Peter Meakin

REGISTERED PROFESSIONAL VALUER
ASSOCIATE INSTITUTE OF VALUERS SA

29th June 20

2020 REVISED FISCAL FRAMEWORK AND REVENUE PROPOSALS

Submission to Committee Secretaries of the Standing Committee on Finance and the Select Committee on Finance

Dear Sirs and Madam

SUBMISSION ON 2020/21 MINISTER MBOWENI'S SUPPLEMENTARY BUDGET

THE CONSTITUTION IS EXPLICIT ABOUT HOW TO LEGALLY END POVERTY, INVOLUNTARY UNEMPLOYMENT, CORRUGATED IRON SUBURBS AND THE STATE SUBSIDY OF LAND PRICES

In this budget the Minister has overlooked the animated obligation in the Constitution's Preamble:

> To improve the quality of life of all citizens and free the potential of each person

The following radical macro-economic blue print seeks to foster the Preamble much as the definition of poverty by Robert Tressel in his 1914 book The Ragged Trousered Philanthropist:-

> 'People are poor when they are not able to secure for themselves all the benefits of civilization; the necessaries, comforts, pleasures and refinements of life, leisure, books, theatres, pictures, music, holidays, travel, good and beautiful homes, good clothes, good and pleasant food.'

It is trite that the Constitution does not endorse the party-political agendas of capitalism, communism, liberalism, socialism, etc. I have avoided these too so that my professional recommendations can form the basis for a macro-economic legal challenge.

4, VIOLET RD, CLAREMONT
7708 CAPE TOWN
MEAKIN70@IAFRICA.COM
TEL 087 701 7899
CELL 082 977 4429

These sections of the Constitution have been addressed:

> 25.5 (land access), 228 (prohibition of deadweight income taxes and vat), 26 (housing) and 223 to 225 (Reserve Bank obligations).

REPLACING INCOME TAXES AND VAT WITH LAND RENTS/TAXES

My proposals were partly drawn from a handful of Nobel Economic Laureates. A copy of their 1990 letter to President Gorbachev of Russia recommending that land taxes replace income taxes and vat are reproduced on page 10.

No Nobel award has ever been granted to any economist who endorsed income taxes and vat as Frank Knight [1].

For why should citizens be punished for working and investing, and then flayed for being more industrious?

Minister Mboweni agreed with this in his 2018 MTBPS. He announced that income taxes and vat must be replaced by land taxes as Annexure A. In 2020/21, R1.14 trillion of income taxes and vat were budgeted at 28% of GDP.

He cited the inefficiency of personal taxes on hard-earned wages, salaries, interest, profits, dividends, capital gains and shopping. These changes conform to sec 228 of the Constitution:

> (2) The power of a provincial legislature to impose taxes, levies, duties and surcharges (a)
> may not be exercised in a way that materially and unreasonably prejudices national economic policies…

He did not disclose the costs of those “inefficiencies”. But it is a fact that the R1.14 trillion taxes on what people do on the land rather than where it is, needlessly raises the average cost of living of South Africa’s seventeen million households by ±R70Kpa.

---

[1] Knight, F.H. Risk, uncertainty, and profit. Courier Dover Publications, 2012 [1920]

It is needless because a 100% tax on land rents yields the same R1.14 trillion without increasing any prices. This averages R775/ha/pm across South Africas 123 million hectares.

In addition land prices become an affordable rent at all income levels, as sec 25.5 insists

> The state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis.

In this fiscal scenario it is calculated that Clifton residents will pay one thousand times more land rents than Khyalitshans.

If the state were to also allow the subdivision of arable land down to 500sqm it is an established fact that the nine million unemployed would be able to earn ±R12K pm as contract market gardeners.

Land rents are also the main reason why, in 2019, Singaporeans were counted amongst the the five richest nations in the world in terms GDP per capita (PPP). That is ten times richer than South Africans yet Singapore lacked mining and agricultural sectors.

