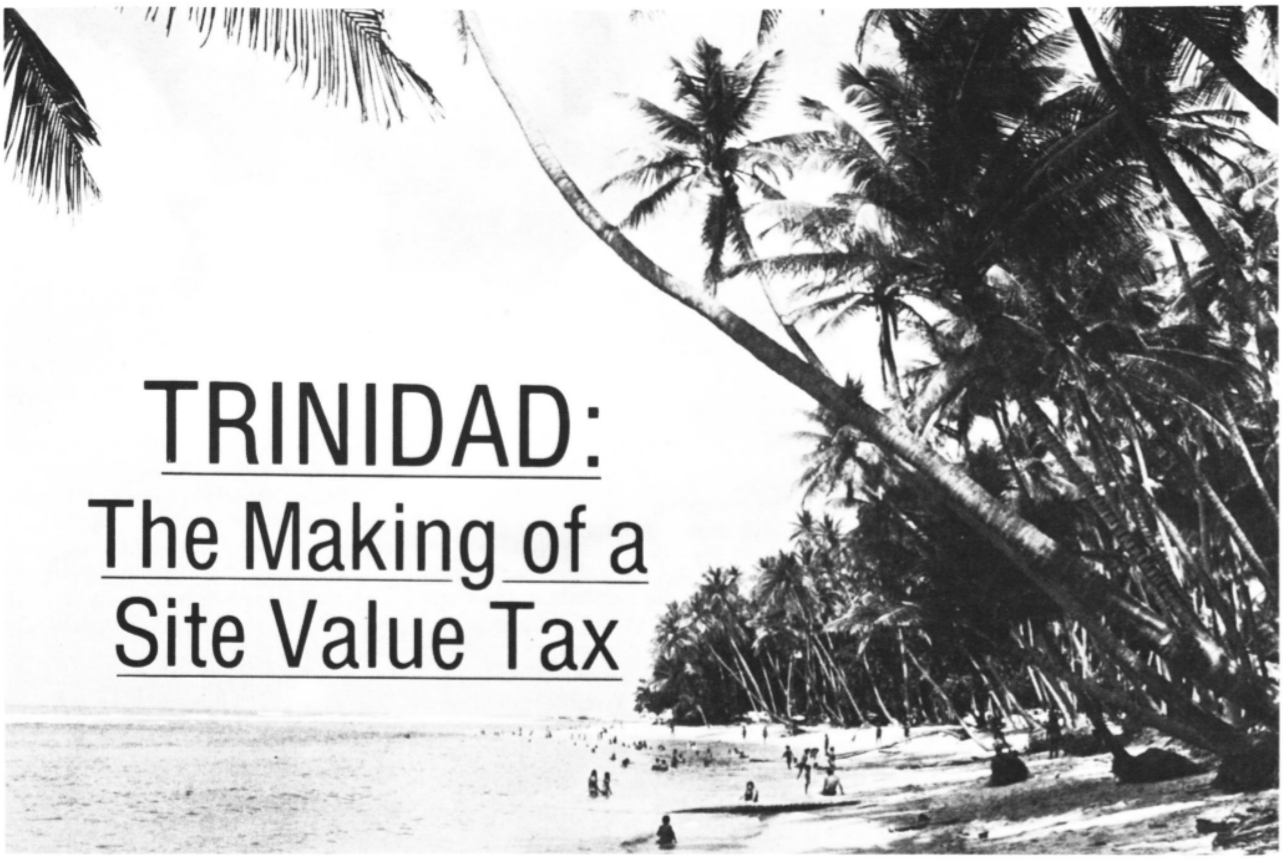

TRINIDAD: The Making of a Site Value Tax

Experiment with a new model?

TRINIDAD and Tobago is close to a decision to radically reform its property tax.

The decision to tax site values and exempt buildings would be an economic experiment of enormous significance to all job-starved countries.

This nation would be the first oil-rich exporter to directly capture a slice of the oil rent revenue that has been funnelled into the land market over the past ten years.

Land values soared in OPEC countries when the cartel forced up the price of petroleum in 1974. This income remained largely in private pockets, because property taxes were not structured to capture anything like a significant proportion of the new values.

Trinidad and Tobago, at the southern end of the Caribbean, was among them.

In the mid-'70s, the steady inflow of petro-dollars disguised the impact of the out-of-control land markets. The slump in revenues over the past three years, however, has left labour markets reeling under the influence of high rents and shrinking employment prospects.

