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Chairman: Mr. Mendive

CONTENTS: Reform of agricultural taxation to promote economic development in Latin America.

NOTE: Participants wishing to make corrections in the provisional summary record of their statements, for inclusion in the final printed report, should submit them in writing to the Editorial Section, either through the Conference Officer (Miss Eyzaguirre) during the Conference, or subsequently, by post, before 31 December, addressed to The Editorial Section, ECLA, Avenida Providencia 871, Santiago, Chile.



REFORM OF AGRICULTURAL TAXATION TO PROMOTE ECONOMIC DEVELOPMENT  
IN LATIN AMERICA (CPF-DB-9 and Add.1, CPF-DS-3)

Mr. GREGORY, introducing Mr. Wald's paper (CPF-DB-9), said that agricultural taxation should be discussed in relation to the general aim and objectives it was to achieve. Those ranged from the usual fiscal objectives of raising revenue to proposals primarily aimed at providing incentives to the agricultural sector. The revenue and incentive aspects of agricultural taxation were at some point bound to conflict and the kind of tax policy suggested would depend upon the views held on the role the agricultural sector should play in the over-all economic development - whether it should be a source of capital for the rest of the economy or whether it needed capital to be brought into it. It was unfortunate that the terms "agricultural taxation" and "land taxation" were often used synonymously for there were other taxes in addition to a tax on property which should be levied on the agricultural sector, even though a tax on land was probably the most important from the standpoint of revenue potential, distribution effects and, to some extent, incentive effects. A tax on land could serve as an excellent lubricant for land reform and the two programmes should therefore be developed together.

His remarks were based on the following assumptions: (a) that at present the amount of tax revenue paid by the agricultural sector was not only far less than its legal tax liability but also much less than it was capable of paying; (b) that the reason for under-payment of taxes was the manner in which tax laws were written and administered, and the nature of the agricultural industry which made tax evasion relatively simple; (c) that under-payment of taxes tended to perpetuate the existing pattern of very unequal income distribution as well as to encourage inefficient use of resources, particularly of land and capital; and (d) that the objective was therefore to find some way of levying taxes which would greatly increase the amount of taxes paid by the agricultural sector and, at the same time, redistribute incomes and provide some incentives for improved use of resources.

With respect to his proposal that the best way to ensure a fair assessment of land for taxation purposes would be for the owner himself

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to assess the value of his holdings, he realized that the proposal had some limitations but felt that the disadvantages did not offset the benefits to be derived from that method. The problem of correct property assessment was particularly acute in Latin America and its solution required a corps of well trained technicians who would need much time to get the necessary data on which a fair assessment could be based. Self-assessment therefore seemed to be the only method susceptible of immediate application. Under-evaluation could be guarded against by providing that land reform agencies could acquire the property at the value placed on it by the owner. The latter could then either pay taxes on the full value of his property or run the risk of capital loss through having his property bought at his own assessed value. Carrying the proposal somewhat further, some fraction of the property value declared by the owner could be used as the presumed income of his property for the purposes of a tax on farm income.

With respect to incentive taxation as a means of improving the use of land, he thought that the same objective could be better achieved through a progressive tax on land. Incentives to improved farming practices should be determined through variable rather than fixed costs. In view of present conditions in Latin America, a combination of a progressive land tax and a tax on presumed agricultural income, applied equally regardless of land used, would be more effective than a programme of discriminatory incentive taxes.

Another useful tax on the agricultural sector would be a specific tax on water, which was one of the most critical inputs in the area and was often used inefficiently. A progressive tax on water would improve its allocation and use, help to redistribute water rights and increase revenue. Such a tax would ensure that the use cost of water could only be paid if it was used on highly responsive crops. The progressive feature of the tax would discourage farmers from bidding for large quantities of water, thus ensuring its availability to small farmers. The latter would not be exempted from the tax, but a system of subsidies or credits could be devised to help them pay the tax if they were unable to do so.

/Mr. DESCARTES

Mr. DESCARTES agreed with the objectives sought by Mr. Gregory in his proposals but had some reservations on the feasibility and effectiveness of the methods suggested.

