

FISCAL POLICY AND THE ECONOMIC  
DEVELOPMENT OF BELIZE WITH  
SPECIAL REFERENCE TO THE TAX  
ON LAND VALUES  
by FRED HARRISON

INTRODUCTION

Belize is a sliver of a country on the east coast of Central America, hemmed in by Mexico to the north and Guatemala to the west. The country was formerly known by the colonial name of British Honduras. Her new capital is Belmopan, which is being built 50 miles inland, a safe distance from the hurricanes which play havoc with the towns on the mangrove coast. The population of 145,000 is made up of a mixture of the descendents of the original Mayan Indians, European settlers (British and Spanish in the main) and African slaves.

The early settlers were attracted by the logwood, from which was extracted the dyes needed by the Yorkshire cotton industry. The mahogany trade then became the most important source of income until the beginning of this century, when it was replaced by sugar.

The political life of Belize is today(1982) dominated by the People's United Party, lead by Prime Minister George Price. When independence was granted in September 1981, Price requested the continued presence of the British Army as a deterrent against the territorial ambitions of Guatemala. The British Army, supported by a detachment of RAF Harrier jump jets, has been established on an operational footing next door to the international airport 10 miles north of Belize City, which is the commercial centre of the country.

THE ECONOMIC PROBLEM

Political independence brings with it heightened expectations of rising living standards and new opportunities. At present, per capita income is US \$1,000. Estimates of unemployment vary from 10 per cent to 20 per cent (1982).

The dismal living conditions of the people of Belize is attributable entirely to the evolution of a land tenure system shaped by the

acquisitive greed of the early European settlers. The country is as rich in natural resources as it is in cultural diversity. From Table 1, however, we can see that a lamentably small proportion of the cultivated land (11 per cent) is used productively. As a result, this poor country has to spend valuable foreign exchange on imported foodstuffs, despite the very low population density (seven hectares of cultivable land per capita).

TABLE I

<u>LAND IN BELIZE (%)</u>	
Suitable for cultivation	40
Cultivated	11
Government Forest	32
Other national lands	17
Private Forest	11
Freehold land held in parcels of over 500 acres	34

The under-use of land is due to the concentration of ownership. The Belize Estate and Produce Co., the largest owner, owns a full 17.5 per cent of the whole country (which is a total of 5.67m acres), i.e. over 41 per cent of all freehold land.

The Price Government is both aware of the cause of the problem, and appears determined to do something about it. This paper describes the evolution of land tenure in Belize, and the proposal to change to land value taxation.

Our general conclusion is that the fiscal pre-conditions for rapid economic growth (along the lines of Taiwan) are being established; but that, to achieve the desired results, the government will have to modify its vaguely socialist philosophy.

#### TAXATION: GENERAL PRINCIPLES

A government's economic philosophy can be discerned from the structure of its revenue-raising budget. In Belize, half of the estimated revenue for 1981-82 of \$86.7m is being raised from consumers - that is, \$42.2m

through customs and excise. This, of course, raises prices and therefore reduces the range of goods that can be bought by families. About one-third of revenue (£18m) falls on wage and salary earners in the form of income tax. The property owner, however, is well-protected. The land tax raises just \$0.5m from rural landowners, for the central government, and just over \$1m for local authorities. This is below 2 per cent of total current revenue, which falls far behind the 5.4 per cent raised by Montserrat and 3.9 per cent raised by Barbados (Francis 1980: Table 2), but much better than most Caribbean countries.

The government is considering a radical change in its rural land tax. The Cabinet will this summer consider changing the tax to one that falls on the market value of land. The change would be primarily intended to increase central government revenue. In this it would certainly be successful. New work on re-valuing rural land, currently being undertaken by the Lands and Survey Department in Belmopan, reveals that the capital value of all land in parcels of 100 acres and more is \$90.1m (Sosa 1981: 4). If the UN recommendation were accepted - that there should be a 2 per cent tax on the capital value of land (UN 1968: 8) - this would provide the Belize government with an annual income of \$1.8m. This is nearly four times the current revenue from rural land.

But it would be a serious mistake to perceive the advantages of land value taxation as limited to its revenue raising capacity. The tax on land values has a greater- dynamic-contribution to make in both the direction and speed of economic development of a society that seeks to modernise. The paradigm for this is Japan. Economic historians agree that the accelerated process of industrialisation was built on the Meiji decision to institute a tax on the annual value of agricultural land. (The critical period was from 1874 to the turn of the century, when the foundations were laid for major social infra-structural investments which were financed by revenue from the land tax.)