Foreign direct investors invariably prefer tax-havens with Singapore being home to ten times that of South Africa’s $139 200 million in 2017

Moving to land taxes is like killing two birds with one stone. For as vacant and unused land prices fall so does the cost of capital and employees.

This explains the contested debate on expropriation of unearned land rents without compensation. For there is compensation and comes about from ending the monthly expropriation of hard-earned wages, salaries, interest, profits, dividends, capital gains and shopping without compensation.

When Jesus advised his followers to “Render unto Caesar what belongs to Caesar” he was not condoning the expropriation of the fruits of citizens work and investments. For “Thou shalt not steal” prohibits their confiscation.

INFRASTRUCTURE, THE NON ECONOMIC PANACEA

To avoid larceny, taxes paid to Caesar must therefore be sourced from things that citizens did NOT make, or commission. Like the entire earth’s endowment of land, views, water, minerals precious stones and the spectrum.

Infrastructure projects are not a magic economic bullet. For example, Sanral's loss of R130bn over the years is a good example of why land taxes must replace income taxes and vat.

For road works increase land prices across the country and a mere 1.4% surcharge on all 2020 rates and taxes bills would recover that entire R130bn shortfall.

With Municipal governance in trouble, SARS will have to collect this directly from its taxpayer base. For verification, ratepayers will have to send SARS a copy of their rates and taxes bill.

SEEING OFF THE RATING AGENCIES: REPAYING ZA's R2.814 TRILLION DEBTS.

In Annexure B hereto changes have been made to the March budget on a line by line basis, as if the above land tax interventions are adopted.

R760bn.pa of extra revenue is anticipated. I cannot explain them all in this short presentation but am willing to answer any questions.

RESERVE BANK FUNDING OF MASSIVE STATE HOUSING PROJECTS

The Minister has also defied the Constitution's housing obligations.

> 26. (1) Everyone has the right to have access to adequate housing.
> (2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

The state does not have the resources, but the South African Reserve Bank (SARB) does and it is bound to protect the value of the rand:

> 224. (1) The primary object of the (SARB) is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.

But SARB failed in this task. The currency has depreciated by ±80% since 1994, from R3.6 to one USA$ to R17.3 in 2020

"In the interest of balanced and sustainable economic growth," SARB's responsibilities in sec 224.1 will therefore not be undermined if it prints money to pay for hundreds of thousands of new houses and flats for hire at market rents.

This is one of the reasonable legislative measures which is within the state's available resources, albeit that of the RB, much like RB's facilitation of mortgage bonds fo commercial banks.

By spurring the development of accomodation it also creates many, many jobs and economic growth. This must be better at protecting the value of the currency than fiddling with interest rates.

And it also conforms precisely with sec 225:-

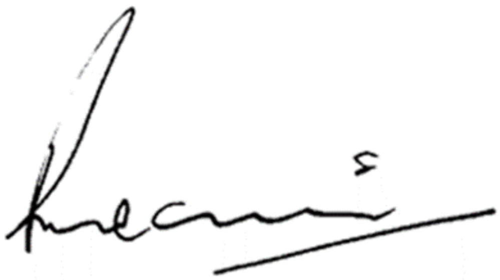
> The powers and functions of the South African Reserve Bank are those customarily exercised and performed by central banks…..

Internationally central banks regularly create money. Ben Bernanke chair of the Federal Reserve, the central bank of the United States, earned the sobriquet "Helicopter Ben" for his 2002 speech that "the U.S. government has the technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost…" And then deliver them by helicopter across the country.

This sovereign money is not quantatative easing which spreads money about indiscrimiately to stimulate demand.

I have issued an invoice to the Minister and National Treasury for this professional input. I stand by this advice and warrant that it will achieve what I have predicted in the normal course of events.

