cent of the borrowed money every year, so that the house would be completely paid for in fifty years and would be his property. Hence the term of the lease contract was set at seventy-eight years.

Expensive mistakes

But how could anyone imagine in 1925 what awaited mankind in

the next half century? Another world war, the growth of population, technical development, economic growth, environmental problems and the enormous inflation. Because this could not be foreseen, hidden faults in that lease contract of 1925 are now coming to light, faults which are costing more and more money.

Fault 1: the canon (rent) fixed for seventy-eight years. Land values and rents rise, the value of money decreases, but the community has to be content for seventy-eight years to receive 200 little guilders a year. With a sliding canon, adjusted annually, this would not have happened.

Fault 2: in the year 2003, when the lease runs out, the canon will have to be increased enormously. With a continuing lease with a sliding canon, this shock increase would be avoided. This would be much to be preferred.

Fault 3: apparently the authority, in setting up this lease contract was not sufficiently aware that they were letting the property of the citizens, of all the citizens; that the presence of producing, consuming and tax-paying citizens creates the land value; that the land was bought, made ripe for building and accessible with the taxpayers' money and that they have a right to a full compensation for the use of their land.

Conclusion: with leasing in this unjust manner, lessees obtain profits which rightly belong to the whole community. The tax money of the many is thus wrongly made over to the few who happen to be "lucky."

1970: snap

In 1970, the citizen from 40 Papegaailaan, The Hague, sold his house with his rights to the land under the lease to another citizen. The latter paid 90,000 guilders for it. A qualified valuer assessed the house at 40 per cent of the

*The current rate of exchange is approximately 5.5 guilders to the pound sterling.

purchase money, i.e. at 36,000 guilders. The land under and round the premises 40 Papegaailaan, The Hague, thus had a price of 54,000 guilders. Between 1925 and 1970 the land value had risen by an average of easily 1,000 guilders a year!

If The Hague had not fastened on a canon of 200 guilders a year from 1925 to 2003 then in 1970, taking account of the rise in interest rates, they could probably have obtained eight per cent of 54,000 guilders. Then, in 1970, the community could have had for that piece of land not less than 4,320 guilders for the relief of the community finances, for the relief of the owners of the land: the citizens! And then nobody would have been prepared to put 54,000 guilders on the table for the land for the benefit of an individual.

Fifty thousand found

Since The Hague, bound by this lease contract, cannot collect the true rental value of the land, a purchaser in 1970 was willing to pay this difference in value to the seller of the house and of the rights under the lease. For transferring the right to use the community's land for only 200 guilders per year until the year 2003, the seller got 50,000 guilders cash in hand.

Since the community cannot ask for the land what it is really worth, individuals snap up the real value. And this is going on all the time!

Leasing hurts nobody

All this shows that, in 1970, prospective users of comparable plots were ready to pay a ground rent of 4,320 guilders since the 54,000 guilders that the new owner of the ground now buries in the land (land which never becomes his property) continues to cost him eight per cent interest yearly.

It also appears from this that there is no difference between land in continuing lease and as property. Only, in a genuine lease, the rise in land value is expressed in a sliding, annually-rising canon.

This profit then no longer falls, unearned, into the hands of privileged individuals but comes, earned, to the advantage of all members of the community.

In this way leasing should be capable of bringing so much money

into the community's treasury that all taxes could be reduced and finally abolished.

1975: a milliard lost?

The foregoing facts and figures show incontrovertibly that in 1970 twenty times as much was paid for the plot 40 Papegaailaan, The Hague, as the community obtained.

The Hague's total receipts from leases in 1970 amounted to about 10 million guilders. Inescapably the question arises whether this could not and should not have been twenty times as large, i.e. 200 million guilders. If so, then the taxpayers in the area in only five years (1970-1975) are a milliard guilders to the bad on account of The Hague's method of leasing.

* * *

No Cause for Congratulation

SURREY Co-op has a Cloverdale site which it has been holding in order to build a grocery store one day. That site was on the books as an asset at \$400,000. However, recently the directors had a valuation made and seem delighted that it is now worth \$1,400,000.

Fleckless administration in relation to a new feed mill had brought this co-op to a low state, but now, lo and behold, everything seems rosy and credit must be given to the wisdom of the present administration for increasing the

value of the assets and putting the co-op on a sound basis.

What a joke! These directors had nothing to do with the \$1 million increase in the value of the lot. If the people of Cloverdale moved out that lot would be worth nothing. If Vancouver began to sink beneath Burrard Inlet and all the people came to Cloverdale, that lot would be worth a billion. It is the presence and activity of the community that cause a value to be put upon the title to a site, not the occupier by virtue of what he does upon it.

"Land value", as it is often called, depends on what is being done around a site. Helpful neighbours will increase it. Vandalising teenagers will reduce it drastically. Neatly kept sites around will increase it. A turkey farm or mink ranch (both smell) nearby will decrease it. By virtue of the public contribution of utilities and services, plus the private contributions of those around, land titles have a publicly created value.

When title-holders imply that an increase in value of their land titles is due to their astuteness, thrift, abstemiousness, prudence, foresight, etc., they should be reminded that if a profligate moron who had never even seen the place had held the title, the result would have been no different.

—Freefolk British Columbia

ADVERTISEMENT

Lifeline Employment Services

EXECUTIVE, TECHNICAL, SCIENTIFIC and PROFESSIONAL

Lifeline seeks personnel for short and long-term contract assignments. Now urgently sought are:

**CIVIL ENGINEERS, ELECTRICAL ENGINEERS,
PLANNING ENGINEERS, PROJECT ENGINEERS,
MINING ENGINEERS, ETC.**

Usual office personnel needed for temporary jobs during the Summer months.

For further information, telephone Michael Monk (0424) 431181
9 a.m. to 9 p.m. or write:

20 Saxon Street, St. Leonards-on-Sea, Sussex

NO FEES CHARGED TO APPLICANTS