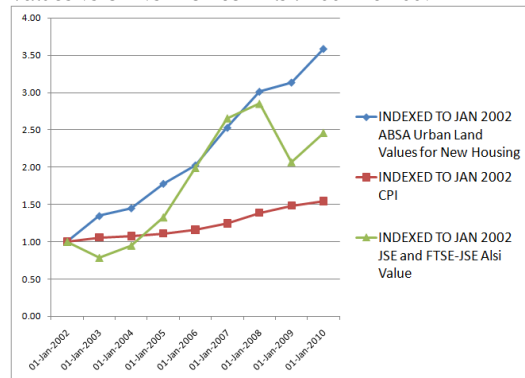


## WHY LAND PRICES BEAT SHARES and UNIT TRUSTS: THE UNEMPLOYED's 'POISONED CHALICE'

By Peter Meakin

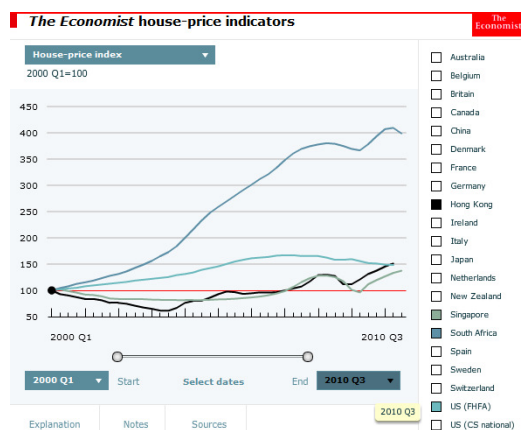
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Graph of Average New South African Housing Land Values vs CPI vs FTSE-JSE Als: 2002 To 2009



That land prices soared during this recession is partly due to large Eskom contracts that will normalise power supplies. Infrastructure investments always boost land prices, or prevent them falling. On average, the Eskom works are estimated to support residential plot values by ±R150K. This is about the cost of installing sun and wind alternatives.

Since 1994, ABSA has recorded that average urban land prices have risen from R40K to R535K, nearly 14 times. This is the highest in the world relative to domestic CPI. House prices are a reliable proxy for land values and in countries that have a higher per capita GDP than SA, like Hong Kong and Singapore, house prices rose a mere 50% from 2000 to 2009 as this graph, with thanks to the Economist.



[http://www.economist.com/blogs/freeexchange/2010/10/global\\_house\\_prices](http://www.economist.com/blogs/freeexchange/2010/10/global_house_prices)

Vacant land prices are independent of any action of the owner so these are unearned profits that widen the wealth gap and make land unaffordable to millions.

Therefore vacant land prices are a State subsidy. Financial support for landowners in South Africa began in mid 19<sup>th</sup> century when settlers were encouraged to redeem their 'perpetual quitrent' tenures for a premium payment of fifteen years rent to the Governor.

Then followed the first Income Taxes in 1914 and VAT in 1991. If these three simple interventions in favour of landowners had not occurred then land prices could never have gone beyond a recurring one-month's land rent. Prof J Stiglitz and five other Nobel laureates as well as Martin Wolf of the Financial Times, Adam Smith, David Ricardo, The Physiocrats, Henry George and many others have affirmed this.

How has this destructive pricing method survived? It is supported by the neo-classic economic theory that land, water, the spectrum and mineral wealth [God's gift or nature's endowment if you prefer] does not differ in any material way from fabricated assets like plant and equipment. They believe taxes on businesses will have the same result as a tax on land.

This view is held by the Katz Tax Commissioners, universities, the media, business, trade unions and organisations such as the Free Market Foundation. It is a falsehood because land is an entirely different asset class: it has no cost of production, does not depreciate (except for natural disasters), endures in perpetuity, is the raw material from which all manufactured assets are made and its supply is inelastic. That means that all land revenues can be captured without any reduction in land sizes or any adverse supply side effects. Manufactured assets are elastic: their supply reduces when taxed and prices rise.

This has prompted a new look at the law of economic growth "GDP is stifled when taxes are levied on property, capital, and employment and trade because these costs all rise. It will flourish under a land rent for revenue regime as they then all fall." The danger of ignoring this rule is that perhaps not one of South Africa's five million unemployed will find a decent or indecent job because of deflation. Japan's 'land price driven' slump of the 1990's refers.

However, if the Treasury gradually replaces income tax and VAT with a single land tax then South Africa will definitely resolve its joblessness as perpetual rental tenures make land affordable for everyone to make a job for himself or herself, if necessary. As Henry George described it "The natural right which each man has is not that of demanding employment or wages from another, but that of employing himself, that of applying by his own labour to the inexhaustible storehouse which the Creator [or nature if you prefer] has provided for all men."

Owning a hectare or two of land in the country and carving out a small estate for themselves is not the end of this story. When citizens are relieved of income taxes then a new era of high economic growth, self-financing infrastructure, lower employment costs [but the same wages and salaries], higher after tax profits and interest and more intense use of land because of higher holding costs, then South Africa will have become a free-land, tax haven in the Hong Kong style.