Japan was no "flash in the pan". Taiwan replicated the Japanese process of socio-economic transformation, with similar results. Taiwan, of course, is closer to Belize than Japan in terms of size of the country and population. And Taiwan is creating considerable problems for the major

industrial nations of the world today. The Taiwan land reform was built on principles enunciated by Sun Yat-sen, who derived his ideas on taxing land values from an American economist, Henry George, and English philosopher John Stuart Mill.

In principle, there is no reason why Belize, with her high literacy rate of over 90 per cent, should not emulate the success of Taiwan through the stimulation of a tax on land values. That there is an urgent need for her to do so can be appreciated from the very low contribution made by agriculture and forestry to gross domestic product - just 26 per cent in 1979 (Abstract of Statistics 1980: Fig 4).

But an increase in investments in infrastructure and capital goods is not the only goal; indeed, ultimately it is subservient to the ultimate objective of raising living standards of working people and their families. Belize needs to adopt the entrepreneurial ethic of Hong Kong. She would have a considerable advantage over the British colony on the Chinese coast, for she has vastly more "free" land, the availability of which would hold down the rental levels (if only it could be unlocked from the grip of the monopolists). And because there is no inexhaustible supply of labour flooding over the borders, Belize wage rates would not be squeezed in the way that they are in Hong Kong. While this might suggest that Belize would be at a competitive disadvantage in terms of production costs, compared with Hong Kong and Taiwan, the real comparison has to be with the production costs of the industrial countries to which she would wish to export her products. In these terms, wage rates in Belize would still be competitive.

#### EVOLUTION OF LAND TENURE

The economic history of British Honduras as a colony is now well documented and analysed (Bolland and Shoman 1977; Bolland 1979). The wealth of a few was built on the monopolisation of land. Fortunes were hewn out of the mahogany trade, which rested on the exploitation of imported slave labour. Emancipation in the 1830s proved to be little more than a troublesome irritant to descendents of the original European settlers, because they appreciated what needed to be done to guarantee a servile, low-wage labour force: a continuation of the monopolisation of land.

It would be useful to summarise this history of exploitation in theoretical terms. Such a theory was formulated by Henry George over 100 years



ago (George 1979). In the present context, his theory of wages is of importance. George saw that wages were determined at the margin of cultivation. In other words, a capitalist employer could not expect to attract labour for wages which were below what a labourer could earn on his own account on the least productive land that was freely available to him. In Belize, no land was available; wages, therefore, were at subsistence levels, determined by the self-interested perceptions of the employers, their need to conserve labour, and the price of mahogany ruling on the world market.

Most of the land in Belize was not being used at an optimum level of productivity. Thus, after emancipation, if the slaves were given free access to land in the interior, they would have enjoyed an independent standard of living based on peasant cultivation. This, however, would have driven up wages to the point where the former slaves could freely decide whether they wanted to take up employment - at no material loss to themselves - in the urban sector or with the mahogany traders. The price of mahogany was such that the exporters could have paid higher wages and still earn a competitive rate of return on their investments. But they were greedy, and the way to hold down wages was to prevent the former slaves acquiring land. In this they were successful:

"The cutters devised and controlled a repressive land tenure system which severely limited the opportunities for workers to become subsistence producers. Even after slavery, the struggle between employers and workers was suppressed by the lack of alternative means of employment... This situation of an economy dominated by a few large employers who controlled the bulk of employment opportunities still exists today, and has always resulted in a poor bargaining position for workers." (Hamill 1978: 5, emphasis added.)

The problem posed for capitalists when there is an abundance of land was one which confronted settlers in Australia in the early 19th century. Because good, fertile land was freely available, settlers were able to earn a good living as independent farmers. Employers therefore had to be generous with their wages, if they wanted assistance. The colonial authorities overcame this problem by pricing land out of the reach of most migrants thanks once again to the intervention of the imperial government. Slavery was converted

to "apprenticeship" in 1834. Four years later the "apprenticeship" system was abolished. Simultaneously, a Colonial office circular instructed that grants of land, which had previously been free, could now be made only on payment of £1 per acre (Bolland and Shoman 1977: 2). This placed the land beyond the reach of the ex-slaves, who were therefore compelled to accept wage labour at subsistence rates: they were, after all, still a captive labour force.