With regard to the self-assessment of property by the owner, he had no objection provided that all that was intended was a mere declaration of the value of a piece of property. Mr. Gregory, however, had gone further in suggesting that a Government should be able to purchase the property on the basis of the value assessed by the owner. He opposed that suggestion because of the constitutional position in the Latin American countries. Moreover, land reform should not be based on purchase of property merely because an owner had understated its value. Land reform was an instrument of economic development and it would be wrong to complicate its implementation. Land could be more properly acquired by other methods. The method proposed might well be considered a concealed form of expropriation.

No less objectionable would be a proposal to allow individuals to purchase property by paying 25 per cent more than the value set by the owner. Such a scheme would affect the stability and productivity of the agricultural sector, even if it were applied as a provisional measure. A better system would be to tax land on the size of the property concerned and its productive capacity. At the same time, an attempt should be made to obtain more data on which to assess land values.

The suggestion that a tax might be imposed on the imputed income of agricultural property was less objectionable than self-assessment of its value. Such a tax could be used as an expedient to facilitate taxation of the agricultural sector, although the rate of taxation should not be based on the value set by property owners.

Emphasizing the need for an efficient tax administration, particularly in the Latin American countries, he said that much depended upon public goodwill, which could only be ensured through the joint efforts of government authorities, sociologists, economists and other experts, designed to convince the public that taxation was in their own interests. Moreover, specific tax policies should be adapted to the conditions prevailing in each country.

/Mr. MOISES BEATRIZ

Mr. MOISES BEATRIZ congratulated the organizers of the Conference for including in the agenda the study of agricultural taxation, a subject of fundamental importance, since the Latin American economy was primarily agricultural; agriculture taxation afforded the least possibilities for effective application of income tax while calling for the greatest economic and social reforms. For those reasons, the tax could contribute to higher productivity of the land and a better distribution of holdings.

Although the ingenious methods proposed in the papers by Mr. Wald and Mr. Gregory to obtain the economic and social effects sought were most intriguing, he believed that before complicated methods could be applied it would first be necessary to establish a sound land register. He would therefore be interested to know the results obtained in the application of the new agricultural tax laws in Colombia and Chile.

The tax on exports was one way of taxing agricultural income. In El Salvador, in view of the problems which had arisen in the application of income tax on income derived from coffee-growing it had been replaced by an export tax on the product with progressive rates adjusted to international prices. The result had been satisfactory from the standpoint of tax yield, since it was easily and cheaply administered and almost perfect fiscal control was possible. To make the tax on coffee exports more equitable, it would be advisable to integrate it with income tax so that the taxpayer could apply all or part of the pertinent export tax against income tax.

As to extending income tax to capital gains, he said that such a measure would be valuable in obtaining fair distribution in the agricultural sector.

Mr. CASAS observed that in the Latin American countries agricultural production was often cyclical, with all that that implied. Hence he did not consider it possible to apply in Latin America the same systems as were in use in other countries whose agricultural economy was more highly developed and where price supports and other measures contributed to its stability. Since it was a very sensitive sector of the economy, care should be taken that any measures adopted did not discourage it

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still further. As to the revaluation system and the presumptive income tax suggested by Mr. Gregory as possibilities for agriculture, he entirely agreed with the idea, and disagreed with Mr. Descartes on the subject. Optional assessment by agricultural landowners had existed for some time in Colombia; failing which the State made the assessment on cadastral or commercial bases. Both the self-assessment and the tax - fixed at a rate of 6 per cent per annum - had been placed at the service of the 1960 agrarian reform in Colombia. He explained the rural tax and the tax on net wealth as applied in Colombia and referred to the decline in the value of land in that country, which could be attributed to the prevailing insecurity in certain areas and the shortage of cash, which had reduced demand in relation to supply. As to the progressive water tax, he disagreed with Mr. Gregory's views.

Mr. DARDON referring to certain comments made by Mr. Wald with regard to land tax in Guatemala, pointed out that actually, the tax on the capital value of land was integrated with other taxes which likewise affected land, such as the tax on free conveyances (tax on inheritances, legacies and gifts, which taxed land at an equal rate in each case) or transfers against payment (tax on purchases and sales, and on exchanges of land).

