With IMF sniping at site value tax, the choice is simple:

Double indemnity – or double the revenue

JAMAICA

by Fred Harrison

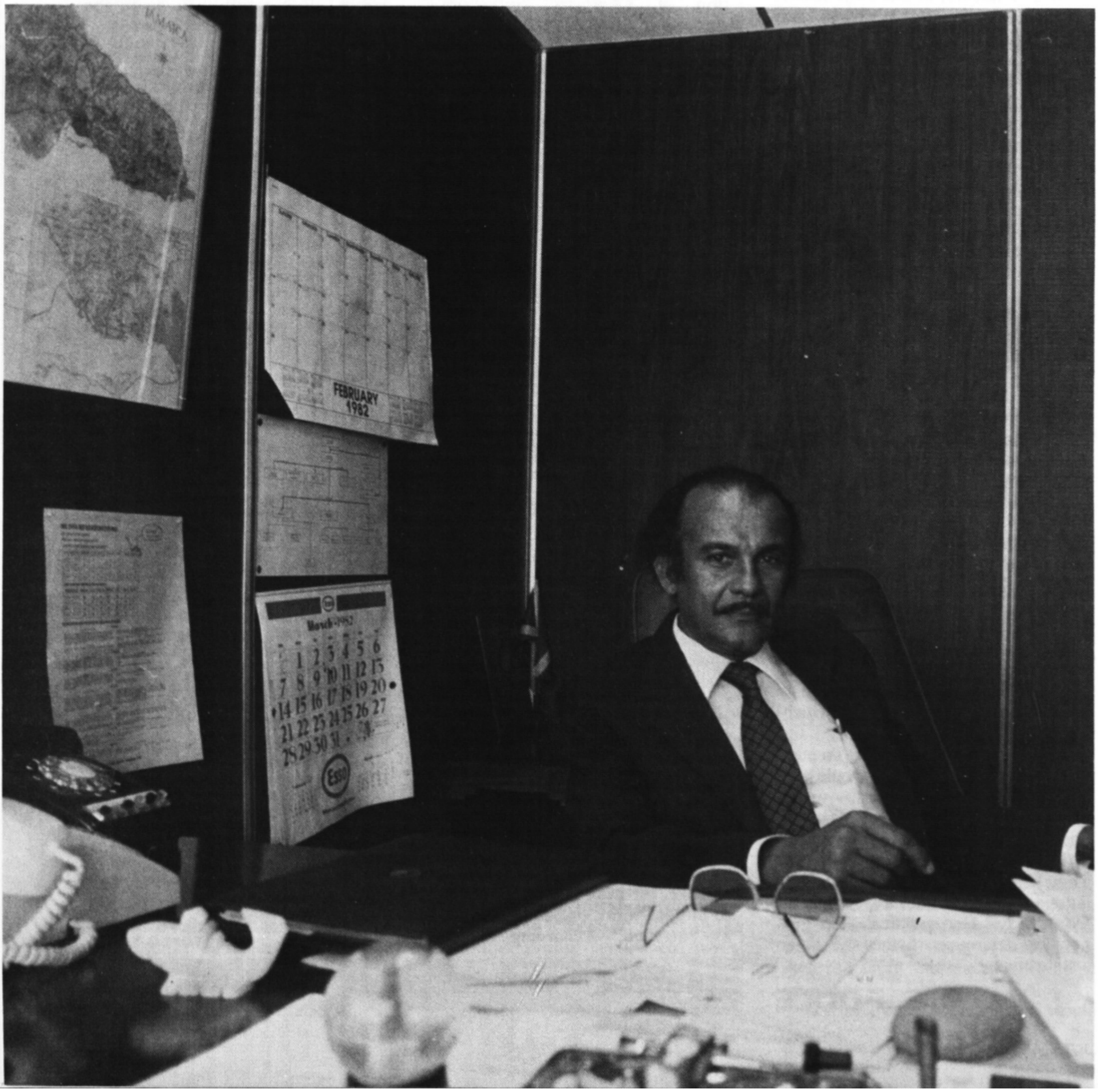
JAMAICA was controlled by Labour governments in the 1960s. Throughout those years the financial whiz-kid was Edward Phillip George Seaga.