Yours Faithfully,



Peter Meakin

In association with and thanks to the South African Constitutional Property Rights Foundation

Annexure A

Land taxes

2018 MTBPS

Comment: The Constitution requires that the taxing power not be used in economically destructive ways. Income taxes and value-added taxes create large deadweight losses by reducing entrepreneurial activity and the incentive to work. These harmful taxes should gradually be replaced with a land tax, which are not harmful as they do not distort economic activity.

- National Treasury recognises the potential improvements in efficiency from land taxes (and property), as highlighted in the OECD report "Taxation and Economic Growth."
- Land is an immobile form of capital, which can increase in value due to public expenditures to improve nearby infrastructure
- The Davis Tax Committee does raise some valid concerns in terms of moving fully to a land-use tax, as it would:
  - create a less diversified tax base (which may less buoyant through business cycles),
  - may create cash flow issues and may lead to instances in which high income individuals face lower tax charges (say tech entrepreneurs)
- National Treasury has, however, been holding and attending workshops to explore this topic
- There are important practical and inter-governmental arrangements that need to be explored further
- The instrument can potentially improve the efficiency of the tax system, but is unlikely to be a sufficient source of revenue to substitute all other tax instruments

20

ANNEXURE B page 1

Revenue changes under a more "efficient" land tax regime as 2018 MTBPS. (All Changes deemed to occur in 2020)				
Extract from 2020 Budget Item	**Reason for Saving**	**2020 Budget**	**Meakin suggested Savings %**	**Meakin Budget Savings**
Estimates of 2020 tax savings in Budget of R1,14tr		billion		billion
Compensation of State Employees	Match salary and wage reductions for state employees by average of 20%, as private sector. They will anyway benefit from the average decrease in CoL of R70Kpa when land taxes replace income taxes and vat	R 638	20%	R 128
Economic regulation and Infrastructure	Table D.1 Public-sector infrastructure expenditure and estimates (2020/21 Annexure D). This capital amount is recoverable from an increase in land rents in the various infrastructure vicinities. It is therefore in the nature of a bridging loan to SANRAL etc, not a budget item.	R 267	50%	R 134
Industrialisation and exports	Largely unnecessary as income taxes and vat damage or inhibit Industrialisation and exports. They will recover under a single land tax regime	39	80%	R 31
Agriculture and rural development	The capital cost of raw land acquisitions becomes zero when land taxes are captured by the state	28	75%	R 21
Job Creation and Labour Affairs	Once everyone pays land taxes not income taxes or vat they can all earn ±R12K pm as market gardeners on 1000sqm. That is three times the minimum wage	22	75%	R 17
Public Administration and Fiscal Affairs	All public administration and fiscal affairs budgets ignore the savings which arise when land rents replace personal taxes	47	25%	R 12
Debt Servicing	Reserve Bank Intervention as sec 224 and 225 complies with Modern Monetary Theory. This allows Quantative Easing	229	15%	R 34
Community Development				
House settlements inc water and electicity	Reserve Bank Intervention as sec 224 and 225 complies with Modern Monetary Theory. Viz MMM endorses Quantative Easing if the purchase of bonds by the state etc is ONLY used to improve the lives of citizens AND provided they pay market rents for their state land and houses.	56	100%	R 56
Other House Settlements	Land taxes render nil capital cost of land	27	50%	R 14
SARS collection savings	Office overheads, other than salaries	11	25%	R 6
Undercollection and or undervaluations				
Mining Royalties		R 24,30	75%	R 18
Spectrum rentals			say	R 25
Estimates of 2020 tax savings in Budget of R1,14tr				**R 494**

