

Promises, promises...

FRANCE elected a socialist President on May 10, 1981, with the backing of the Communist Party.

After years of conservative government, the country swung to the Left with a vengeance. Francois Mitterand came to power determined to introduce sweeping reforms, as disclosed in his 110 Propositions.

One of these propositions was a promise to introduce a national tax on urban land, the market value of which would be declared by owners.

The Prime Minister, Pierre Mauroy, announced the tax in July 1981, and discussions began between the Ministry of Finance and the Ministry of Urban Affairs.

Officials in the Finance Ministry proved to be hostile to the tax, and they won: there will be no sweeping reform of the property tax.

M. Vincent Renard, a senior researcher at the Ecole Polytechnique, Paris, told *Land and Liberty*: "You cannot imagine the weight of the Ministry of Finance, which intends to block reform."

M. Renard has taken part in discussions with the Mauroy Government, but he reports: "The French government is sceptical about land taxation. Discussions are going on, but I am afraid we will reach the parliamentary elections in 1986 before any possibility of a land tax: I don't think it will be implemented."

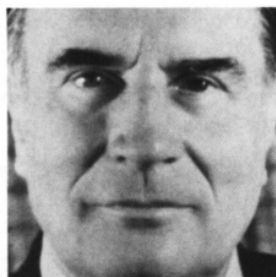
President Mitterand, it seems, has been convinced by "experts" from the Finance Ministry not to take any action. Says M. Renard: "He has gone for a right-wing policy generally, and that includes land policy."

This is good news for the country's 14m landowners, but it means that the prospects for a radical change in the pattern of land use can now be abandoned.

An inquiry by INSITE

ONE RESULT of this distortion in the tax system is revealed in Table I. Small municipalities rely far more heavily on the tax on unimproved land, even though the most valuable land is to be found in the large cities.

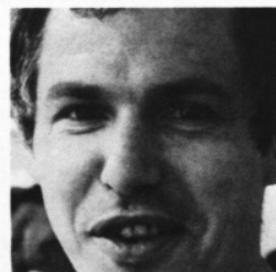
As a result of the failure to devise a



● Mitterand – no action



● Mauroy – no action



● Renard – campaigning for land taxation

sensible tax based on the market value of land, the market fails to function properly and meet the needs of consumers.

As Pierre Laconte and Ann Louise Armstrong have noted: "In France, land is mainly a sleeping asset capable of creating untaxed capital gains whether developed or not."

Apart from the *economic* impact, there is a *political* consequence which ought to be scrutinised carefully by the British Parliament.

● Mrs. Margaret Thatcher's Conservative Government plans to restrict the powers of local authorities to raise revenue from property owners.

● In France, one of the major reasons for the centralised structure of political power is the poor fiscal base of the municipalities.

In 1798, at the time of the Physiocrats and the French Revolution, the land tax produced 80 per cent of the country's tax revenue. The tax fell on the value of both land and buildings.

Since then, however, the land tax has been allowed to slide (Table 2), and by 1977 the municipalities raised a little more than seven per cent of their revenue from land taxes (Table 3).

THE SOURCE of the problem with the land market in France is the method of undertaxing land.

The tax is levied on the basis of the legal classification of land, rather than its market value.

Land is classified into 13 categories, 12 of them defined by agricultural activity. The thirteenth category is "development land."

Thus, agricultural land is taxed on the basis of agricultural value even though it may have a high development potential.

Sites that are officially classified as "development land" are but a small fraction of the total that falls into that category – 93,000 hectares – while land is used for urban development at the rate of 50,000 hectares each year.

● Turn to P.106

TABLE 1: PART OF THE TAX ON UNIMPROVED LAND IN THE TOTAL OF LOCAL TAXES.	
Municipality of less than	Percentage
700 inhab.	41.3
700 – 2,000	21.7
2,000 – 5,000	8.7
5,000 – 10,000	3.7
10,000 – 20,000	1.9
20,000 – 50,000	0.8
50,000 – 100,000	0.7
> 100,000	0.3

TABLE 2: PART OF LAND TAX IN THE AGGREGATE TAX RETURN (%)												
1798	1830	1840	1850	1870	1880	1913	1938	1947	1965	1970	1975	1977
80.0	25.0	24.0	22.0	16.0	12.0	10.6	05.8	02.2	03.0	2.43	2.34	2.88

Source: J. L. GUIGUOU, et J. M. LEGRAND, *Analyse de la fiscalité foncière dans quelques pays de l'OCDE*, Université Paris Val de Marne, 1981.

