Economic rent, inequality and public revenue – the Singapore model.

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August 2022
Declaration

I, Andrew Mackay Purves confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.
Abstract

Private accumulation of economic rent from rising land values is increasingly identified as a key cause of rising inequality in advanced economies. Does the public collection of economic rent ensure greater equity? Singapore has been identified and praised for collecting a significant proportion of this rent, having achieved a high level of public ownership of land since independence in 1965. Anne Haila described this system, and Singapore, as a Property State (Haila, 2016). The system aligns with what Gavin Kerr calls Geo-classical liberalism (Kerr, 2017), where strong conditionality applies to land ownership, weak conditionality to wealth creation. Haila’s concept of the property state is used as a framework to research the socio-economic outcomes in Singapore. This thesis will fill a research gap, to provide a detailed analysis of how the system operates, why it was implemented, and reflect on its shortcomings. The public housing programme is considered a success, however, loopholes for significant private accumulation of economic rent by a professional elite remain, which through inheritance will be perpetuated, thus challenging Lee’s vision of the state’s foundation on principles of equity and reward for work. Through both quantitative and qualitative analysis of policy and institutional arrangements, I identify a partial implementation of the Geo-classical idea in Singapore, together with its dependence on foreign workers, and the constraints on political expression as potential weaknesses for the survival of an apparently stable polity. An extended Property State framework with a clearer application of Geo-classical principles is suggested as a means to resolve some of these inequities, for the future of Singapore. My contribution will be to illustrate how the Geo-classical theory might be applied fully in Singapore as a more complete model for other jurisdictions.
Impact Statement

This thesis will deepen understanding of the role of land as a factor of production in a modern trading economy. While the particular case of Singapore is highlighted, the multiple different trajectories taken indicate that there are alternative paths to promote development. Such an example (of alternative paths taken in Singapore) might benefit future scholarship on development and policy formulation at a National level.

The opportunity to develop academic journal papers on particular topics from the thesis, and present them at International Conferences is one way in which the research will have a wider impact. One paper was presented to the RC21 conference (online) in July 2021, while a second paper will be presented to the AESOP conference in Estonia in July 2022, as well as Residential Contradictions, at Durham University in August 2022.

An earlier paper on Fair Public Ownership in Hong Kong and Singapore was published in 2019, *International Journal of Public Policy*, and I have contributed to two papers published in 2022 written by one of my peers.

Having worked as a Post Graduate Teaching Assistant over the 3 years of my research degree study, I have engaged with students from around the world formally during Seminars, as well as informally during Field Trips. The value of this interaction and exchange of ideas is difficult to judge, but would not have occurred otherwise.

The time spent developing my understanding will benefit students of The School of Philosophy and Economic Science’s ‘Economics with Justice’ evening classes, which I have been teaching for the last 15 years. These courses are delivered on a voluntary basis to a non-academic adult general interest community in Greater London. As such, the work will make a contribution to public discourse in a civil society context.

My engagement with the Steering Group of the Coalition for Economic Justice, a loose association of campaign groups interested in tax reform will extend to writing reports and giving presentations to the All Party Parliamentary Group on Land Value Capture
in the current Parliament. These reports will remain on the public record for years to come, and have benefited from my experience in the academy.

Attendance in two academic reading groups has enhanced my network of contacts and collaborators in the fields of land rent theory and planning law.
Acknowledgements

First, I would like to thank my PhD Supervisors, Professor Nick Gallent at the Bartlett School of Planning, who having taught a Housing module during my Masters, and after only a very brief meeting and dialogue about my PhD Proposal agreed to take me on. Equally, Dr Josh Ryan-Collins at the Institute for Innovation and Public Purpose, also at UCL had the faith to support my work with very little knowledge of my capability. They have both offered unremitting support and timely feedback throughout the research and writing phases.

I would also like to thank the wider UCL Academic Community, both members of staff, and PhD colleagues who have been willing to discuss my research, and offer advice over the last four years. I would also like to thank others whom I have met at conferences both online and in person during this period, who have taken an interest, and answered numerous questions. There are too many to name, and it would be unfair to single out a few.

Officers of the Statutory Boards, NGOs, and Company employees who agreed to interviews or written answers to questions have also been extremely helpful in deepening my understanding of Singapore – thank you.

Prior to undertaking this research, I have been inspired by friends and colleagues within the community interested in public revenue from land values. Again, there are too many to name all, but I would like to acknowledge in particular Dr Peter Bowman who sadly departed during the Covid pandemic. Anyone else who has enjoyed a late night glass (or two) of wine with me will know they are included in this list. My family and friends also deserve a mention for putting up with this obsession for so many years!