So we can see that Henry George's theory is empirically verified. The problem of policy, then, can be stated in abstract terms as the need to induce a rise in wages by first opening up the opportunities for independent employment on the vast tracts of fertile land that are available in Belize.

#### RURAL LAND TAXATION

The great attraction of a tax on the market value of land is that it achieves more than the fiscal purpose of raising money. It also encourages the general economic objective of sharing out land until the optimum conditions have been met for resource allocation. Historically, however, the land monopolists would only occasionally tolerate a land tax for the first, fiscal purpose. And the redistributive function was simply inadmissible.

The first Land Tax Act in 1867 was an entirely self-seeking - but short-lived - attempt at raising revenue. The tax was a levy of \$40 per mahogany works. The great absentee landowners were willing to pay this tax because money was urgently needed to subdue the Mayan Indians, whose hostilities were creating uncertainties in the north and west. In 1868 the land tax was 8.3 per cent of total revenue.

The landowners, however, were not willing to carry for long the cost of suppressing the original occupants of the land. In 1871, British Honduras was converted into a Crown Colony: this was the landowners' attempt at shifting the costs of defence onto the Imperial government. A new Legislative Council was created; three out of the four members represented the landed interest. The land tax was reduced from \$40 to \$24, and in 1872 the Council made good the revenue loss by increasing import duties from 4 to 10 per cent.

From then on, the absentee owners of land fought a determined battle to shift the fiscal burden onto labour and capital. Their success is exemplified by what happened in the 1930s, when the land tax was increased from 1½ to 2½ cents per acre. The Belize Estate and Produce Co. (BPC) and other large landowners refused to pay, and the increase was consequently annulled in 1937, and made retrospective.

The saving grace for the people of Belize was that, while the land monopolists undoubtedly got their way throughout history, there was nonetheless a public awareness of the nature of the problem (an awareness not evident among people in European countries). But this consciousness could not achieve political expression until the movement for independence began around 1950 (when the land tax raised about 4 per cent of national revenue). The leaders of the PUP, working with labour groups, began to voice their demands for political independence; and they also noted that, for such a concession from London to be of practical value to the people, they would also have to reform the land market. This view was reinforced by a United Nations report on Belize in 1963, which stated that "a policy of land taxation must be considered vital to a progressive and dynamic approach to agriculture." This led, three years later, to the Land Tax (Rural Land Utilization) Ordinance. This imposed a maximum of \$1 tax on each acre of unused rural land. What was the effect, if any?

In 1959, about 5 per cent of cultivable land was actually being used to produce food (Dobson 1973: 273). Two decades later, that figure had doubled to 11 per cent (Table I). Part of this trend would have been due to the growth of population, but it is probably true that the land utilisation tax also had an impact. It was levied on estates of over 100 acres, and the rate varied according to the distance from a road that gave land special locational advantages. The maximum was raised in 1975 to \$3 per acre for undeveloped land within two miles of a public road, and 50 cents for land further than two miles from a road.

But the expansion of land under cultivation could have been far more dramatic. For in 1967/68 the BPC simply refused to pay the rural land utilisation tax. It lobbied the Belize Government and the colonial power in London, and was finally able to achieve exemption from the tax for a full 95 per cent of its rural lands - 1.23m acres were not subjected to the law of the land. As Bolland and Shoman (1977: 123) noted: this was the BPC's way of "subverting the only major attempt made to redistribute land and promote agriculture in the country's history."

Exemptions apart, however, there is yet another defect that has to be confronted, which has reduced the efficiency of the land tax.

The tax on cultivated land is levied on a very rough-and-ready basis. Land is classified as shown in Table II.

TABLE II

<u>BELIZE RURAL LAND TAX RATES</u>	
<u>Classification</u>	<u>Cents per acre</u>
High Forest	30
Medium & High Forest	25
Low Forest	18
Pine Ridge - 1st class	20
2nd class	16
3rd class	16
Savannah (good pasture land subject to inundation)	14
Savannah (wet, dry and scrub and swamp)	12
Served by a road: 0 - 1 mile	30
1 - 2 miles	15

This classification is based on aerial photographs taken of vegetation in the late 1930s. At the time, it reflected reasonably accurately the differences in the economic value of land. Since then, however, there have been some fundamental topographical changes which have caused dissatisfaction among taxpayers. For example, the current tax liability may be at the highest rate (for High Forest) when this classification may no longer accurately represent the actual use to which the land is put: the owner may have altered the landscape. As one official in the Lands & Survey Department explained: "If land that was in high bush is now down to pasture or crops, people want to be charged a lower rate."