Recently as a result of the enactment of the progressive personal income tax law, the agricultural sector was included in it with a 10 per cent reduction on the net income tax rate. In his opinion, such taxes represented the maximum tax-paying possibilities of the agricultural sector. With them it was to be hoped that Guatemala would be able to implement its economic development programmes in the next few years.

With reference to revaluation of rural property for the purpose of increasing fiscal income, an obstacle had been the lack of cadastral survey maps, although some progress had now been made in that respect. To solve the problem temporarily in accordance with the laws of Guatemala the system of personal returns had been adopted. To supplement it, banking institutions had been required to send to the tax collectors' offices the property revaluations which served as a basis for granting loans. Furthermore, before filing their returns, the owners themselves usually requested the services of professional appraisers authorized by the Ministry of Finance and properly trained for the purpose.

/Mr. BACA

Mr. BACA said that in Latin American countries there were two problems connected with agrarian reform which aroused tremendous interest because of the difficulty of solving them, namely the problem of determining what land was subject to expropriation, and that of fixing its value. Both had political overtones and adequate solutions to them had been suggested by Mr. Gregory. Experience in Colombia had shown the suggestions were feasible.

Mr. DESAI observed that land taxation involved social and political objectives and was therefore difficult to implement in practice, although it was possible to do so in theory. Some of the questions arising were the social redistribution of land (land reform proper) where the tax machinery was used to break up large estates into small holdings, taxation of land in relation to inflationary conditions where the value of the land increased as a result of inflation, the backward sloping supply curve, the breakdown of traditional farming methods in order to improve efficiency, and taxation based on cadastral maps.

He agreed with Mr. Gregory's views on land redistribution. If land reform measures were defeated, land taxation measures would be defeated as well. If land reform was important, taxation of land was not the way to achieve it.

His own country, India, had had considerable experience with cadastral maps and had found them useful for property redistribution but not for tax purposes. India's experience with land taxation had been rather unsatisfactory. The government had been unable to take effective action in that field because of the political value attaching to land and the strong opposition from large and small landowners alike.

Land redistribution did not necessarily contribute to efficiency in the agricultural sector. While large landowners were mainly responsible for the problem of idle land, a small landowner might not be able to increase productivity because of such factors as lack of capital and credit.

While more revenue might be obtained by taxing the small landowner, such a tax might defeat the other aspects of rural reform, such as community development programmes. A better method of increasing revenue from the agricultural sector might be through excise taxation, which was less objectionable from the political point of view.

Mr. GNAZZO



Mr. GNAZZO agreed that a distinction should be made between land distribution and productivity. However, he could not support Mr. Desai's view that a land tax could not make a useful contribution to land redistribution.

On the question of the assessment of agricultural property, he pointed out that land was taxed in Uruguay not by the Central Government but by the departmental governments which imposed high rates, in fact the highest in Latin America. Assessments were kept up to date by a percentage system. The average value of property was deemed to be equal to the gross income derived therefrom.

A major problem in Latin America was the concentration of wealth in the agricultural sector, usually in the hands of corporations belonging to the same family. The danger of tax evasion by such corporations could be overcome if they were not permitted to issue bearer shares.

Mr. PREST said that although he was in sympathy with the idea of a proportional land tax, he did not believe that a progressive land tax would be practicable. If land owned by one family was split up among the various members to reduce the incidence of a progressive tax, it would not be easy in practice to take counter measures to aggregate family holdings for tax purposes, and forms of evasion might develop such as the formation of corporations with bearer shares. If family holdings were in different parts of the country, the tax administration would have to be centralized, although land taxation would be easier to administer on a regional basis. In establishing the relative capacity of different land, the annual tax liability would have to be adjusted in accordance with some measure of output or price or income changes. The relative prices of the crops grown on different land units would change from year to year, hence it could not be assumed that the relative capacity to pay of such units would remain the same. He could not agree that a land tax affected the level of fixed costs, and that action should therefore be based on what would be a suitable course if fixed costs changed. A graduated land tax would affect the capitalization of the existing land owner; if he sold the land immediately, its value would be reduced, and there was no way in which

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he could avoid the tax by changing his occupation, as an industrialist could if his product were taxed. He asked if Mr. Gregory's belief that a land tax would not lead to better utilization of land would still apply if he accepted the proposition that the tax was not in fact reflected in the level of fixed costs.