I would also like to thank the Henry George Foundation, and the Fellowship of the School of Economic Science, both registered charities, who have supported me financially over the last six years.
# Table of Contents

Chapter 1  Introduction ................................................................. 18  
   1.1  Inequality, and Geo-Classical Liberalism .................................... 18  
   1.2  The property state – what is a property state? ............................. 23  
   1.3  Structure of the thesis ................................................................ 26  
Chapter 2  Case study selection and methodology .................................. 29  
   2.1  Case study selection – an overview of land ownership ................... 31  
   2.2  Case study selection – sources of public revenue .......................... 36  
   2.3  Methodology ............................................................................ 48  
   2.4  Conclusion ............................................................................... 60  
Chapter 3  The property State .............................................................. 62  
   3.1  Historical context and ideas .......................................................... 62  
   3.2  Ownership of land ..................................................................... 68  
   3.3  Land Rent Theory ..................................................................... 72  
   3.4  Creation of wealth and appropriation of rent ............................... 75  
   3.5  Creation of value ....................................................................... 76  
   3.6  The Spatial turn ....................................................................... 87  
   3.7  Financialisation ........................................................................ 95  
   3.8  Returning to land ..................................................................... 98  
   3.9  Conclusion .............................................................................. 100  
Chapter 4  Taxation, its history and relationship with ownership and land rents 101  
   4.1  Geo-Classical liberalism ............................................................... 104  
   4.2  Public revenue in a property state ............................................... 111  
   4.3  Conventional sources of taxation, sources and trends .................. 118  
   4.4  History of taxation in the UK ...................................................... 119
Chapter 9  Conclusion. The property state experiment ........................................ 295

9.1  Understanding rent theory ........................................................................ 296

9.2  Land value and building value .................................................................. 299

9.3  Foreign workers ......................................................................................... 302

9.4  Endowment and inequality .......................................................................... 303

9.5  Variety of Capitalism .................................................................................. 305

Bibliography ....................................................................................................... 308

Appendices .......................................................................................................... 327
Table of Tables

Table 2-1: Landownership, selected countries 32
Table 2-2: OECD Global Revenue Statistics Database, Taxes on property as a % of total tax revenue, selected countries. 37
Table 2-3: Summary of tax sources as a percentage of total revenue, selected countries; compiled by author from OECD global revenue statistics, country summaries. 39
Table 2-4: Singapore Operating Revenue from annual Budget Statement, 2019 41
Table 2-5: Public revenue, actual 2017 including all investment and land sales income, taken from the reports for public revenue by Object Class, Ministry of Finance. 42
Table 2-6: Public revenue from land value and other property income, putting together the figures from Table 2-4 and 2-5. 43
Table 2-7: Programme of research 52
Table 2-8: Non-Government Organisations and Charities 55
Table 2-9: Ministries and Statutory Boards 56
Table 2-10: Parliament and Political Parties 59
Table 2-11: Schedule of Interviews/written answers 60
Table 4-1: Classification of Liberalism, Moderate and Extreme, compiled by author 105
Table 7-1: Public revenue from land value and other property income, putting together the figures from Table 2-4 and 2-5 chapter 2. 202
Table 7-2: Summary of Income, surplus/deficit, contributions, dividends or grants of significant Statutory Boards 2019. *Changi Airport is wholly owned by the Government of Singapore, under MOF, but was Corporatised from the Civil Aviation Authority of Singapore in 2010, in order that it could invest in airports overseas. 218
Table 7-3: Household net worth, compiled by author from M700981 Household Sector Balance Sheet, (Citizens and Permanent Residents) available from Singstat.gov.sg 232
Table 7-4: Measures of wealth and income inequality, compiled by author, various sources. 235
Table 7-5: Income range for Singapore Taxpayers 2017. Calculated by author from Table 20.7, (Singstat, 2019:251). 237
Table 8-1: Property numbers in Singapore, by tenure and average price Compiled by author, sourced from HDB, propertyguru.com.sg marketing review, and Singapore Yearbook 2019. 255
Table 8-2: Average and median cost of homes in Singapore 257
Table 8-3: Property Rights and other benefits for different categories in Singapore, compiled by author 282
Table of Figures

Figure 6-1: Publicly owned (Crown or state) land in Singapore (Haila, 2016:73)
Sources: Motha and Yuen 1999; SLA home page. 168

Figure 7-1: Capital Receipts from land sales, 2010-2019, $m organised by the URA, compiled by author, contributing about a third of the total Capital receipts, reported elsewhere. 207

