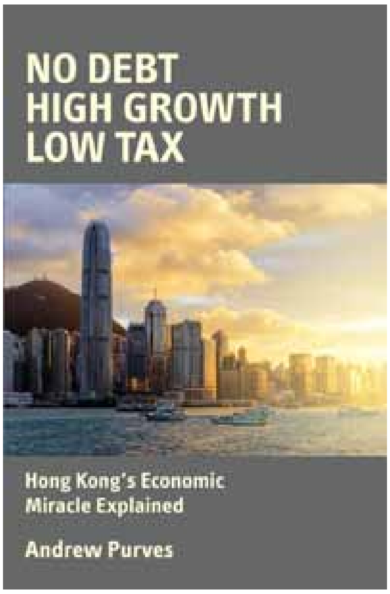

NO DEBT, HIGH GROWTH, LOW TAX
BY ANDREW PURVES
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This book by Andrew Purves is a remarkably concise, yet well-researched, study of the Hong Kong economy. The author spent his childhood there and makes good use of his acquaintance both with the place itself and with people in strategic positions within the ex-British colony. His stated aim is to answer the question that the students whom he has taught in the School of Economic Science in London most frequently ask, namely 'Is there somewhere where Land Value Taxation is actually put into practice?' Yet the book is in no way an attempt to paint Hong Kong as an economy of milk and honey based upon a perfect tax system. Purves is only too well aware of deficiencies such as serious inequality. What he makes admirably clear is that the collection of a substantial amount of public revenue from the rent of land helps to promote a dynamic economy.

This collection of rent is not achieved by a simple method of taxing the annual value of economic rent as recommended by Henry George. There is such a tax in the form of a 3% levy on the rateable value, but probably more significant is the practice of government sales of leases on land. Keen to ensure an ongoing source of income when the British secured Hong Kong from China in 1841, land was offered by lease in return for rent, and a system developed on an ad hoc basis which continues to this day – as detailed under Article 7 of the Basic Law, viz. 'The land and natural resources within the Hong Kong Special Administrative Region shall be State property'. When the colony was founded some leases were granted by the colonial government for 999 years. Fortunately Joseph Chamberlain in 1898 ordered that no more such leases should be granted. Since then new leases are mainly for 75 years, which means that as they have fallen due the land reverts to the Hong Kong government. Since leases are issued by means of an auction sale, they can be sold at a premium determined by the current market price, thus providing the government with an appreciable source of revenue.

Purves gives several pertinent examples of this procedure. An interesting one – amongst many - compares two adjacent sites with more or less identical facilities and advantages. One has an old lease of 999 years, the other one of 75 years. The annual rent in 2011 payable to the government for the latter was about half a million UK£s, for the former UK£62! In fact the government works hand in hand with property developers to extract much of this land lease value. When property developers wish to begin a project the government may buy the relevant lease from the existing owner at a pre-development price. It is then sold to the developer at a premium with development rights. The developer may also agree to provide some public amenities on lines similar to the 106 agreements, or the recent Community Infrastructure Levy, negotiated by local authorities in the UK. Such co-operation with developers might not be welcomed by Georgist purists, but where land does not bear a full economic charge as public revenue it is a beneficial compromise. The theory behind the collection of public revenue by means of leases is clearly stated:

In an urban setting, such as Hong Kong, location is by far the most important determinant of value. It is created by the presence and activity of the surrounding community. The purchaser of a particular plot is putting a price on the benefits conferred by society on that site thereby hoping to recoup his investment.

The American economist, Milton Friedman admired the Hong Kong economy greatly for its low level of taxation. Purves points out that Friedman failed to refer to the prime reason for this, namely the revenue received from government ownership of land. Comparisons of taxation in relation to GDP, nevertheless, are revealing. In 2014 Denmark's public expenditure was 57% of GDP, the U.K.'s 48%, U.S.A.'s 41%, whilst Hong Kong's was 18%. Much could be learnt from these figures about how to deal with the U.K.'s deficit, provided Friedman's oversight is not made.

An analysis follows of how Hong Kong and the U.K. compare in the type of taxation in force. Unlike the latter's heavy reliance on Income Tax and National Insurance contributions, Hong Kong charges no such taxes on the majority of people. Nor is there any Value Added Tax, which in the U.K. constitutes 17% of revenue. Excise Duties are likewise absent in Hong Kong, being 8% of revenue in the U.K. On the other hand Hong Kong companies pay Corporation Tax at a rate of 16.5% - less than those in the U.K. - raising no less than 36% of revenue. The real difference arises with property taxes. Landowners in Hong Kong pay three taxes: Government Rent at 3% of rateable value, General Rates at 16% and a tax on rental income of 15% of 80% of actual income received. The only equivalent property tax in the U.K. is Rates levied by local authorities. Whilst both countries levy Stamp Duty on property transactions, Hong Kong charges considerably more. Rates vary from 1.5% to 8.5% on property over £1.6m. Foreign buyers and owners of second properties pay double the rates. Stamp Duty is thus 12% of total revenue. It is relatively insignificant in the U.K., as is Estate Duty, which is not levied in Hong Kong. These comparative figures taken together reveal how much Hong Kong benefits from revenue based upon land values when compared with the U.K. - and indeed with all Western economies. Finally Purves points out that taxation in Hong Kong is transparent in that no agents, like employers or retailers, are used as collectors, in contrast with the U.K.'s use of these, which renders tax payers largely unaware of the real charges being made.