Annexure B page 2

Revenue changes under a more "efficient" land tax regime as 2018 MTBPS. (All Changes deemed to occur in 2020)				
Estimated New Revenues from Single Land Tax				
Additional land rents from 9m unemployed being settled on up to 1000sqm land in allotment villages which earn R12K pm per capita.		earnings from land per annum		
	9 000 000	R 144 000	5%	R 65
Extra Land Rent per annum due to R1 114bn GDP increase including from increased Foreign Direct Investment	R 1 114	6%		R 67
Unused (and currently untaxed) arable and grazing land (hectares) Frost and Sullivan report	50 000 000	R 600	/ha pa	R 30
Total Estimated new revenues from Single Land Tax				**R 162**
Total 2020 Budget Savings, extra land rents due to greater efficiency, lower land access costs, higher GDP , more direct foreign investment and a self-sufficient peasantry				**R 656**
Estimated savings in not having to comply with SARS income tax and vat provisions	Number of taxpayers *	Average annual cost		
	20 248 710	R 5 246		**R 106**
Total 2020 Savings and Citizen's Relief under a Single Land Tax				**R 762**

* Taxpayer savings in compliance costs when income taxes and vat are replaced by land taxes			
type	tax payer numbers (SARS 2019)	assumed ave cost pa	bn
IRP5s	18 200 000	R 2 500	46
vats	48 710	R 15 000	1
corporates	2 000 000	R 30 000	60
Number of tax payers	20 248 710	R 5 246	106

Annexure C

Open Letter to Mikhail Gorbachev 1998
with acknowledgementst [2]

"Three Nobel prize-winning economists Franco Modigliani, James Tobin and Robert Solow are among a distinguished list of scholars who signed an open letter to Mikhail Gorbachev.........

"The proposal to fund government expenditure out of the rent of land, rather than from taxation on labor or capital is a policy most clearly associated with Henry George, who articulated the social benefits of this fiscal strategy in Progress and Poverty (1879).

"Mr. Mikhail Gorbachev, President, Union of Soviet Socialist Republics.

"Dear Mr. Gorbachev:

"The movement of the Soviet Union to a market economy will greatly enhance the prosperity of your citizens. Your economists have learned much from the experience of nations with economies based in varying degrees on free markets. Your plans for freely convertible currency, free trade, and enterprises undertaken and managed by individuals who receive the profit or bear the losses that result from their decisions are all highly commendable. But there is a danger that you will adopt features of our economies that keep us from being as prosperous as we might be. In particular, there is a danger that you may follow us in allowing most of the rent of land to be collected privately.

"It is important that the rent of land be retained as a source of government revenue. While the governments of developed nations with market economies collect some of the rent of land in taxes, they do not collect nearly as much as they could, and they therefore make unnecessarily great use of taxes that impede their economies - taxes on such things as incomes, sales and the value of capital.

"Social collection of the rent of land and natural resources serves three purposes. First, it guarantees that no one dispossesses fellow citizens by obtaining a disproportionate share of what nature provides for humanity. Second, it provides revenue with which governments can pay for socially valuable activities without discouraging capital formation or work effort, or interfering in other ways with the efficient allocation of resources. Third, the resulting revenue permits utility and other services that have marked economies of scale or density to be priced at levels conducive to their efficient use.

"The rental value of land arises from three sources. The first is the inherent natural productivity of land, combined with the fact that land is limited.

---

[2] NOW THE SYNTHESIS
Capitalism, Socialism and the New Social Contract
Richard Noyes, Editor CENTRE for INCENTIVE TAXATION published by SHEPHEARD-WALWYN-LONDON (1991)
HOLMES & MEIER-NEW YORK

The second source of land value is the growth of communities; the third is the provision of public services. All citizens have equal claims on the component of land value that arises from nature. The component of land value that arises from community growth and provision of services is the most sensible source of revenue for financing public services that raise the rental value of surrounding land. These services include roads, urban transit networks, parks, and public utility networks for such services as electricity, telephones, water and sewers. A management that any effort to dispose of all of it in a short period would result in an extreme depression in prices offered. Second, some persons who could make excellent use of land would be unable to raise money for the purchase price. Collecting rent annually provides access to land for persons with limited access to credit. Third, subsequent resale of land would enable speculators to make large profits unrelated to any productive services they public revenue system should strive to collect as much of the rent of land as possible, allocating the part of rent derived from nature to all citizens equally, and the part derived from public services to the governmental units that provide those services.