Figure 7-2: Connections between Government Agencies, Citizens and Statutory Boards; Flow of Funds, compiled by author. 220
**List of Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DC</td>
<td>Development Charge</td>
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<td>DGP</td>
<td>Development Guide Plan</td>
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<td>DP</td>
<td>Development Premium</td>
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<td>EC</td>
<td>Executive Condominium</td>
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<td>EDB</td>
<td>Economic Development Board</td>
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<td>EMA</td>
<td>Energy Market Authority</td>
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<td>ERP</td>
<td>Electronic Road Pricing</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FTE</td>
<td>Finance Technology and Electronics</td>
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<td>GFC</td>
<td>Great Financial Crisis</td>
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<td>GIC</td>
<td>Government Investment Corporation</td>
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<td>GLC</td>
<td>Government Linked Company</td>
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<td>GLS</td>
<td>Government Land Sale</td>
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<td>GPFG</td>
<td>Government Pension Fund Global (Norway)</td>
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<td>GRC</td>
<td>Group Representation Constituency</td>
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<td>GST</td>
<td>General Sales Tax</td>
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<td>HOME</td>
<td>Humanitary Organisation for Migration Economics</td>
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<td>JTC</td>
<td>Jurong Town Corporation</td>
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<tr>
<td>HDB</td>
<td>Housing Development Board</td>
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<td>HES</td>
<td>Household Expenditure Survey</td>
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<td>HIP</td>
<td>Home Improvement Programme</td>
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<td>IMDA</td>
<td>Infocomm Media Development Authority</td>
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<td>IPO</td>
<td>Initial Public Offering</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>LSE</td>
<td>London School of Economics</td>
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<td>LTA</td>
<td>Land Transport Authority</td>
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<td>LVT</td>
<td>Land Value Tax</td>
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<tr>
<td>MAS</td>
<td>Monetary Authority of Singapore</td>
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<td>MCP</td>
<td>Malayan Communist Party</td>
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<td>MNC</td>
<td>Multi National Company</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>MOM</td>
<td>Ministry of Manpower</td>
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<td>MOP</td>
<td>Minimum Occupancy Period</td>
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<td>MPAJA</td>
<td>Malayan People’s Anti Japanese Army</td>
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<td>MSF</td>
<td>Ministry of Social and Family Development</td>
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<td>MRT</td>
<td>Mass Rapid Transport</td>
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<td>MTR</td>
<td>Mass Transit Railway (Hong Kong)</td>
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<td>MUP</td>
<td>Main Upgrading Programme</td>
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<td>NIRC</td>
<td>Net Investment Return Contribution</td>
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<td>NEF</td>
<td>National Endowment Fund</td>
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<td>NGO</td>
<td>Non Governmental Organisation</td>
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<td>NOM</td>
<td>Non Open Market</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OM</td>
<td>Open Market</td>
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<tr>
<td>PAP</td>
<td>Peoples Action Party</td>
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<td>PFI</td>
<td>Private Finance Initiative</td>
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<td>POFMA</td>
<td>Protection from Online Falsehoods and Manipulation Act</td>
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<td>PR</td>
<td>Permanent Resident</td>
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PSA    Port of Singapore Authority
PUB    Public Utilities Board
QE     Quantitative Easing
REIT   Real Estate Investment Trust
RPI    Resale Price Index
SARS   Severe Acute Respiratory Syndrome
SBS    Singapore Bus Service
SERS   Selective en bloc Redevelopment Scheme
SGS    Singapore Government Security
SMRT   Singapore Mass Rapid Transport
SPI    Singapore Property Index
SSB    Special Saving Bond
SSGS   Special Singapore Government Security
SIT    Singapore Improvement Trust
Singstat Department of Statistics
Singtel Singapore Telecommunications Private Ltd.
SLA    Singapore Land Authority
SNA    System of National Accounts
SS    Silver Support
SWF    Sovereign Wealth Fund
TWC2   Transient Workers Count Too
UBI    Universal Basic Income
UHNW   Ultra High Net Worth
UNDP   United Nations Development Programme
<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>URA</td>
<td>Urban Redevelopment Authority</td>
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<tr>
<td>VERS</td>
<td>Voluntary en bloc Redevelopment Scheme</td>
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<tr>
<td>WIS</td>
<td>Workfare Income Supplement</td>
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Chapter 1  Introduction

1.1  Inequality, and Geo-Classical Liberalism

The publishing sensation in the field of Economics in 2014 was Piketty’s Capital in the Twenty-First Century, which suggested that wealth inequality is not accidental, but an inevitable feature of capitalism. At the heart of the book, is the thesis that the return on capital, over time has usually been greater than the return on work. In other words, if someone has control of assets and can make investments, their earnings (and eventual wealth) will be higher than if they are simply employed, and earn an income from work alone. An exception to this assertion occurred in the 20-30 year period after WW2 for many developed economies. The evidence presented in the book suggests a return to the norm has been experienced over the last 40 years, and that this effect concentrates in not just the top 1%, but the top 0.1%, and top 0.01%. Oxfam, a UK based charity dedicated to reducing poverty, report in 2020, on the latest measures of inequality: ‘The world’s 2,153 billionaires have more wealth than the 4.6 billion people who make up 60 percent of the planet’s population’.