There is a great deal of justification in this objection. The value of land in holdings of over 100 acres

ranges from under \$50 up to \$850 (Table III). There is a pressing need to institute a <sup>system</sup> which sensitively monitors both the differences in value, and the changes in value over time.

TABLE III

Range of Value Per Acre; B\$	Number of Holdings
1 - 50	125
51 - 80	145
81 - 100	89
101 - 150	95
151 - 200	50
201 - 265	42
266 - 400	16
401 - 500	1
501 - 600	0
601 - 700	1
701 - 850	2
850+	0
	<u>566</u>

SOURCE: Lands & Survey Dept.,  
Belmopan

The defects in the rural land tax have been recognised, and in the last few years the Government has been considering a change to a tax based on the market value of land in its unimproved state. Government officials seem to prefer the capital value rather than the annual rental value as the basis for the tax; and the rate would not be higher than the 2 per cent recommended by the United Nations (a rate which, as we shall see, does not have a deterrent effect on the owners of vacant urban land).

Another issue that needs to be settled is whether the land value tax should be extended to farms of under 100 acres. Administration difficulties are being raised as a reason why small farms should be exempt. It would be a pity if such a decision were made, because there

are no significant administrative obstacles. It would be socially divisive to perpetuate two classes of landowners, particularly unfortunate when the right tax could be used to promote the political notion that - by sharing equally among all the value of the nation's resources through the exchequer - a single class society can be established.

On the whole we can be optimistic that Belize will decide to introduce land value taxation. Government officials have a clear perception of the advantages of this revenue raiser. The tax would reduce imperfections in the land market, reduce speculation, raise revenue on an equitable basis, improve the efficiency with which agricultural land is used, and ultimately result in a reallocation of unused land to landless labourers. If these arguments are forcefully put to the Ministers in Belmopan this summer, they should swing the scales in favour of fiscal reform.

There is no doubt that the Price Government, with its full appreciation of the way in which land monopoly has undermined the economic development of their country for two centuries, wants the benefits of land value taxation. With sovereign control over their territory since last September, there is certainly no political excuse for allowing the likes of the BPC to dictate official policy on taxation from now on.

## URBAN LAND TAXATION

In the urban sector, Belize imposes a property tax on the current (rental) value of land and improvements, valued together. This raises revenue of \$1m, with an additional sum separately levied as a fire rate (Table IV). Worldwide experience has verified the hypothesis that a tax that falls equally on land and buildings has a negative effect on fresh investment. In countries and cities where the tax is imposed on unimproved land values alone (most Australian municipalities, for example, and individual cities like Johannesburg in South Africa); or where the tax on land is higher than the tax levied on capital improvements (Pittsburgh) - the rate of capital investment is much higher than in areas that also tax the value of buildings on an equal basis.

The Belize property tax, which is modelled on the British rating system, nurtures discontent among homeowners. Most people live in very poor quality timber houses and huts. But if they improve their living environment, they are penalised when the value of their property is reassessed. There is no basis in equity for this penalty; and as a deterrent to fresh investment it makes no sense from the point of view of economics or social considerations. There is, then, a strong case to be made for switching the urban property tax to one that falls exclusively on land values, a change that has been found to be administratively feasible in countries like Jamaica and Montserrat. What would be the result of such change?

From Table IV we see that the annual value of property in the seven urban districts of Belize (i.e., total rental values) is \$14.4m. This is the rental value of both land and buildings. What is the rental value of land alone? Belize does not assess land separately from buildings, but we can estimate the value of land if we wish to consider its potential as a revenue raiser. If land alone was worth, on average, 20 per cent of the full assessed value, then we find that its annual rental value is about \$2.8m (Table IV, col. 5). This is nearly \$2m more than the revenue raised on the present basis. But the Belize Government's valuer, Mr. K.R.C. Card, believes that the value that can be attributed to land is more like 40 per cent, on average (personal communication). This would yield an annual rental value for land alone of \$5.7m,



