By Johan Fourie

ECONOMY

A radical solution to land ownership

A new book proposes a drastic policy regarding property – abolishing private land ownership altogether. It's bold, but the creative thinking behind this idea is exactly what we need to start tackling the immense social challenges we face.

What if I could offer you the following three outcomes: 1) an increase in government revenue to the extent that a Basic Income Grant (BIG) can be afforded; 2) a substantial decline in wealth inequality; and 3) a sustainable solution to the land crisis. All of this with just one policy intervention.

Fantastic, you would say, but naïve and, frankly, absurd. There is no policy that we know of that can tackle these immense societal challenges all in one go.

I'd add that this policy would make it much easier to build infrastructure, get rid of derelict buildings, would ramp up GDP per capita significantly, and foster social cohesion.

Don't be ridiculous, you would respond.

To do this, I'd continue, we'd need to do two things that seem almost directly opposed to one another. We need to expand markets. Something sensible for the first time, you might nod. Oh, and we must abolish private property altogether.

Erik Posner
Professor of law at the University of Chicago

This, in short, is the recommendation by two economists, Erik Posner and Glen Weyl, in their new book *Radical Markets*. Critics seem to think that it's worth discussing; Kenneth Rogoff calls it "perhaps the most ambitious attempt to rethink democracy and markets since Milton Friedman".

Their ideas have huge implications for democracy and immigration, but I'll focus on their first and probably most relevant chapter to South Africa currently: property.

They propose a Common Ownership Self-Assessed Tax (COST) on wealth. Property, they argue (like many economists before them), is inevitably monopolistic, and monopolies create inefficiencies in the market. COST aims to remove these allocative and investment inefficiencies by introducing a live auction for every asset in society.

How does it work? Let's take Khulekani, who wants to buy a new house. He'd go to a website – let's call it UmhlabaWethu.co.za – and open a map that will allow him to see every property in SA, valued by the owner of the property. He can buy any property, by just clicking on the property, at the price the owner has listed. The right to exclude, a central tenet of private ownership, is waived in this new system. Every property owned by a company or individual (or government) must be valued and listed.

What prevents owners from making excessively high valuations? Tax. In this system, each owner pays an annual tax on the self-assessed value of their property, thereby waiving the right to use, the second central tenet of private ownership.

The authors explain: "In the popular image of private property, all benefits from use accrue to the owner. Under a COST, on the other hand, a fraction of this use value is revealed and transferred to the public through the tax; the higher the tax, the greater the fraction of use value transferred."

Therefore, all property would be on a permanent auction, where the current user of the property determines the price (but pays for that price in tax).

Imagine a private investor wants to build a high-speed monorail in Cape Town. At present this would be almost impossible, as owners of properties on the intended route would hold out for a high price, knowing they have monopoly bargaining power. A COST would allow an investor to go online and buy up all the properties at the listed price, combine them, and start building the monorail. (Of course, they must also value that property, and pay tax. If another investor believes they can build a more profitable monorail, they might just buy out the original investor's right of use.)

Imagine that the property tax is returned to citizens as a BIG. By the authors' rough calculations, every US citizen from a similar system could receive $20 000 annually. By their estimates, it would only be the richest 1% of property owners that would be paying more tax than they receive – often a lot more. This not only reduces inequality (by 4 Gini points, according to their estimates), but also acts as a subsidy for the poorest.

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In SA, COST tied to a BIG could do far more to alleviate poverty and address inequality than a policy like expropriation. Unproductive land would be a direct cost to all of society: higher property values paying more tax means that more can be redistributed to everyone. As the authors note, "a world in which everyone benefits from the prosperity of others would likely foster higher social trust, a factor essential to the smooth operation of the market economy.

"The sharing of wealth would be in accord with many common-sense notions of justice. Wealth is rarely created solely by the actions of the people who are paid for it under capitalism. They normally benefit from the help of friends, colleagues, neighbours, teachers, and many other people who are not fully compensated for their contributions. A COST would better proportion the distribution of wealth or the labour that created it."

Glen Weyl
Principal researcher at Microsoft Research

This proposal is radical and might have unintended consequences that we cannot currently imagine. That's why the authors propose a piecemeal adoption of these policies. That is sensible. Experimentation will be needed, perhaps within one municipality first.

But the radical economic transformation that COST can accomplish is a lesson in how creative thinking – and perhaps a willingness to put away our ideological differences – can help find solutions to a problem that we think to be insurmountable. ■

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