But what is meant by wealth, or capital? In fact, much of the return is not to capital, in the sense that capital is investment in new productive capacity, but to pre-existing assets, and in particular to land or property. Rognlie (2015:2) shows ‘that the long-term increase in capital’s net share of income in large developed countries has consisted entirely of housing’. When we consider housing, the most obvious object is the house, but the real value lies in the land underneath.

In another international study, combining data from fourteen advanced economies, the authors conclude that ‘84 per cent of the rise in house prices during 1950 to 2012 can be attributed to rising land prices’ (Knoll et al., 2017:348). Clearly, property and land play a pivotal role in determining levels of wealth and its distribution, through its peculiar mechanism to deliver a return, usually referred to as economic rent:

‘Scholars interested in the driving forces of long run trends in wealth and its distribution must direct their attention to the striking path of land prices in the modern era’ (Knoll et al., 2017:350). In a more recent report by the McKinsey Global Institute, ‘two-thirds of global net worth is stored in real estate and only about 20 percent in other fixed assets, raising questions about whether societies store their wealth productively’ (Woetzel, 2021: vi).

This thesis is built on the assumption that privately appropriated economic rent from land is a driving force in rising wealth inequality. In contrast, would collecting this rent as public revenue deliver more equity? As indicated, the rent of land offers a primary source for accumulation of wealth. How a state manages its land, what conditions should apply to ownership, has resonated through recorded time, and often lies at the heart of the constitutions developed to govern nations. Is this the area to which scholars should ‘direct their attention’? As populations have grown, and urban living has become the dominant form for humanity, the question has become more urgent. It is clear that while living together in towns and cities enhances productivity through co-operative effort, (what economists would call agglomeration or network effects, (Jacobs, 1970:122), see also (Glaeser, 2012),) there are many diseconomies and a poor environment evident in the poorer, crowded quarters of our cities. The combination of co-operative effort, together with public and private investment would increase the economic rent.

Henry George, who witnessed the development of America in its early transformation into the world’s most powerful nation, titled his most celebrated book Progress and Poverty (1879) which emerged from his earlier work Our Land and Land Policy (1871). In the second book he drew attention to the paradox of great poverty emerging side by side with great wealth. His explanation for this paradox was the private appropriation of rent. Those in control of land would capture the benefits of agglomeration (progress) while those without land would remain in poverty. The concept of economic rent had been developed in the previous century by economists Smith, Anderson, Malthus and Ricardo, then much debated by James and John Stuart Mill, Marx, Walras, Marshall, Clark and others ever since. However, as time passed,
land appeared to fall out of the debate as a distinctive factor in the process of wealth creation, see Ward and Aalbers (2016:1765-1766) for a brief history.

George’s solution was to use this natural surplus, rent, which he identified as being the outcome of collective effort in growing communities, to pay for community services, while at the same time removing all other charges and taxes on labour and capital. By collecting the rent for public revenue, there are two outcomes: first, the rent does not accumulate privately to owners of land, second, in George’s view, inefficient and regressive taxes on employment and consumption can be avoided. The inhabitants of the city can retain their earnings from productive effort, and avoid poverty. Gavin Kerr (2017) has called this approach Geo-classical liberalism, in which the state imposes strong conditionality on land ownership (non-produced goods), but weak conditionality on the creation of wealth (produced goods). Many economists have also claimed a third benefit: output will increase, to the benefit of all. I will return to these claims below, as well as defining economic rent, and explain more fully the Geo-classical liberal concept.

The thesis will identify Singapore as a close approximation to the Geo-classical paradigm, perhaps the closest available, offering a clear dividing line between the public and private realm, and therefore the interest of the state in these two realms.

The title of Economist and Urban Planner Anne Haila’s 2016 book on Singapore is ‘Urban Land Rent’; the subtitle is: ‘Singapore as a Property State’. In the introduction she argues that ‘what happens in Singapore has a lot to do with land’ (Haila, 2016:xxiii). Not just property in land. Not just the physical ownership of land or another asset, but the use rights that come with ownership; also, how the benefit of ownership, and the use rights granted are negotiated and shared between public and private interest. In other words, what conditions are applied by the state for the private use of land.

One might call the state which collects this economic rent a public property state, in contrast to a private property state, in the sense that property ownership determines who collects the rent of land. A (public) property state would give public purpose priority in the distribution of the rent of land, whereas a private (property) state
would give private appropriation priority in the distribution of the rent of land. Haila defines her case study city Singapore as being a land regime; although she does not preface property state with the word ‘public’ she makes clear the role of the state in ‘regulating public land.... State ownership is a crucial factor in Singapore’s land regime’ (Haila, 2016:216). Haila clearly anchors her concept of the property state in the Georgist or Geo-classical approach to the use of land. The property state can therefore be conceived as a Georgist state.