TRINIDAD

CURRENCY: U.S.$1 = T.T$2.40. U.K.£1 = T.T.$2.60.
AREA: 1,980 sq. miles.
POPULATION: 1.2m.
PER CAPITA income (1982): $16,019 (U.S.$6,675).
GDP at factor cost, 1984 (estimated): $20,156m, of which oil and gas industry contributed $4,954m.
GOVERNMENT revenue, 1984 (estimated): $6,649m, of which oil and gas industry contributed $2,088m.
INFLATION rate: £12.9%.
FOREIGN exchange reserves: $3,037m.

FRED HARRISON, who has visited Trinidad and Tobago, reports on plans for a remarkable experiment in tax reform

And with protectionism now finding favour in Washington, the rest of the world cannot rely on the USA to drag the global economy out of the recession.

So some harsh decisions have to be made to restructure domestic economies, to over-ride the obstacles to capital formation and job creation.

The monetarist experiment as pursued in Britain has clearly failed to cauterise the haemorrhage in the jobs market. We now need an alternative model, and Trinidad could now lead the way.

GEORGE Chambers was Trinidad's Minister of Finance during the frantic years of the 1970s.

He witnessed at first hand the way in which oil rents were funnelled into the private sector. He became Prime Minister in 1981, giving him the power to lead his Cabinet towards a new model of economic development.

A major speech by one of his Ministers last December disclosed the intentions of the Port-of-Spain government.

The plan to reform the property tax was outlined by Senator Anthony Jacelon, a Minister in the Ministry of Finance and Planning.

He addressed a seminar on site value taxation which was organised by the Association of Professional Engineers.

The Valuation Division, he revealed, had begun to value all sites in the country. This is a necessary preliminary step, because the site value tax is based purely on the value of the site irrespective of the value of capital improvements on it.

The existing property tax, with its very low rates, falls on the combined value of land and buildings. The assessed values are far below current market values.

Said Senator Jacelon: "If, under the present system, the tax were to be imposed on actual rental values, it would not be an exaggeration to say that the landowner in most cases would probably have to pay ten times as much as he or she is now paying".

The failure to revalue property, as prices rocketed over the past decade, will now have to be dealt with in a phased introduction of the reformed property tax.

MEANWHILE, as an interim measure, the government intends to raise more revenue from land.

Mr. Chambers announced in his budget speech on January 9 that the following tax charges would apply:–

Holdings	*Tax per acre*
Under 10 acres	$10
10 – 100 acres	$15
Over 100 acres	$20

The expected yield: $18m, which is insignificant compared with total government revenue. That is why the land tax has to be based on the value of the land, rather than the size of holdings.

This is vital for reasons of equity, economic efficiency and fiscal revenue.

● George Chambers, Prime Minister

Why, for example, should someone with a small but valuable tract near Port-of-Spain pay no more than a poor farmer with the same acreage in a marginal part of the country?

This was the argument behind one of the criticisms levelled by Len Hackshaw, the President of the Trinidad Chamber of Industry and Commerce.

'Petro-dollars were allowed to leak into private pockets through the real estate market'

At the same time, however, Mr. Hackshaw is mistaken if he feels that a land tax should be restricted to vacant agricultural land.

Such a limitation would deny the economy the dynamic benefits of an *ad valorem* tax on site values.

Fortunately, the Trinidad government's civil servants have spent 20 years carefully amassing the evidence in favour of site value taxation (see report below).

Once the new tax is fully operational, the benefits will be enormous.

Senator Jacelon identified some of these:

● The tax encourages improvements to land, because capital investment is not penalised. This generates new economic activity, and reduces the unemployment queues: 60,000 Trinidadians were unemployed last year (13% of the workforce).

● The tax encourages the optimum use of land, the scarcest of the community's resources. The speculative ownership of vacant land would be discouraged.

Thus, concluded Senator Jacelon, the landowner would contribute revenue to the community in direct proportion to the benefits which he derived from communal activities – benefits which were reflected in the value of his property.

THE EXPERIMENT with site value taxation on Trinidad and Tobago would be of general significance.

The country would not be the first in the Caribbean to switch to site value taxation. Jamaica did so 20 years ago, followed by Belize just two years ago.

These two countries, however, are not blessed with petroleum, the black gold which enriched a relatively few people while traumatising the cultures of nearly all the oil-exporting societies in the Third World.

Countries like Mexico, Venezuela and Nigeria found themselves awash with petro-dollars. Part of this was squandered on many capital-intensive

'When the taxation of land is negligible, speculation is encouraged' – UN report

THE FIRST major investigation into site value taxation on Trinidad and Tobago was funded under the United Nations Programme of Technical Assistance.