The benefits accruing from Hong Kong's rational taxation system are enumerated. Publicly financed infrastructure projects, such as roads, buildings, ports, housing and airports are substantial. In particular, an Investment Fund finances such developments as the Hong Kong Housing Authority, Science and Technology

Parks, an Asian Development Bank, the Airport Authority, an International Exhibition Centre and an Urban Renewal Authority. The equivalent of a Sovereign Wealth Fund worth £233bn in 2013 amounts to 142% of GDP. This compares with a public sector net debt in the U.K. of £1,193bn or 74.5% of GDP. (!) Although housing in Hong Kong in the past has been of a poor quality for the majority of the population, with notoriously small flats, there has more recently been a large increase in public housing expenditure. New developments often include shops, open spaces, gardens and schools. Health expenditure ensures that 'no one should be prevented, through lack of means, from obtaining adequate medical treatment' ('Hong Kong: The Facts – Public Health'). However, a Confucian tradition of self-reliance has inhibited the growth of a significant welfare system.

Despite the taxes on land values, the price of land in Hong Kong is very high. This reflects the incompleteness of the various charges, such as the low rate of 3% Government Rent and the patchwork nature of the public leasing of land. Purves gives an account of the problems associated with this high land price. There are a handful of property billionaires, who have amassed agricultural land in the New Territories, which has acquired planning permission, or provided land for prime city office developments. The majority of the population, however, face high housing costs, so that the level of poverty is growing. Indeed Hong Kong is 'in the upper echelons of inequality' with a gini coefficient of 0.537 in 2011 compared with the U.K. at 0.34. Purves concludes that the major developers retain almost monopolistic control over the supply of new housing units. At this point Purves offers a general statement of the principle regarding land that Hong Kong only partially exemplifies:

According to the tenets of land value taxation, there should be no premium for the land. The only requirement from a public revenue point of view would be an annual payment of a percentage of the bare land value, reassessed every year. This payment could continue to be called the 'Government Rent' - it is in effect an annual charge for the value of the services provided to any particular location by the public purse.

He might perhaps have added that it is also a charge for the value to a site of the surrounding community as available labour, consumer markets and so on. What he rightly stresses is the absence of an up-front premium for the lease, which would open the land market to new entrants, with the requirement that they followed planning laws. A brief reference is made to the need for land valuations and for answers to critics who argue that land values cannot be separately assessed.

The book devotes a chapter to an account of Hong Kong's Mass Transit Railway (MTR), which is an object lesson in how to finance public infrastructure projects. Hong Kong had a population in 2013 of 7.2m in an area of 1100 sq.kms with a density in the Kowloon area of 46,000 per sq.km. No wonder that a rail system was preferred to emphasis on road transport. The secret of the great success of the MTR is that the land for it has been bought from the Hong Kong government at greenfield (i.e. pre-development) prices and leased out to developers or occupiers at its developed value. Land around and above stations becomes particularly valuable for shopping, housing, banks, restaurants and other facilities, so the MTR continues to benefit from rents. The financial outcome is striking. In 2012 profits were just over £1bn, most of which was paid as dividend to the government. Compare this with Transport for London, which receives an operating subsidy of more than £1bn. In fact, the MTR method has been used in the U.K., when the Metropolitan line was built in the 1930s, although in that case the post-development land was sold outright. It has been ignored, however, for the Jubilee line extension and the new Crossrail. To add insult to injury the MTR has been granted a contract to run Crossrail with the expected profits going to finance public expenditure in Hong Kong.

Brief sections of the book are given over to Singapore and China. The former has much in common with Hong Kong – low personal tax, high GDP per capita, low unemployment, consistent growth, but a high gini coefficient. The key similarity, however, lies in the land system. 58% of all land in Singapore is State Land. This is sold under leases which yield a long term revenue and are not perpetual. Hence the government has a very significant income from land sales and rent, enabling it to follow Hong Kong in avoiding excessive taxation. A further consequence is that Singapore also has a huge Sovereign Wealth Fund of several hundred billion pounds. A final noteworthy feature is that the government has solved a serious housing crisis after independence from the U.K., so that 80% of the people live in Housing and Development Board flats, most of which are at least partially owner occupied.

Purves only makes a few comments on China, but they are telling ones. He quotes Sun Yat-sen, who was a Georgist: 'The land tax as the only means of supporting the government is an infinitely just, reasonable and equitably distributed tax, and on it we will found our new system'. Of course Sun Yat-sen did not live to achieve this, yet the present communist government has not completely forgotten his message. All land is vested in the State and leased out to tenants, thus creating revenue from land sales and rent. Purves' conclusion is that China stands at a fork in the road, one path leading to western style taxation, boom/bust cycles, low growth etc., the other the path followed by Hong Kong, which exploits the economic potential of the land. He finishes with a reminder that post-Soviet Russia was advised by 30 American economists to retain government ownership of all land, but chose instead the world of the oligarchs.

This book is a fine example of how to combine high principles with careful, detailed research. It shows how economic theory and practical policy could be reformed to take account of the vital importance of land, and demonstrates how this may work in a present-day economy. Purves does not idealize Hong Kong. He has observed at first hand the faults in its system, mainly following from the patchwork nature of its land and taxation laws. Yet he has shown clearly how there are real, substantial benefits from a system which recognises the central role of land and land rent. No longer need Economics tutors apologise for the absence of living examples of justice in their subject. *No Debt, High Growth, Low Tax* fills a major gap in their armoury.

BOOKS WORTH READING

If there is another aspect of economics besides the land question that demands understanding at this time, it is the question of the nature of money. What complicates the question of money is how it can gain interest through lending. A new book, which takes this question head on, is *The Church and the Usurers: Unprofitable Lending for the Modern Economy* by Brian McCall. In this very clearly written book we are given a rich history of the ideas about usury, but with particular attention focused on the traditional natural law theory adopted by the Catholic Church through a combination of the biblical prohibition against usury, Roman law and usury, and Aristotelian understanding of usury. McCall also shows how the emerging secular society departed from the Catholic teaching on usury, so that for a period the two came in conflict.