“When governments collect the increase in land value that results from the provision of services, they are able to offer services at prices that represent the marginal social cost of these services, promoting efficient use of the services and enhancing the rental value of the land offer, resulting in needless inequity and dissatisfaction. Fourth, concern about future political conditions would tend to depress offers.

Collecting rent annually permits the citizens of future years to capture the benefits of good future public policies. Fifth, because investors tend to be averse to risk, general uncertainty about the future will tend to depress offers. This risk aversion is side-stepped by allowing future rentals where the services are available. Government agencies that use land should be charged the same rentals as others for the land they use, or services will not be adequately financed and agencies will not have adequate incentive or guidance for economizing on their use of land.

“Some economists might be tempted to suggest that the rent can be collected publicly simply by selling land outright at auction. There are a number of reasons why this not a good idea. First, there is so much land to be turned over to private payments to be determined by future conditions. Finally, the future rent of land can more justly be claimed by future generations than by today’s citizens. Requiring annual payments from the users of land allows each year’s population to claim that year’s rent. While the proceeds of sales could be invested for the benefit of future generations, not collecting the money in advance guarantees the heritage of the future against political excesses.

Nicolaus Tideman,	Professor of Economics **Virginia Polytechnic Institute and State University.**
William Vickrey,	President for 1992, **American Economic Association**.
Mason Gaffney,	Professor of Economics,**University of California**, Riverside.
Lowell Harriss,	Professor Emeritus of Economics,**Columbia University.**
Jacques Thisse,	Professor of Economics, Centre for Operations Research and Econometrics **Université Catholique de Louvain, Belgium.**
Charles Goetz,	Senior. Agricultural Economist,Joseph M. Hartfield Professor of Law,**University of Virginia School of Law**
Gene Wunderlich,	Economic Research Service, U.S. Department of Agriculture.
Daniel R. Fusfeld,	Professor Emeritus of Economics,**University of Michigan**.
Elizabeth Clayton,	Professor of Economics,**University of Missouri at St. Louis.**
Robert Dorfman,	Professor Emeritus of Political Economy,**Harvard University**
Carl Kaysen,	Professor of Economics, **Massachusetts Institute of Technology.**
Tibor Scitovsky,	Emeritus Eberle Professor of Economics**, Stanford University.**
Richard Goode,	Washing, D.C
Susan Rose-Ackerman,	Eli Professor of Law and Political Economy,**Yale Law School.**
James Tobin,	Sterling Professor Emeritus of Economics,**Yale University.**
Richard Musgrave,	Professor Emeritus of Political Economy,**Harvard University.**
Franco Modigliani,	Professor Emeritus of Economics,**Massachusetts Institute of Technology.**
Warren J. Samuels,	Professor of Economics, **Michigan State University.**
Guy Orcutt,	Professor Emeritus of Economics,**Yale University.**
Eugene Smolensky,	Dean of the School of Public Policy, **University of California, Berkeley.**
Ted Gwartney,	Real Estate Appraiser and Assessor, Anaheim California.
Oliver Oldman,	Learned Hand Professor of Law, **Harvard University.**
Zvi Griliches,	Professor of Economics, **Harvard University.**
William Baumol,	Professor of Economics, **Princeton University.**
Gustav Ranis,	Frank Altschul Professor of International Economics,**Yale University.**
John Helliwell,	Professor of Economics, **University of British Columbia**.
Giulio Pontecorvo,	Professor of Economics and Banking,Graduate School of Business, **Columbia University.**
Robert Solow,	Institute Professor of Economics, **Massachusetts Institute of Technology.**
Alfred Kahn,	Ithaca, New York.
Harvey Levin,	Augustus B. Weller Professor of Economics, **Hofstra University**.