Between 1962 and 1967, Mr. Seaga was the Minister of Development; in the years up to 1972 he was Minister of Finance and Planning.

On October 30, 1980, the Labour Party returned from the political wilderness with a record share of the votes, and Mr. Seaga was Prime Minister. In one of his first speeches, he looked back on those years.

Throughout the 1960s, growth was generated every year. Foreign exchange reserves were increased every year. Budgetary programmes were financed without recourse to heavy borrowing or the "printing" of money – and inflation was controlled at single digit figures every year.

By way of contrast, under Michael Manley's socialist government the Jamaican economy suffered from negative growth every year; runaway inflation induced social tensions that led to open warfare between political factions; and the country fell heavily into debt – with Manley finally falling out with the IMF because he opposed their "good housekeeping" principles.



Seaga, then, can be justifiably proud about his early record. But there was one blemish on those first years in politics. He admits: "We did not succeed in reducing unemployment."

Something was missing which prevented a government – its efficient capitalism associated with an enlightened social consciousness – from providing every able-bodied person with the freedom to secure independent employment. The solution to this mystery yields policies that need to be applied today.

THE APPARENT paradox of the 1960s can be explained by the failure to ensure that the land market worked efficiently.

Entrepreneurs were certainly not otherwise restricted from investing their capital to secure a profit. But despite the budgetary efforts of the Labour Government, and a willing workforce, many people who could have contributed to an increase in the nation's output were rendered surplus to requirements.

The only satisfactory explanation is to be found in the way that land was held unused or under-used both by the large estate owners and small farmers. Vacant urban land was monopolised for speculative purposes, thereby increasing the costs of accommodation and urban renewal.

To Mr. Seaga's credit, however, he was instrumental in advancing work on the foundations of a new fiscal policy: land value taxation. The reform of the property tax was originally conceived by Michael Manley's father, Norman, in the 1950s, but it took the push from Seaga to ensure that the bureaucratic framework and technical expertise was provided for the programme of land valuation on which the reform rested.

But before the valuation programme could be completed in 1974, the Labour Government was voted out of office. Unemployment finally defeated the party which was affiliated to the Bustamante Industrial Trade Union, the largest union in the English-speaking Caribbean.

Michael Manley acquired power in 1972. But his government's socialism made matters worse, and unemployment continued to mount.

Land value taxation was regarded purely as a revenue raiser, rather than a vital cornerstone of macroeconomic policy. Within a hostile environment, therefore, it could not produce – like a rabbit pulled out of the magician's hat – the results which are theoretically predictable if this fiscal policy were applied in a consistent manner. There were several reasons (see the analysis of the urban and rural sectors). So the social and economic edifice crumbled under the pressure of rural hunger and urban terrorism.

● Pictured left: O. St. Clare Risden

TODAY, Prime Minister Seaga is at the pinnacle of a structure that gives him unquestioned authority over the economic destiny of Jamaica.

He holds two crucial ministerial portfolios – those of Mining and of Finance. A new Revenue Board has been created on which is represented the Commissioner of Valuations, Mr. Edwin Tulloch-Reid. There is now no reason why Jamaica cannot effectively harness her natural resources – minerals, soil fertility and locational attributes – to ensure maximum profits and employment opportunities, *provided corrections are made to the defects in the way in which the land tax is administered.*

A man with a crucial role to play in future fiscal reforms and resource management is Mr. O. St. Clare Risden. He is Mr. Seaga's Permanent Secretary at the Ministry of Mining

75% 'discount' for farmers

WHEN THE land valuation programme started in 1956, it was acknowledged that there were serious deficiencies in the structure and performance of Jamaica's vital agricultural sector. Output was declining, while –