It resulted in *Valuation, Land Taxation and Rating*, a report submitted by John Copes in 1963. He noted that there had been an escalation of land prices up to 1962, and he added:

"In that the taxation of land in Trinidad and Tobago is negligible, speculation is encouraged as the owner can exploit the market to the best advantage practically without cost to himself.

"The large increases in values which have accompanied government expenditure on Development Schemes remain untaxed and the beneficiaries of these gains enjoy the benefit of such works without making any additional contribution towards their capital cost or maintenance.

"On sale the gain becomes an untaxed gift of cash".

The report came down in favour of changing the property tax – which was based on the British rating system – to one based on site values. It listed the virtues of this change:

● The benefits derived from local government expenditure are financed in proportion to community value held in the site.

● The tax operates as an incentive, in that improvements to the land do not attract additional land taxation but at the same time increase income tax revenue.

● The tax operates also as a penalty for holding land idle: the taxpayer contributes at the same level whether the site is bare of improvements or not. It pays him either to sell or improve.

● The tax is a just one, for it results in the government appropriating public value in the possession of the owner.

Six years later, the government passed the Valuation of Land Act to enable the value of every site to be ascertained as a prelude to tax reform.

Valuation programmes in 1969, 1972 and 1978 were not concluded, however, and Senator Jacelon, a Minister in the Ministry of Finance, now says:

"It is clear that this situation cannot be allowed to continue indefinitely and the time has come to do something about it".

projects which were a pure waste of money.

A great deal of the rest of the revenue was allowed to leak into private pockets through the real estate market.

Leaders of OPEC countries failed to devise effective development strategies to put their petro-dollars to appropriate use. At the same time, their property taxes were no match for the sound-barrier-breaking rise in rental values.

The result: lop-sided economic structures emerged. These were initially kept afloat by repeated increases in the price of crude oil.

With the world recession, however, that bailing-out process had to stop. That is why so many oil-rich nations are now in deep debt.

Site value taxation would begin the fight back to full employment. It would enable governments to reduce taxes which destroy jobs (see article on page 000), while still raising revenue for socially-necessary expenditure.

The economic expertise is now available: the politicians now have to find the political will.

AGRICULTURE

The multi-billion £ heist: prince slams farmers

PRINCE CHARLES has upset Britain's farmers by branding them as "greedy", *writes Ian Barron.*

The Prince, who as Duke of Cornwall is one of the country's largest landlords, attributes the loss of natural habitats to greed.

"Fascinating places, wetlands, moorlands and hedgerows have been lost often in response to greed", he told a conference on future land use on April 3.

● Prince Charles

"Food surpluses have gained but the countryside and nation have been the losers.

"In response to stimuli, we have come to look on the land as an almost endless source of increasing income, without too much regard to the old conventional view of giving back to the land".

The Prince's analysis side-stepped the real cause for the switch to extensive farming in Britain over the past 20 years.

Farmers have, indeed, responded to "stimuli": the ever-increasing subsidies garnered by agriculture, which have been translated into higher land values. As a result, marginal lands, which would have been conserved in their natural state – if the free market had operated – have been put under the plough.

Farmers have grubbed up hedges and destroyed the wetlands that nursed rare species: but their actions have less to do with individual greed and more to do with political stupidity.

Successive governments have willingly handed out subsidies to encourage output of food that nobody wants to buy!

AS PROF. David Bellamy, who has gained fame for his TV programmes on botany, put it on the same day as the Prince was delivering his strictures.

"If I was a farmer I would be pretty proud that I had conned £64,000m out of the Government, but I would be very ashamed that I had put half the farmers and half the farmworkers off the land."

Farmers, he pointed out, had accused others of living off social security, but "the wages to buy their Range Rovers and tractors have come mainly from us, the taxpayers. They are the real paupers because they are dependent on national relief."

But if the next King of England entered the debate at that controversial level he would be detonating a constitutional nuclear bomb!

U.S. farm crisis: answers in the soil

QUOTE from *The Economist* (London) on March 9: "The roots of the American farm crisis lie too deep for any government to tear them up.

"During the 1970s, farmers borrowed too much money for land that was too expensive ever to hope to repay the cost of borrowing. The government cannot write off the debt even if it wants to, because America's farmers owe more money than Brazil and Mexico put together.

"The crucial feature of the farm crisis is not low income, but inflated land prices, and each extra dollar of government money will probably make this worse.

"More money would help the current owners of farms and bail out some banks. But in the end it would keep land prices higher than they would otherwise be and prevent newcomers from affording to buy land.

"At a moment when, for the first time in 30 years, land prices are falling towards a point at which new land is worth buying, there is no excuse for this kind of help, even though farmers are being hammered by the mighty dollar and high real interest rates".