Other writers have noticed the same process: the subtitle of Geographer Rodolphe de Koninck’s book ‘Singapore’ is ‘An atlas of perpetual territorial transformation’, which describes ‘the constant redefinition of these spatial and environmental bearings’ not as ‘a mere consequence of changes accomplished in the political, economic and social spheres, but rather a tool’ (Koninck et al., 2008:1).

Singapore’s Centre for Liveable Cities appears to confirm this approach in a recent publication:

This predominant ownership of land by the state allows the government to use land supply as a tool to influence and stabilise land pricing and fulfil the economy’s national development, economic and social objectives (Ng and Choy, 2018:65)

In this thesis, I will undertake a detailed analysis of how the political, economic and social institutions established in Singapore after independence in 1965 used land and property in an attempt to fulfil the socio-economic objectives of their first leader, Lee Kuan Yew, laid out in the Proclamation of Singapore, of a ‘more just and equal society’ while at the same time achieving astonishing rates of economic growth. More specifically, the research question set out here, will identify the relationship between the land regime and inequality of wealth in Singapore, as well as the potential weaknesses in the system. Here I set out the research question to be answered in the thesis:

Research Question

Private appropriation of economic rent from rising land values is increasingly identified as a key cause of rising inequality of wealth. Through a programme of land acquisition since independence and the collection of land rents to support public revenue, to what extent has Singapore ameliorated this tendency in advanced economies?

Subsidiary Objectives

To explain how Singapore was able to engineer a sophisticated public land value capture policy framework?

To understand any lessons to be learnt in the light of rising land values and land rents in advanced economies becoming a key driver of wealth inequality?

I will argue that although the system operating in Singapore did not follow George’s model of a ‘single tax’ on land value, in many ways the public ownership of land, and the revenue regime operating in Singapore allows a significant proportion of this value to be collected by other means. Perhaps the sociologist Harvey Molotch might have given Singapore as an example of how a city might operate as a growth machine without enriching its land-owning elite, but instead the state itself (Molotch, 1976). The system has been operating for over 55 years, and shows no sign of moderation or reform.

Haila argues that Singapore is the best example of a capitalist economy where at least some of the publicly created uplift in land value after development is captured for public revenue – but does not dissect the system in sufficient detail to identify the failures, or inconsistencies in the approach. In acknowledging the ideas of George in the policies operating in Singapore, I suggest, in effect, a Georgist, or ‘Geo-classical’ (Kerr, 2017) property state approach has been adopted: the strong conditionality imposed around use of land puts Singapore into the category of a (public) property state. In other words, the principles of Geo-classical liberalism can be activated in practice through the conditions of the property state. The field of housing has been
a particular success in ensuring affordability, but the partial application of this approach has continued to create opportunities for private appropriations of rent, thus perpetuating patterns of inequality.

I will use this property state framework to analyse the political economy of Singapore, but I will use ‘property state’ as shorthand for this (public) property state.

While acknowledging the partially successful application of a Geo-classical land regime in Singapore, and the creation of a property state, my contribution will be to identify some flaws in the design of the system which may inform any potential adoption of similar policies in other jurisdictions and contexts.

1.2 The property state – what is a property state?

The concept of the property state was first conceived by Haila in 2000, in a paper describing both Hong Kong and Singapore as property states (Haila, 2000), and developed further in her 2016 book (Haila, 2016). In the 2000 paper, she focuses on three main aspects of what she means by ‘property state’:

1. The high proportion of land owned by the state in Hong Kong (100%, barring St John’s Cathedral), and Singapore now 90%.

2. The presence of property companies: owners, developers and managers of property, both in their home cities, and overseas – mainly other Asian countries, such as China, Vietnam, Thailand etc. - their significance as players in their respective economies, and stock market capitalisation. She puts this down to their need to ‘develop’ property rather than rely on capital gain/rent seeking from mere ownership, which is common elsewhere. Their owners appear in both international (and particularly Asian) lists of billionaires. There are few other multinational property development companies.

3. Land use rights as a major source of public revenue.

She also writes about the tendency for Singaporeans to invest in overseas property, the preponderance of property lending in the financial sector (sometimes referred to as financialisation), how foreign talents pay high prices to rent in Singapore, the role
of the state in determining how land is used, productive efficiency, but some of these factors are only roughly sketched in this article.

In the 2016 book, in the introduction, she expands the concept of a ‘property state’ (pages 15-21) on the back of a discussion about development, emphasising the political economy of land and the role of the state. Later, she asserts that ‘the land question is not only an economic question but also a moral, social and political question as rent theory sees it’ (Haila, 2016:44) and she gives seven reasons to focus on Singapore as a property state:

1. Land scarcity – how has land been utilised for maximum efficiency – combining its use value, exchange value and as a source for public revenue.
2. State ownership of land, but with a twist; private actors are able to own land by leasehold tenure.
3. The process of maintaining affordable housing, starting with state land ownership, but again utilising a leasehold model.
4. A consistent land policy – the benefits of a comprehensive land regime, for stability, revenue, growth – a visible hand, achieved by one party in power since independence.
5. The fact that Singapore is urban, (no hinterland, or regional problem) the analysis can be focused on urban land rent.
6. The paradox of large/successful property companies, despite state ownership of land - to test and elaborate the theory of land rent.
7. Rethinking the role of the state (state capitalism) and ownership of commercial entities; how the socialist sympathies of its political elite were combined with an open economy.