- Land was badly distributed: in 1954 over 87 per cent of farms occupied 25 per cent of the acres.
- Small farmers were acknowledged to be "the most inefficient,"[1] indicating the need to consolidate farmland into larger units.
- Efficient farmers found that they could not acquire the extra land they needed, because prices – thanks to the non-commercial advantages of owning land – were prohibitively high. This, then, thwarted the ambitions of efficient farmers.[2]
- Farmers were short of resources to improve their productivity, because capital was locked up in the ownership of land.[3]
- The absense of a tax on land values *encouraged* the inefficient use of the scarcest of all resources – land. As Edwards noted in his study at the time:

> *"Many of the farmers were concerned to increase the area of land they owned, even though appreciable proportions of the land they already had were not cultivated. Purchase of land became easier when income increased, but to the extent that land was bought the investment in farming suffered."*[4]

● Percival Broderick

The Rural Sector

A heavy tax on the annual value of farmland would have dealt with these related problems. Land that was inefficiently farmed – or not used at all – would have become an insupportable fiscal burden; this, then, would have induced improvements in farm techniques, or encourage owners to release their acres to others.

This would have been accomplished without the need for a state agency to intervene and buy the land off farmers – with money that was in short supply – in order to reallocate it to others.

In the event, however, farmers were able to obtain a 75 per cent tax "discount" – ie., they became liable for 25 per cent of the assessed tax.

And Michael Manley's socialist government chose the monopolist's method of redistributing land. In what was called the *Second Integrated Rural Development Project,* farmers were encouraged to agree to sell land to the government, so that it could be redistributed to those in need.

By 1980, however, this approach was an acknowledged failure: "many of the farmers who signed up to sell their land have now decided not to sell." And output was still below optimum levels, for example among citrus growers. One reason was the "general neglect of many orchards due to absentee ownership."[5]

Since 1978, agriculture has been contributing a declining proportion to gross domestic product. The lesson for the Minister of Agriculture, Dr. Percival Broderick, ought by now to be clear: the need to quickly eliminate the land tax relief to farmers, in the confident expectation that *everyone* – including farmers – will ultimately benefit from the improved use of land.

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1. International Bank for Reconstruction and Development, *The Economic Development of Jamaica,* Baltimore: John Hopkins Press, 1952, p.13.
2. David Edwards, *An Economic Study of Small Farming in Jamaica,* Kingston: University College of the West Indies, 1961, pp.121-122.
3. *Ibid.,* p.117.
4. *Ibid.,* p.197.
5. *Economic and Social Survey Jamaica 1980,* Kingston: National Planning Agency, pp.6.4 and 6.11.

and Energy. He previously spent 21 years in the Land Valuation Office. During his years as Commissioner of Valuations he worked more enthusiastically than anyone to set up the system of taxation on unimproved land values, and he has acquired international recognition as an authority on the policy.

Last month his former colleagues in the Land Valuation Office began the revaluation of 560,000 parcels of land covering 4,400 sq. miles. Revaluation will be completed by early next year. Although Mr. Risden is no longer involved, he retains a close personal interest in the programme.

JAMAICA'S conservative and socialist parties have not differed substantially over property tax issues.

Said Mr. Risden: "Mr. Seaga's policies might sound different to the policies enunciated by the Manley regime, but so far as the property tax is concerned I don't think there is serious controversy on the logic of the site value system of taxation.

'Easier to administer and it produces the same yield'

"In my time as Commissioner of Valuations I was able to convince both sides of the fence that the site value tax was easier to administer and that it produces the same yield with half the sweat of the next best thing."

Costs of administration, he explained, were crucial in a country where 70 cents in every dollar were spent on the civil service. "It's horrendous. One wouldn't want to increase this burden," declared Mr. Risden.