With respect to the use of water, it would be reasonable to levy a tax, but he could not agree that it should be progressive in accordance with the amount used, which would be analogous to levying a progressive tax on such inputs as electricity or transport.

Mr. GOODE said that he could not accept as a long-term goal Mr. Wald's proposal on page 12 of his paper (CPF-DB-9) that the land tax should be integrated with the personal income tax; both equity and economic policy demanded that both forms of tax should be imposed in the agricultural sector. Referring to what Mr. Prest had said about capitalization, he said that if the land tax was reflected in land values it amounted to a once for all tax, and if subsequently revoked would bestow windfall gains on any landowner who had bought the land after imposition of the tax. Secondly, personal income tax was levied in view of the total income of an individual in the light of his personal circumstances, at graduated rates according to the income earned, whereas a land tax was an impersonal tax that had no regard to the total situation of the landowner; consequently one form of tax could not replace the other. Thirdly, a land tax was at least partly a benefit tax, reflecting the landowner's payment towards the cost of public improvements, such as irrigation or road building, that benefited landowners, and consequently could not be replaced by the income tax. In any case, he did not believe that Mr. Wald would argue that it would be possible in the near future to apply personal income tax to agriculture effectively enough to make it possible to do without a land tax.

He agreed with Mr. Prest that a land tax could not be regarded as a fixed charge that did not affect farming operations, and in fact Mr. Gregory had withdrawn somewhat from that position by referring in his paper (CPF-DS-3) to the possibility that effort would be diverted from one agricultural sector to another.

/He did

He did not believe that progressive tax charges on water use would increase allocative efficiency, and supported what Mr. Prest had said on that point. If the aim was the social one or redistributing water rights, there were more effective means of doing so. On the other hand there should be adequate charges for irrigation water from public projects.

He shared Mr. Descartes' doubts about land valuation by self-assessment, which might prove arbitrary and erratic in application. The method would be more acceptable if used in connexion with government acquisition of land under a land reform scheme than if third parties were allowed to force a sale on that basis, but although the present system was not very good, it would be better to try and improve it than to resort to self-assessment.

Although Mr. Desai was correct in saying that a good cadastral survey was not a guarantee of a good land tax, it was an indispensable condition, and if supplemented by technical capacity and political determination, could result in a good land tax. Land tax arrangements in India might not be very good, but were better than in Latin America as a whole. At one time the Indian land tax was an efficient means of mobilizing resources, but pressure from landowners, especially small landowners, had prevented assessments from being kept in line with prices, because political leaders were afraid of losing the support of the small landowner who had expected to find himself much better off when India became independent. Once a good cadastral survey had been made, it must be kept up to date, otherwise adjustment to real values after a lapse of time would result in a large increase in the tax which would be strongly resisted.

Excise taxes were not a good mean of reaching the agricultural sector, because in many countries small farmers depended largely on a non-money economy, so that much consumption would escape the tax; nor were they a good method of reaching the large landowner.

Mrs. NAVARRETE brought up the question of the relationships between the redistribution of land and the increase in productivity in the agricultural sector, expressing scepticism on the subject. In support of her views she cited the case of Mexico, where there were wide differences in  
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productivity between modern industrial-type farms using advanced technology, established in areas that had recently been opened up to cultivation, and highly productive, and others where farmers cultivated the land for their own consumption, and not for markets, using rudimentary techniques. In the latter case, it was possible that structural improvements, revaluation, and land taxation might have some influence in increasing productivity. Furthermore, drift from the land and migration of the population towards the cities were phenomena which undoubtedly militated against the productivity of the land; notwithstanding, it was possible that in certain cases they should be encouraged. It should also be taken into account that the tax on land ownership was usually a local matter, while taxation of income was under national jurisdiction.