**TABLE IV**

<u>URBAN PROPERTY TAX IN BELIZE, 1981-1982</u>							
(1)	(2)		(3)	(4)	(5)	(6)	
<u>Property tax</u>	<u>Property</u>	<u>Tax rates: %</u>	<u>Last Revaluation</u>	<u>Property<sup>1</sup> Value: p.a.</u>	<u>Site<sup>2</sup> Value: p.a.</u>	<u>Site<sup>2</sup> Value: p.a.</u>	
		<u>Property</u>	<u>Fire</u>				
BELIZE	874,404	8	4	1981	10,930,100	2,186,020	4,372,040
DANGRIGA	45,527	6	2	1981	758,800	151,760	303,520
ST. IGNACIO	22,400	5	2	1978	448,000	89,600	179,200
PUNTA GORDA	12,375	8	2	1979	154,700	30,940	61,880
ORANGE WALK	59,921	6	2	1979	998,700	199,740	399,480
COROZAL	71,564	7	2	1979	1,022,300	204,460	408,920
BENQUEVIEJO	6,967	5	2	1978	139,300	27,860	55,720
	<u>\$1,093,158</u>			<u>\$14,451,900</u>	<u>\$2,890,380</u>	<u>\$5,780,760</u>	

**NOTES**

<sup>1</sup>Col. 4 is computed from Cols 1 and 2, to yield the assessed annual value of land and buildings.

<sup>2</sup>Col. 5 is derived from Col. 4, assuming that land, on average, is 20% of total assessed value. Col. 6 is derived on the assumption that land is worth 40%, on average, of total assessed value.

nearly six times the revenue raised on the present basis (Table IV, col. 6).

Two of the dynamic benefits of a switch to land value taxation will be given here.

(i) If the property tax fell exclusively on site values, people would not be forced to pay more if they improved the capital value of their homes (through the erection of extensions to existing buildings, for example, or the adaptation of a building from wood to brick-and-cement). The change, then, would positively encourage sturdier buildings (capable of withstanding hurricanes), and healthier living environments. The present property tax is anti-social, in that it deters people from making these qualitative improvements.

(ii) Let us say that the government chose to reap the whole of the value of unimproved land for the benefit of the community. This would increase revenue by over \$4m, and consequently enable the government to reduce income taxes from \$18m to \$14m. The increase in net incomes would have a striking effect. The micro-economic influence would be seen in an increase in the goods and services that families could afford to purchase. The macro-economic effect would be measured in increased capital investment (through an increase in personal savings), and an increase in the production of locally-manufactured goods to satisfy an enlarged domestic market.

From this it can be appreciated that one simple fiscal reform would induce critically important changes in economic psychology and the living standards of Belize citizens.

#### VACANT URBAN SITES

The benefits of land taxation can be further elaborated by considering the problem of vacant urban sites. Table V reveals that there are about 3,114 vacant urban sites, most of them (2,746) with a selling price of over \$300 each. The capital value of these sites is over \$3.9m. The combined property and fire tax is just over \$90,000, which represents a fraction over

TABLE V

<u>VACANT URBAN SITES, BELIZE</u>				
(1) Total Number	(2) No. worth \$300+ each	(3) Capital value of (2): B\$	(4) Property Tax: B\$	(5) Fire Tax
BELIZE	783	1,690,025	33,800	6,760
DANGRIGA	272	180,981	3,619	723
ST. IGNACIO	309	254,750	5,095	101
PUNTA GORDA	291	81,115	1,622	324
ORANGE WALK	556	837,665	16,753	335
COROZAL	737	884,038	17,680	2,536
BENQUEVIEJO	166	36,820	736	14
	<u>3,114</u>	<u>3,965,394</u>	<u>79,305</u>	<u>10,793</u>

NOTES:

- (1) Vacant sites are derived from revaluation surveys carried out between 1978 and (in the cases of Belize and Dangriga) 1981.
- (2) The property tax data are for 1981 (Belize and Dangriga) and 1980 (the remainder).

2 per cent of the capital value.