In the past 10 years, there have been demands for a return to a tax on capital improvements. Mr. Risden has successfully fought them off. "I have tried to show that here, where land is $20 a sq. ft., high land values go hand in hand with the capital investment. The value is in the potential for improvement, and you don't have to value the bricks and mortar on individual sites to come up with the residual that shows $20-25 a sq. ft."

The real problem has been the way in which half of the potential exchequer revenue has been lost through reliefs and exemptions.

The land value tax raised $25m in 1981, about 3 per cent of gross government revenue. This was a considerable improvement on the proportion raised in 1959 (0.5 per cent), when the gradual change to a site value tax began.

Even so, without the exemptions, the value of land could raise $50m, and thereby enable the government to reduce taxes on wages and salaries. The implications for increased consumption and an expanded market for domestic manufacturers do not need stating.

The macro-economic impact of the site value tax, then, as Mr. Risden puts it, "has been rather severely blunted." Is there any justification for tax relief? Mr. Risden is sceptical.

The relief to farmers was granted for reasons that ranged from the risks to agriculture in tropical countries (for example, the threat from hurricanes), to the difficulties with labour and technology. But, declared Mr. Risden: "If the price mechanism works, all of these factors would have already been discounted in the price for traded agricultural land.

"A prudent buyer would have discounted these things in his mind, so in effect to give him 75 per cent tax relief on top of that is a measure of double counting."

Ironically, this double indemnity on the price of agricultural land has been used as a weapon against land value taxation by the International Monetary Fund, which on a number of occasions has urged Jamaica to switch to a tax that fell on improvements as well as land.

This heavy pressure from Washington was disclosed to me by Mr. Tulloch-Reid.

"Their first recommendation was made in 1976. They said that the site value system didn't have the buoyancy that they expected; i.e., when there was increased development, there wasn't increased revenue – so they said.

"But this was a period that was characterised by a lot of uncertainty in Jamaica. There was a general resistance to pay any tax. We couldn't even afford the jeeps to go and make the new assessments of land values. So we sat around and had a good talk with representatives from the IMF."

Jamaica was in the throes of economic turbulence every bit as harrowing as a Caribbean hurricane. The Prime Minister, Michael Manley, was deeply engaged in a running row with the Washington moneylenders, and the land tax system fell under threat.

Fortunately, the pressures were resisted.

But one good thing did emerge from the 1976 talks. Mr. Risden was asked to produce a report, which was published by the Land Valuation Office as *Property Taxation in Jamaica: An Analysis of Alternative Strategies for the Period 1977 to the Decade of the 1980s.* This is a remarkably clear comparative analysis, thoroughly documented, which deployed a logic that successfully exposed myths such as the one advanced by the IMF.

As Mr. Tulloch-Reid pointed out: land values are a buoyant source of exchequer revenue in the context of a

The tough tale of a fisherman's lot

LAND VALUE taxation is a fiscal policy that is most effective when associated with the economics of the free market. Its advocates contend that the optimum allocation of resources can occur only when there is a fully competitive market that is not distorted by controls.

Michael Manley linked his introduction of land taxation in the 1970s with a belief in the need for planning. The unsatisfactory results are illustrated in the urban centres of Jamaica.

Valuers are obliged by law to assess land on the basis of "highest and best use." Yet there are considerable opportunities for de-rating. Hotels, for example, enjoy a 25 per cent discount on their tax obligations. And under the provisions of the Land Taxation (Relief) Act 1960, people can submit evidence of "hardship" to secure exemption from full tax payments.

Mr. St. Clare Risden has cited an example: a fisherman's lot next door to a luxury hotel. There may be no dispute about the value of the land, but if the fisherman does not enjoy an income that enables him to meet the tax, he can avoid having to sell by appealing for relief.[1]

IF A HIGH *ad valorem* tax on land is imposed, the market will compel reallocation to users who are capable of deploying the sites to their best advantage.

In Jamaica, however, the logic of this interaction has been limited by a combination of low tax rates and socialist concepts.