Double taxation: the fiscal folly

IF BIRMINGHAM is to survive as one of Britain's leading manufacturing centres, millions of pounds of taxpayers' money will have to be spent enhancing the attractions of industrial sites.

But this investment would not be recovered for the benefit of the community, because the rental value of vacant land is not taxed.

So the crisis in Birmingham dramatically illustrates the fact that, under the present fiscal system, people are subject to double taxation.

● They are taxed by the Exchequer to meet the costs of large-scale investments like road building, which directly enhance land values.

● They then have to pay land-owners for the privilege of gaining access to the sites they need on which to establish new enterprises.

Without these payments, however, British industry would not be able to get back to full employment.

About 85 acres of industrial land have been developed each year during the past decade.

This means that, at current rates, Birmingham has 11 years' worth of industrial land left.

A report by the City's planning officer has revealed that manufacturing employment in Birmingham has declined at a faster rate than the national rate – a drop of 35 per cent compared with the decline for Britain as a whole (25 per cent).

The report states: "While it would be simplistic to attribute the more rapid decline of manufacturing in Birmingham than in the country as a whole to a lack of land, it is certainly

By Peter Poole

true that one of the necessary conditions for Birmingham to at least maintain its position as a manufacturing centre, is an adequate supply of suitable land."

Last year, the city had 865 acres of land zoned for industrial use, divided up into the following ownership categories:

	Acres
Private	421
Councils	281
Statutory bodies	163

The planning officer's report warns that the amount of land in industrial use is very low, and that future supplies will be retarded because the larger sites, in particular, are subject to "severe physical constraints".

The major constraint, however is accessibility, which can only be remedied by public expenditure on highways.

What happens when that money is spent? *Land values soar!*

INDUSTRIAL land values in Birmingham today remain high relative to the rest of the West Midlands – prime sites command £80,000 an acre compared to £30,000 in Walsall, just eight miles away.

These high values are being demanded even though the recession has increased the supply of vacant industrial and warehousing buildings

● Cont. on P.109

FRANCE: from P.105

According to M. Renard, in a penetrating exposition of the French land market:

"Most 'development land', in the planning definition, is classified in another fiscal category (agricultural or 'unused land') and taxed at a rate which is very low compared to market value.

"An effective rate of 1/10,000 is not unusual so it is easy to understand why this tax is not a powerful tool in the implementation of land policy."

FRANCE, in common with other Western countries, has tried to overcome the frictions in the land market by adopting a planned approach to land use.

The major law for land planning is the "Loi d'orientation foncière" of 1967. This, however, has failed to correct urban sprawl, the escalation of land prices and the failure of the

TABLE 3: RESOURCES OF MUNICIPALITIES – 1977 –

Source of Funds	Amount (000,000 F)	Per cent of Total
Local taxes	30,286	35.5%
(Land taxes) (Included Above)	(6,229)	(7.3%)
Grants	28,300	33.2%
Other (loans)	26,700	31.3%

market to supply land as and when it is needed.

The defects in the land market will continue to hinder the Socialist administration's attempt to return the economy to full employment.

The only satisfactory solution would entail a drastic overhaul of the country's land taxes. The present structure of taxation penalises development, for example, because the burden falls more heavily on improved land than on unimproved land (Table 4).

M. Renard, in common with a number of land experts in France in recent years, advocates an annual land tax that avoids the drawbacks associated with such taxes as those that fall on capital gains.

The existing burden of land taxes is too light, notes M. Renard:

"Given the very low level of annual land taxes, 'retention' becomes the general landowner's reaction and one of the problems is how to design new land policy measures to increase land-supply at a 'reasonable' price."

But no corrective action can now be expected from President Mitterand.

In a frank interview with a journalist last July, the President declared that when he was elected he had "dreamed too much." He added: "I underestimated the role of lobbies..."

The President's radical socialism has been exposed as rhetoric, and the people of France cannot expect to enjoy the benefits from a coherent plan of action to reform the land market.

REFERENCES

1. Quoted from Pierre Laconte and Ann L. Strong, *Land Taxation and Land Use*, Cambridge, Mass.: Lincoln Institute Monograph 82-3, p.16.
2. *Ibid.*, p.iv.

TABLE 4: PART OF LAND TAXES IN LOCAL TAXES (%)

	1913	1938	1948	1972	1976
Land tax (improved land)	20.1	22.4	19.7	17.5	15.7
Land tax (raw land)	29.9	13.1	10.9	7.5	7.2