Mr. KALDOR said that he and Mr. Wald seemed to have arrived independently at very similar views as regards agricultural taxation. Agricultural taxation was very important in Latin America for three reasons. Firstly, the agricultural sector tended to be heavily under-taxed in under-developed countries, apart from the large plantations producing cash crops for export, which were sometimes over-taxed because they were also subject to heavy export duties or corporation taxes. But under-taxation was the rule, especially as regards the production of food for domestic consumption. Secondly, agricultural taxation could improve land productivity and help to secure a freer land market. One reason for backward agriculture was the ownership of land by those who had so much that they were not interested in making good use of it. As regards the fixed charge aspect of the land tax, he agreed with Mr. Goode, and not with Mr. Gregory. Incentives to improved management should be in the form of pressure rather than concessions. The effect of the land tax was greater turnover of ownership, which would result in the average farmer being more efficient than he was at present. The third point was that where land ownership was as concentrated as it was in most of Latin America, and in the middle East, the resulting income, if untaxed, represented a dead burden carried by the community. Luxury consumption based on large corporate incomes could to some extent be regarded as a reward for getting the economy to produce through the market mechanism, but the landowner was supported by the community even if he failed to produce. He believed that the social burden of supporting the large landowners in Chile, for example, was larger in terms  
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of the total gross national product than the whole military expenditure of the United States in terms of the United States gross national product. A progressive land tax seemed to be the only way to tap those resources, and he agreed with Mr. Goode that an agricultural income tax was not the ultimate goal, and could not be an alternative to an efficient land tax.

He did not agree with Mr. Prest that land taxes should not or could not be progressive; in the early days the same had been said of the income tax. The problem of dividing up family holdings could equally well arise in relation to income tax, and could be countered by aggregation of the property of husbands and wives and minor children. In general the danger of evasion was less than with income tax, because marginal rates were lower.

He agreed with Mr. Goode that Mr. Harberger's self-assessment proposal was open to objections as it stood, but if it was combined with a method of posting prices, as he himself had suggested, it would be a valuable means of ensuring that the owner would raise the valuation to the market value. Even so, the market value was not such a satisfactory basis for a land tax as the potential annual yield. Consequently he favoured a cadastral survey in conjunction with a points system to establish potential fertility and potential yield in relation to the average yield in the region or in the country as a whole. The valuation could be kept up to date on the basis of a five-year average.

He agreed with Mr. Goode that excise taxes could not be an alternative to land taxation. Referring to what Mr. Desai had said, he pointed out that India had once had a good land revenue system, but unfortunately the five-year revaluations had not been kept up after the nineteenth century. Under the new constitution land taxes had been assigned to the States, where the political pressure of land-owning interests was very strong. He agreed with Messrs. Goode and Prest that there was no point in a progressive water use tax apart from a progressive tax on the value of land holdings. A progressive land tax on potential yield would have income effects but no substitution effects, and there would be a strong incentive to additional effort to make more money. Land values would be reduced, and large landowners would sell part of their land in order to get into a lower tax bracket. There would be a free land market, making possible a relationship between the supply of efficient users of land and the distribution in the ownership or control of land.

Mr. MONTERROSO, although in general agreement with the views set forth by the various speakers, said he would like to make some reservations. Thus, in his opinion, excessive use should not be made of taxes on exports in under-developed countries. To support his statement, he mentioned the case of coffee exporters in Guatemala, who had exerted such pressure that the tax on exports had had to be reduced when the international prices of coffee dropped. He also believed that in the less developed countries the tax on value added would give good yields, as the experience in Colombia suggested. Taxes on inheritances, legacies and gifts were also important and easy to apply in relation to agriculture, and it might even be advisable to increase them. Taxes on production were being applied in Guatemala at the municipal level, which could give rise to arbitrary action.

Mr. DESCARTES, replying to the comments made by different speakers in the course of the discussion, said he agreed with them as to the importance of making good use of taxation on real estate, both agricultural and urban. Like Mr. Moisés Beatriz and Mr. Monterroso he believed that taxes on imports should not be overdone. The same applied to taxes on production and the question of levying them at the local level, which might be dangerous. He agreed with Mr. Casas regarding the cyclical effects of agriculture, and with his objections to the progressive water tax and his recognition of the undoubted influence of assessment on non-agricultural taxes.

He believed, with Mr. Desai, that a land register did not in itself improve the yield of land taxes, unless it was kept up-to-date. Credit was due to Mr. Desai for having raised the problem of agricultural productivity, a subject also referred to by Mrs. Navarrete. He agreed with them both that certain areas were better suited to extensive cultivation; however, the pertinent measures would have to be adopted to destroy the social power to which the concentration of property gave rise.