These features, are very particular to the case study, but could form the basis of what might be the essential characteristics of a property state thus forming an analytical lens, or framework with which to establish the general features of a property state.

In fact, Haila in this book refers to Singapore ‘almost as a laboratory for a social scientist’ on page 2, while on page 6 describes Singapore as ‘a distinctive city that defies easy categorisations’. It certainly has some unique characteristics, particularly
around the ownership and use of land which defy the neo-classical blueprint. Social Scientist Bent Flyvbjerg defends these black swan case studies, which once identified, can ‘have general significance and stimulate further investigations and theory building’ (Flyvbjerg, 2006:10).

Haila is careful to emphasise that she does not see Singapore as an utopia, something to aim for, as well as dismissing the narrative popular in development studies that places Asian values at the centre of this economic miracle, even though she recognises the moral dimension in their pragmatic approach. Rather, she sees a study of Singapore as an opportunity to ‘show that by analysing Singapore’s land regime we can understand and explain land-related problems and injustices in other cities’ on page 17. Her aim was to develop a modern, general land rent theory, through the property state framework.

As I explore this framework through the literature review, and justify the case study selection in Chapter 2, I will propose an extension to the conditions for a property state – perhaps to suggest a general theory for the property state. I will then refer back to these general features or conditions in the final chapters, to identify both positive and negative outcomes, particularly in respect of inequality, of the Singapore experiment. This extension of the conditions, is a part of my contribution.

Haila’s title of her 2016 book is Urban Land Rent, perhaps to distinguish it from the physiocratic, agricultural base for the productive economy at the time of the classical economists who first developed a theory of land rent, together with Ricardo’s iteration (power of the soil). It is really about urban rent (from the advantages of location, and work of the community), and how public collection of rent, socialisation of rent through the institutions of a property state, can lead to greater equity in wealth distribution. Singapore is not the perfect example of a property state, but it does incorporate many characteristics of a property state in its institutions and mechanisms of governance. In a debate with Manuel Aalbers, around the topic of rent, financialisation and land, Haila put it very simply: ‘The lesson here for other cities, whether city states or not, is that they can tax real estate’ (Aalbers and Haila,
2018:1831), by which I think she meant, the use of real estate can be taxed more heavily, through the practices employed in a property state.

While this thesis will focus on Singapore, the origins of our thinking around land ownership, use rights and development lie within Europe, and more particularly England - the first nation to industrialise, and adopt a predominantly urban way of life. Therefore the literature review and a short history of taxation in England will be used to build the analytical framework in chapters 3 & 4, and identify what Haila means by the ‘property state’. The English experience is easily transposed to Singapore, given the near 140 year status of Singapore as a British colony, and its adoption of Common Law and the Parliamentary system, as well as the English language for its governance.

The contribution of the thesis, will be not only to reflect on these proposed general features of the property state, but to offer an origin narrative for Lee’s vision of an equitable nation, what inspired the leaders of the new nation to adopt a Geo-classical approach to land use. This will address a research gap in the current literature. It will also indicate how an incomplete application of the principles of land rent theory to the property state approach has left significant opportunities for the private appropriation of rent to a small elite who have been able to secure title to landed (freehold) property in Singapore. While the distribution of wealth is more equitable than in many western economies, these inconsistencies have created, and if left unchecked, will perpetuate a high level of inequality between this elite and the rest of the population. The thesis will show how the significance of this weakness is not yet fully apparent.

1.3 Structure of the thesis

Turning now to the structure of this thesis, in the second chapter, Methodology: I will establish a method to measure differences from conventional systems of taxation, and other factors to justify the choice of Singapore as a case study for an examination of the property state concept. I will lay out the research programme and outline the way I will interrogate the practical application of the property state in Singapore by introducing ten general conditions that might apply to a property state.
In the third chapter, after some historical context, and comments on ownership of land, I will trace the history and development of land rent theory, the creation of wealth, the creation of value and the twentieth century theorising of capital accumulation in land, Harvey’s so called spatial fix to avert crisis (1982), as well as the concept of financialisation and its limits.

In the fourth chapter, I will offer an explanation of geo-classical liberalism and the property state, followed by an examination of the structure and purpose of taxation or public revenue, particularly the post 1945 consensus amongst OECD countries, optimal tax and property for public revenue.