- Many sites have been kept vacant, a fact which cannot be excused entirely by the political uncertainties of the 1970s.[2]

In 1977, for example, the owners of the British-American Building in Kingston paid a tax of $78,971.25 on the unimproved value of their land (111,000 sq. ft.). This represented 6.66 per cent of the assessed value, a rate which was insufficient to deter the owners from keeping 40,000 sq. ft. in a vacant state.[3]

● The free market has been encumbered by a set of policies which prevent the collective wishes of the population from finding their full expression. Rent controls are an example. As a result, poorly-housed families are not likely to be able to upgrade their accommodation as fast as they would like. For rent controls deter an expansion of this sector of the housing market. Indeed, they probably reduced investment in new accommodation to let.[4]

The Urban Sector

The shortcomings in official policies are illustrated by the view from Mr. Risden's office window (above). The Blue Mountains can be seen in the distance. The photograph was taken in March from the top of the ICWI Building on the corner of St. Lucia Ave. and Trinidad Road, in New Kingston, where many of the large hotels and modern office blocks are located.

The vacant site in the foreground is owned by Iris Nembhard. When the site was valued in 1974, a market price of $404,000 was put on the 50,522 sq. ft. The annual tax on the land is $26,253.75, which is 6.5 per cent of the unimproved value: evidently not a penal tax rate.

Planning controls further distort the land market. Land on the right of the photograph is zoned for residential use, and values are about $2 a sq. ft. This land is divided from the vacant site by a bush-shrouded wall: to the left of the wall the land is zoned for commercial use, and is currently worth about $20 a sq. ft. ($8 in 1974). "All by the stroke of the town planner's pen," said Mr. Risden.

Mr. Risden does not attribute the under-use of land entirely to deficiencies in the implementation of the land tax. Gazing down at the eyesore site from his office, he declared:

"Which developer is going to put $2m on that site? They have migrated to Miami and Vancouver. You can induce people, but nobody is going to take up the investment possibilities if he is called a 'dirty stinking capitalist'. In this case, there were no US$ with which to buy construction materials in the last few years, so the owner couldn't build."

The political uncertainties of the Manley years are now behind Jamaica, but the economic future is no less tough: the U.S. dollars are still in short supply.

If eight years of land value taxation have not wrought wonders for the island economy, this is because no-one claims this fiscal policy is a panacea. It has to be employed as part of a set of consistent free market policies that have as their over-riding aim the minimum constraint on the creative ambitions of people in their roles as producers of wealth and consumers who freely exercise their preferences.

It would evidently repay the Seaga Government to institute a radical review of land and related policies in the urban sector of Jamaica.

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2. The way in which political uncertainty distorted the workings of Jamaica's land tax are reported by Fred Harrison in 'The Rise & Fall of Michael Manley', *Land & Liberty*, Jan.-Feb. 1981.
3. O. St. Clare Risden, *Property Taxation in Jamaica*, Kingston: Land Valuation Office, 1977, Table F.
4. O. St. Clare Risden, 'An Assessment of Land Taxation Measures Against a Background of Political and Economic Change: A Case Study of the Jamaican Experience', paper presented to the World Congress on Land Policy, Boston, Mass., June 23-27, 1980, mimeo., p.10.

growing economy in which land is regularly revalued.

Tax officials in Jamaica now expect the IMF to return with new proposals for a change in their property tax. I was told that "They say that 'If you are serious about forcing idle land into use, how can you give exemptions to widows and that kind of thing?'"

Such arguments, however, do not count against land value taxation; rather, they favour the consistent application of the policy, with assistance to special groups if necessary. Such assistance need not be at the expense of the community.

The IMF's "theoreticians" have correctly argued that agricultural land ought not to receive 75 per cent discounts. Why? Because, they pointed out, farmers benefitted from other subsidies which eliminated the need for special concessions on the land tax.

Jamaica's officials countered this argument with the claim that, with capital being carried out of the country by the middle classes who were scared off by Manley's socialism, there was a desperate need to protect employment in the rural sector.