The conclusion that we can draw from these facts is that Belize landowners evidently feel that it is worth paying 2 per cent of the capital value of their land, even though it is not yielding them an income, for the benefit of retaining that land in an idle condition. This is because the annual appreciation in the value of their sites exceeds the present tax liability plus any mortgage commitments associated with the land. So it pays them to leave a scarce resource unused. Over \$3.9m worth of land stands idle, when it might be yielding an annual income of \$396,000 (10 per cent of the capital value). This is income lost to the nation because resources are kept unemployed. This irrational situation is made possible by the fact that, unlike with the ownership of capital (machines rust at an accelerated rate if not kept in use and properly maintained), there are no overriding costs in holding land vacant. Land value taxation would become such a cost (if it were set at a high enough rate), and therefore compel the rational use of land.

The consequences of holding land idle have been monitored in the Caribbean. In Montserrat, for example, an increase in the tax on land values had a salutary effect.

"Several large tracts of land which hitherto had been regarded as wasteland and in respect of which little or no real estate taxes had ever been paid in the past, have been forced into economic production by way of agriculture or other meaningful development. In many cases, landowners, realising that it was no longer advantageous to hold land until such time as a substantial capital gain could be obtained, because of the punitive land tax, were forced to dispose of part of their holdings. This disposition often resulted in a general upsurge in the overall economy and served to effectuate the distribution in land wealth." (The Taxation of Land and Buildings in Montserrat, 1980: para.11).

LANDLORD TURTON

The effect of a switch to a tax on site values can be gauged by taking a brief glimpse at the business affairs of the largest owner of real estate in Belize City, Robert S. Turton.

Turton was born in British Honduras in 1877, the illegitimate son of a British colonel. From humble beginnings, he amassed a mahogany forest estate of at least 85,000 acres, and was elected to the Legislative Council in 1936. Opinions vary about Turton. One historian describes him as a self-seeking employer "who had exploited the working man for so long" (Ashdown 1959: 40). On the other hand, George Price - the future Prime Minister - was for many years the personal secretary and travelling companion of Turton; and one informant\* insisted that he was a tough but fair employer. According to Father Richard Buhler, President of St. John's, the Jesuit college in Belize City: "Old Turton was a crude old man, but he comes off pretty well as a human being."

When Turton died in 1955 he left a fortune of about B\$5m. His real estate was worth about B\$3m. This included just over 100 properties in Belize City, 12 of which were vacant lots. Sharing out the wealth proved to be a complicated affair, for Turton - a bachelor - was survived by between 15 and 60 children. (The lower figure is acknowledged by the beneficiaries of his will; the higher figure was given by Father Richard Buhler, who informed the present author that one of his students - as part of a research project - interviewed at least 20 Turton children.)

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\* Doyle Prince, the son of Turton's cook, was raised in Turton's house and then worked for him and his estate until 1981. According to Prince, who is acknowledged even by some of Turton's children as the authority on their father's affairs: "I assume that he invested in real estate primarily because of his exposure abroad, where he saw that real estate was a profitable thing. He travelled extensively in the US, where he was an exporter of mahogany and chicle. But he ran his real estate more as a hobby than as a business. His rentals were the cheapest in the city. He subsidised rent." Statement made during an interview in March 1982.

We now turn to an examination of the taxes paid on four of the Turton properties (Table VI). The property tax is 8 per cent of the assessed value of land and buildings; the fire tax is 4 per cent, levied on the same basis. Until 1959 there was, in addition, a land tax. Land was grouped into categories (A,B,C and D) which in a rough and ready way reflected the value of individual sites based on their locational attributes. In 1958, a property tax advisor arrived from Britain to assist the government's valuation department. He recommended that the land tax should be abolished, because it was unfair that owners should pay twice for the same property. The land tax was abolished the following year.

What would have happened if the advisor had recommended that, instead of abandoning land tax, the tax on capital improvements should be abolished instead? If this had been done, and a 2 per cent tax on the capital values of land instituted in its place, the income that would have been generated in 1951/55 would have been \$542,80 on the four properties, against the actual tax payments of \$379.89 - a difference to Robert Turton's advantage of \$162.91. Turton paid \$120.57 on his large, spacious house on Marine Parade, on the seafront looking out to the Caribbean. A 2 per cent tax on the assessed value of his land would have yielded \$191.90, an additional \$71 which he could have well afforded.