The fifth chapter will focus on inequality, distinguishing between income and wealth inequality. It should be noted that the thesis is primarily concerned with inequality of wealth. In using the word inequality, I mean inequality of wealth, unless another meaning is otherwise clear. It will also explore the idea of justice and the effectiveness of the redistribution of wealth, as well as identifying some varieties of capitalism.

Chapter six will explore the foundation of Singapore as a free port by the East India Company in 1820, and its more recent history of independence, first from Britain, and then from the Malaysian Federation in 1965. How did its approach to land ownership, state capitalism and public revenue evolve? How is the approach, and its impacts, presented? What is, in essence, the Singapore model - the property state?

Chapter seven will describe the institutions and mechanics of the property state of Singapore, how it developed, and why it differs both from the neo-liberal model, as well as more typical command economies of the Soviet period, or the European practice of social liberalism.

Chapter eight will look at the impact of the Singapore model on wealth distribution as well as on measures of social wellbeing, in particular for housing, education and health. This will be done by reference to the general conditions of the property state:
to what extent has Singapore met these conditions? The general conditions are an upgrade of Haila’s concept, that transforms it into this analytical framework. The general conditions will be grouped as follows: Land Regulations, Public Service Provision and Funding, and Common Wealth as an heuristic technique to demonstrate how the political discourses have been activated in Singapore through this framework.

In addition, what are the limitations of Singapore’s property state, the issue of foreign workers in Singapore will also be addressed.

The final chapter will ask whether the property state model could be adapted for capitalist economies elsewhere, it will identify the gaps between theory and practice which has allowed inequality to persist in Singapore, as well as the structural problem of allowing wealth to accumulate in housing, particularly landed or freehold housing, thus prejudicing social mobility, and will identify the contribution of the thesis.
In the introduction, reference was made to some confusion in the use of terms such as wealth and capital. Chapter 3 will discuss some of these terms in more detail, but it is useful at the outset to adopt clear meanings. Definitions set out in Classical Political Economy are used as far as possible, although it is recognised that variations existed even in this period. Land is the free gift of nature, is not produced, and includes water and the atmosphere, as well as all material resources used to produce goods. Labour is work by humans, whether undertaken by employer or employee. Capital is equipment or premises used to produce wealth for final consumption; it can be used up in this production, and often requires maintenance or replacement. Wealth is produced by work on land, and is used in final consumption to serve and preserve life, including clothing and shelter. These definitions are clearly set out by Henry George in the second chapter of Progress and Poverty (George, 1879:75). As such, the thesis is broadly framed with a Georgist methodology, and any deviation from these definitions are clearly signposted. The property state is conceived therefore as an approximation of a Georgist state.

The purpose of this chapter is to identify economies with a high proportion of public revenue coming from land values, in order to satisfy one of the key elements of the property state. Ideally, we would search for jurisdictions with universal and comprehensive recurrent land value taxes with regular valuations. Although these exist in a number of countries around the world, the instrument is weak, in the sense that the revenue collected is low relative to other taxes, typically less than 5% of the total, and often only 1-2% (an overview can be found in (Andelson, 2000)). The orthodox system of taxation adopted by most western economies is near universal, as demonstrated in Tables 2.3 and 2.4, and discussed in detail in chapter 4. A different starting point is therefore necessary.

As an alternative, we could follow Haila’s criteria for a property state listed in the Introduction, (re-stated below)
1. Land scarcity – how has land been utilised for maximum efficiency – combining its use value, exchange value and as a source for public revenue.

2. State ownership of land

3. The process of maintaining affordable housing, starting with state land ownership.

4. A consistent land policy – the benefits of a comprehensive land regime, for stability, revenue, growth.

5. The fact that Singapore is urban, (no hinterland, or regional problem) the analysis can be focused on urban land rent.

6. The paradox of large/successful property companies, despite state ownership of land - to test and elaborate the theory of land rent.

7. Rethinking the role of the state (state capitalism) and ownership of commercial entities; how the socialist sympathies of its political elite were combined with an open economy.

Land is clearly the central issue, from which the remaining criteria flow, therefore I started by identifying countries with large areas of land in public ownership, for example Hong Kong, China, Singapore and Israel, given that control of land use satisfies one of the first criteria for the property state. There is no comprehensive record of the percentage of land in public ownership across nations, so an ad hoc list of countries was identified, based on prior knowledge, anecdotal evidence and research on individual countries. I then looked at the system of taxation in each of these countries. Clearly, only countries with a well developed and comprehensive system of taxation and public spending would be relevant for case study selection. If any of these jurisdictions collect a significant portion of public revenue from land values, then they could be candidates for a case study pertinent to the rest of this thesis.