One can sympathise with the problem of "surplus" labour, but the flight-of-capital argument did not apply in the early 1970s when the tax concessions were originally granted.

In any event, as Mr. Tulloch-Reid readily pointed out, the tax relief was principally designed to help the big agricultural estates; and these tend to employ far fewer people than the more intensively-farmed small units.

So looking at it from the point of view of employment prospects, it would have paid to *increase* the tax on the large land monopolists. For job opportunities are expanded when speculation and unrealistically high prices are destroyed by an effective land value tax. Jamaica, by failing to weigh all the prospects in the balance, missed a historical opportunity.

THE 1970s were Jamaica's lost decade. The future, however, appears to be a happier one.

Government officials are enlightened about the workings of the land tax and the opportunities that it presents. Said Mr. Tulloch-Reid:

"There is a historical reason why we are not getting the proper revenue from property: it never assumed any significance, until 1972. If you were doing an appraisal for a foreign investor, you wouldn't take the property tax into account."

At present, the tax rate averages 2-2½ per cent of assessed values. "We need a gradual build up in the rate structure," said Mr. Tulloch-Reid. "A carefully designed rate structure could move revenue from $25m to $40m. Over a five-year period this could move to $50m, assuming the present rate of growth. If you can maintain growth, you can say to John Brown that he ought to pay more land tax. It is the big leap in taxes that is disruptive, and there's a tendency for government to leap."

Big leaps are not important, provided movement is in the right direction. Jamaica now has a second chance to shift its course radically. If it succeeds, it will be envied and emulated by many Third World countries that are similarly seeking full employment and the eradication of poverty.

BILL BLAND

WE REGRET to report the death of William Edward Bland. He died on June 18, at the age of 88.

Mr. Bland was a life-long campaigner for tax reform. He became a member of the United Committee for the Taxation of Land Values in December 1934.

An obituary will appear in our next issue.

AUSTRALIA: need for vigilance

Witchdoctor brew in McCusker cauldron

IF THE PRICE of liberty is eternal vigilance, then liberty and land-value taxation must have much in common. For in those fortunate parts of the world where at least some part of the land value is collected for local or national revenues, there are always powerful interests who, either through ignorance or self-interest, are prepared to denigrate and misrepresent the tax with the aim of sweeping it off the statute book. Without the vigilance of land-value tax devotees, such hostile efforts could be all too successful.

The latest area where those aware of the benefits of land-value taxation are having to marshal their resources against attempts to sabotage it is Western Australia.

The municipalities of Western Australia, in common with those of all other Australian states, have long enjoyed a freedom quite unknown in Britain – the freedom to raise their revenues by site-value rating (SV) if their ratepayers so wish. At present, Western Australia lags a little behind New South Wales and Queensland in that some of its municipalities continue to raise some revenues by taxing buildings and other improvement (rating on Annual Value [AV]). The full picture in Australia, according to the most recent records, is shown in the table.

The threat in Western Australia has arisen from the récommendations of a five-man committee led by Mr. J. A. McCusker, whose report was sub-

BY BERT BROOKES

mitted to the state Premier in April 1981. The committees were called upon to identify and suggest remedies for any anomalies or inequities which might be arising from land-value assessments in times of advancing land values, especially those of small businesses, farms and large residential properties close to developing urban areas.

They were also to consider any problems which seemed to them to

	Number of Australian councils according to rating system used		
	Site value only	Part SV Part AV	Annual Value only
New South Wales	214	—	—
Queensland	131	—	—
Western Australia	43	83	13
South Australia	38	—	98
Victoria	62	—	149
Tasmania	—	—	49
Aust. Capt. Territory	1	—	—
Northern Territory	2	—	—
Totals	491	83	309

Note: The 43 councils in Western Australia using SV are, generally, the larger ones, containing 257,000 private dwellings. The 83 councils with mixed systems and the 13 using AV base only, contain 178,000 dwellings.