In his opinion, the stimulating effect of the tax level on productivity, as mentioned by Messrs. Gnazzo, Kaldor and Goode, could not be gainsaid; referring to Mr. Prest's preference for a tax system based on a proportional land tax, supplemented by personal income tax, it appeared to him that such a system would have different effects according to the conditions prevailing in the country where it was applied.

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Despite the views set forth by Messrs. Casas and Baca, he was still opposed to self-assessment. He did not believe it could facilitate implementation of agrarian reform nor reduce the political opposition which any change in a land tenure system brought about. Rather, self-assessment could lend itself to manipulations that would make it still more obnoxious.

He concurred with Mrs. Navarrete in believing that there was not necessarily a correlation between fiscal policy and agrarian reform; likewise, as to the difference, insofar as tax and productivity purposes were concerned, between commercial and subsistence agriculture. Probably the contribution of the modern agricultural sector to the gross product was larger precisely because of taxation. He also agreed with Mrs. Navarrete as to the importance of jurisdictional differences, although he believed that a certain amount of autonomy should be maintained.

In short, taxation should be general and balanced in nature, as Mr. Kaldor had so authoritatively argued, so that no sector of the economy would unduly burden another.

Mr. GREGORY said that he had confined himself in his paper to attempting to indicate where fiscal reform in agriculture and agricultural reform would complement each other. Where a small number of farmers produced the bulk of income in agriculture, the tax must be aimed at the large land-owners and agricultural producers. The details of the tax programme must fit the needs of each country, but certain basic principles of agricultural taxation applied to all countries. His proposal for self-assessment of land values had been criticized on the grounds that the redistribution of land under agricultural reform programmes should not concentrate on land under-valued by the owners. But acquisition should not be confined to under-valued land; it must be objective, and not exclude land with a high valuation. The difference between his own viewpoint and that of some other speakers related mainly to the time factor. How soon could a start be made on taxing away the excess accruing to large agricultural producers? If assessment was based on cadastral surveys and appraisals of productive capacity it was hard to see how any tax action could be taken within the next two or three years. The only answer was self-assessment combined with safeguards against under-valuation and possible substantial capital losses.

/He agreed

He agreed that excise taxes could not provide a large source of agricultural taxation. With respect to a tax on presumed income, he thought there were reasons for relying on the self-assessments under property taxation, rather than on production calculated on the basis of average practice and yields. The latter method would require trained staff and data that was not available, whereas with the use of a multiple or factor of an assessed value an early start could be made with the tax. The possibility that tax liability might be higher than farm income was not a reason for not imposing a tax on presumed income, since it would have the desired effect of increasing productive effort. He added that the self-assessment system would have the virtue of relying less on the tax administration and its officials, compared with other systems.

The main reason for differentiating between fixed and variable costs was that **high fixed costs were known to act as an incentive in determining the exit and entry of firms.** He recognized the need for more than a mere choice of enterprises; there must also be a choice of practices and quality and quantity of inputs. Such marginal choices of good or poor managements were not affected by fixed costs.

He agreed that the progressive feature of a water tax might hamper the allocative effect, but water distribution in Latin America tended to follow land holdings, and in the absence of a good water tax, redistribution could not be effected. He did not believe that the social principle would conflict with the criterion of efficiency, since the small farmer, who would have no access to water use if the tax were not progressive, would not use it less efficiently than the large farmer. Water, being a scarce resource, was not in the same category as fertilizer or electricity; moreover the allocative criterion should be used with respect not only to use, but also to the owners that controlled water.

His position with respect to a progressive land tax was that the highest rates should apply to the largest units, either ownership units or operating units, whichever were the larger. He concluded by saying that many of the practical difficulties attending land valuation, with respect to cadastral surveys, references to price indexes, and so forth, would

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be solved automatically by the self-assessment system. In addition it was suited to tax policies for different kinds of farming in different countries, and the relationship of output to land values in different areas. It would avoid tax pressure on farming areas with poor resources and low production levels.

The meeting rose at 1.15 p.m.