Today, because of protracted litigation, the Turton properties are not well-maintained. This fact is reflected in the low level of rents charged by the Turton beneficiaries. This is not to the advantage of tenants, whose houses are of a lower standard than they might be. But a switch to a comprehensive land tax levied at the rate of 2 per cent on capital values is not a solution. There are over 3,000 vacant sites in Belize, some of which belong to the Turton estate; the tax on these is already 2 per cent - a rate that evidently does not deter the profligate use of a scarce resource. A much higher rate is evidently warranted, if the Belize Government is determined to achieve the

Table VI  
BELIZE CITY PROPERTY TAXES: B3  
Properties owned by the late R.S. Turton and his Real Estate Ltd.

LOT NO.	Occupier	Property	Annual Value	Area of land (sq yds)	Capital Value (land)	Property Tax	Land Tax	Fire Tax	Total Tax
1841A	C. Cervantes	Dwelling	480	837	4,185	38.40	20.92	14.40	73.72
1951/55	"	"	7,200	-	-	576.00	-	238.00	864.00
1981/85	Occupied								
LOT NO.									
774B	Thompson	Dwelling	480	1,168	5,840	38.40	29.20	14.40	82.00
1951/55	Unoccupied	Lot	-	"	24,000	480.00	-	96.00	576.00
1981/85									
LOT NO.									
1838A	Thomas	Dwelling	600	1,504	7,520	48.00	37.60	18.00	103.60
1951/55	Occupied	Office & Dwelling	9,600	-	-	768.00	-	384.00	1,152.00
1981/85									
LOT NO.									
1837	R.S. Turton	Dwelling & Garage	660	1,919	9,595	52.80	47.97	19.80	120.57
1951/55	"	"	22,800	-	-	1,824.00	-	912.00	2,736.00
1981/85	M. Turton								

SOURCE: Valuation Roll, Northside 1951-55, and Valuation Roll, Northside 1981-85, Vol. 1, Belize City Council



optimum macro-economic benefits from the resources which are at the disposal of its citizens. Belize stands to gain considerably by the institution of a penal tax on site values; the overall level of economic activity would rise, and there would be associated benefits, which include:

- (i) a reduction in urban sprawl, as vacant town sites are developed before fringe land is taken up;
- (ii) lower costs, such as transportation, as people travel shorter distances to work and for school and entertainment;
- (iii) the cost of housing declines, with the increase in in the supply of land to a point closer to demand.

#### INVESTMENT & THE THEORY OF RENT

Because Belize starts from a low economic base, the government will be able to track the deleterious impact of land monopoly over the next few years without difficulty. A major means of doing this is to monitor the trends in land values, to calculate that portion of the increase that is due directly to progress. For, as the theory of rent revealed when it was first formulated in the 18th century and then refined by David Ricardo in the 1830s, much of the increase in the accumulation of new wealth is capitalised into higher land values. In an imperfectly competitive land market, however, prices reach above these "real" levels thanks to such phenomena as speculation, which seriously distort the functioning of the economy.

Failure to deal with this imperfect land market will result in the continued misdevelopment of Belize. The urgency with which the government should review the problem can be seen in the light of its need to attract foreign resources, whether as private investment or government aid. Much of the inflow of money will not be sunk into the wealth-creating investments that increase both job opportunities and the supply of services and goods; it will be diverted into higher land values, in the form of rents and the selling price of land. This is an unavoidable effect, if fiscal policy fails to remove the incentive to speculate in land.

For example, President Reagan recently announced an initiative for the Caribbean Basin which includes the promise to pump over \$300m into the CARICOM countries. We might expect this flow of money to benefit ordinary citizens. The diffusion of benefits, however, will be severely limited, and much of that aid will flow back to US citizens who own land in the recipient countries. There is some evidence that US investors are even now seeking land-buying opportunities in those countries that the Reagan Administration is identifying as beneficiaries of US aid. Belize is one of them.

The only efficient mechanism for both creating a free market in land and destroying all possibilities of speculation, is to impose a near-100 per cent tax on the annual rental value of all land. A tax set at this level eliminates capital values altogether, for there is no annual rental income left to capitalize into a selling price. To the extent that the tax is set at a lower rate, it pays to speculate in land; and the economic consequences of this are the same whether the speculators are US or Belize citizens.

## CONCLUSIONS

Equity. The present writer believes that the Belize government should institute a near-100 per cent tax on the annual value of all land, with rents assessed at their effective market levels. This would capture the value of land for society, while leaving individuals in unqualified possession. There are but a few citizens left who retain some ancient claim to the communal ownership of the land originally colonised by the Baymen; these Mayan Indian communities are slowly being integrated into the mainstream of economic and social life. But their ethic - the belief in the need to share natural resources equally among all - can be reformulated through the fiscal system into a modern context. There is no competing system of land tenure that has a superior claim to the one employed by the Mayan Indians. The contemporary land tenure is a continuation of the system employed by the European settlers who grabbed the land and claimed private ownership. Thus, it would not be offensive to implement a thorough-going system of land value taxation.

Enterprise. It would be a serious mistake to attack the existence of land values per se as some kind of economic evil. It must be clearly understood that land makes a contribution to the process of wealth creation, whether through soil fertility or locational advantages. For the sake of efficiency, then, we need to know the relative contribution made by land, labour and capital in that process. For land, that contribution finds its measured expression in the rental levels determined by a competitive market.

Thus, it is wrong to assume (as do so many governments throughout the world today) that foreign land ownership is an evil that needs to be expunged, while at the same time tolerating land speculation and misallocation by own-country citizens. If land monopoly and exploitation is wrong, then the censure should be directed at the institution itself rather than at any one particular group that seeks to exploit it to personal advantage. The lesson for Belize is that the introduction of a 100 per cent tax on annual land values eliminates the need for the Alien Landholding Ordinance (1973). Foreigners who wish to sink resources into capital improvements upon the land, while paying the full rental value of that land to the community through the national exchequer, should be encouraged to do so. By offsetting the increased revenue from land by reducing taxes on income from capital improvements, a clear incentive is provided to capital-rich people to transfer their resources and entrepreneurial know-how to capital-poor countries. Belize fits into this situation, and it should therefore define a clear strategy for attracting that

foreign investment. What it must also do, to complement that policy, is to make sure that the benefits cannot be sumped off into higher land values by people who, QUA landowners, make no contribution to the progress of society.

Macro-efficiency. A poor country needs to ensure that available resources are invested to yield the maximum possible returns. Land is a case in point. The Belize government is generous in allocating land through its land reform programme. Land is taken from the public sector for the benefit of landless peasants. This is not the best or most accessible land that ought to be put to use first.

The government inherited a pattern of land ownership that was created in colonial times. The most fertile land, with the best road and river access, is in private ownership. The bulk of this land is held idle. Thus, people who are set to work on government land are not helping to maximise the national product, because government-owned land is either less fertile or entails higher and unnecessary transportation costs.

As a result of a recent survey by the Lands and Survey Department in Belmopan, Belize can identify those areas which ought to be brought into use first, irrespective of who owns the land. This land is identified by the price put on it by people in the market place. From Table V we can see that the selling price of rural land ranges from a few dollars (marginal land), up to \$850 per acre. The top value land (which is either peculiarly well located, or of top quality soil, or a combination of the two), ought to be forced into immediate use, to yield maximum economic benefits for the simultaneous benefit of both users and society. This would be accomplished if the tax on land values was set at a high enough rate. Surplus land would enter the market, and potential users would seek out the best land to put under cultivation before agreeing to move onto marginal tracts.

Politics. We have seen that the proposal for land value taxation that comes before Cabinet this summer is not, in fact, a radical departure from Belizean fiscal traditions. The major area of controversy will centre around the tax rate. Should the rate be a variable one?

It may be argued that it should be a progressively declining one, to avoid forcing landowners to abandon their land through default of tax payments. If land is abandoned this land would not be land that is currently in use. For if land is being put to productive use, then it can pay rent (= land value tax). The land that would be abandoned is the idle land that does

not yield an income for its present owners. The only reason why the government should concern itself with this is if the overall result was a decline in exchequer revenue. This would not happen. Even if a certain amount of land became "marginal" (i.e., no-one wanted to possess it for use, therefore it commands no market price), the overall result of the change to land value taxation would be an increase in the level of economic activity. Along with this increase would come a rise in the value of the best land (= an increase in land tax revenue). Land value taxation would generate a new dynamism in the economy, and it is <sup>not</sup> conceivable that the abandonment of land by absentee owners would reduce exchequer revenue.

Thus, a uniform rate of land tax should be adopted, and one that was sufficiently high to enable the government to (i) eliminate speculation and the inflation of land prices to artificially high levels; and (ii) reduce taxes, thereby increasing post-tax wages and stimulating wealth creation through new productive investment.

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