Having identified a suitable case study, I then set out the methodology I will use both to analyse the data, and measure the outcome for society.
2.1 Case study selection – an overview of land ownership

There are a number of countries where a high proportion of land is owned by the state, set out in Table 2-1, which will be the starting point for our selection process.
Table 2-1: Landownership, selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of land in public ownership</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>100%</td>
<td>Nationalisation of land in 1949. Leasehold in urban areas since 1980</td>
</tr>
<tr>
<td>Hong Kong Special Administrative Region</td>
<td>100%</td>
<td>Leasehold ownership introduced by Britain in 1842, remains in place</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>100%</td>
<td>State ownership of all land since the 1995 Constitution, but multiple types of tenancy and use rights exist, often leading to conflict.</td>
</tr>
<tr>
<td>Singapore</td>
<td>90%</td>
<td>Leasehold introduced by Britain in 1820, limited freehold, but more land purchased by the state since independence in 1965</td>
</tr>
<tr>
<td>Israel</td>
<td>93%</td>
<td>Originated by Zionist purchase of land from Palestinians, gifted to the State of Israel, rooted in belief that land should not be owned, but granted by leasehold.</td>
</tr>
<tr>
<td>Sweden</td>
<td>21%</td>
<td>Large areas of forest, but still significant tracts of urban land in public ownership</td>
</tr>
<tr>
<td>UK</td>
<td>12%</td>
<td>Significant sale of public land since 1980, when the proportion was closer to 30%</td>
</tr>
</tbody>
</table>
China endured a turbulent twentieth century transition from Imperial rule. After a brief parliamentary democracy (led by Dr Sun Yat Sen, who was familiar with the work of Henry George, and spent a brief period in Singapore), invasion and partial occupation followed. Then a civil war, eventual victory by the communist party at least on the mainland, and establishment of a single party state still ruling today despite an opening to a market economy from 1979 onwards. While all property was confiscated in 1949 to become state, or in rural areas collective property, when private enterprises were allowed to operate after 1979, the sale of leases in land followed the Hong Kong model. Revenue from lease sales provided at least half of the public revenue for local authorities during this transition to a market economy. China has observed at close quarters the operation of the Hong Kong model. Earlier, the country witnessed the remarkable transformation of Qingdao, between 1898 and 1914 when it was a German colony, to become the fourth largest trading port on the coast: ‘the most complete modern experience of land value taxation’ (Foldvary and Minola, 2017:335). At the time of writing, all land remains in public ownership, and while some experiments in property taxation are taking place, there remains at least a decade before the early leases are due for renewal. Will leases be extended in return for a new premium, or will an annual charge be introduced, similar to Hong Kong’s Government Rent? It is too early to determine whether China will adopt a permanent system of public revenue from land values in line with a property state, or move to the standard western model of taxing earnings and consumption. Chinese Premier Xi Jinping confirmed in October 2021 that the property tax experiments would be extended, but details are yet to be published. While there is no doubt that China has achieved very high levels of economic growth over the last fifty years, with significant State involvement and investment in infrastructure and commercial activity, several elements of its economy remain opaque. It would therefore be difficult to offer China as a credible case study.

In Hong Kong, since becoming a British Colony, all land has been owned by the government and is made available by sale of leases (today of 50 or 70 years) depending on the use to which the land is to be put. Personal taxes are capped at 15% of income, low by international standards, there are no sales taxes, national
insurance, or estate duties. Instead, about 35% of public revenue is derived from land values: stamp duties, land (lease) sale premiums and investment income (author’s estimate) thus satisfying two key ingredients of the property state.

This system of land ownership and use is enshrined in the Basic Law, which came into effect in 1997, when the colony was handed back to China, set to last for a minimum of 50 years. The historical legacy is messy, with some leases having been extended to 999 years duration, although this practice was ended in 1898. A detailed history is given by Chartered Surveyor Roger Nissim, who concludes that the effect of new rules to charge an annual 3% of rateable value\(^3\) (a Government Rent) instead of a new premium on lease expiry ‘means that what has now been established in Hong Kong is a land tenure system which is in effect, a perpetual leasehold’ (Nissim, 2008:42), believing that this system will eventually apply to all leases.

Nonetheless, land values and house prices are among the highest in the world, in part due to the strict control of the land supply to the market for development, with the government having been accused of a high land price policy. On the other hand, Hong Kong has enjoyed high growth, and has been very successful in ensuring that public investment in transport infrastructure in particular has been recouped through implementation of transport oriented development policies, (Purves, 2015: chapter 5). However, given the accidental nature of the development of these policies and practices, I conclude that while Hong Kong can offer good examples of best practice in terms of Functional Taxation referred to in Section 4.7, some of the other criteria for a property state are somewhat lacking. Speculation in land continues: for example, all the major property companies have extensive rural land banks. Other drawbacks include the extreme levels of inequality, which despite the large proportion of residents living in public housing (about 30%) leave many in cramped, subdivided private rental flats or even in so called ‘coffin homes’, see, for example (Goodstadt, 2013) and (Poon, 2011).

\(^{3}\) Rateable Value in Hong Kong is based on the annual rental value of any property, based on open market value, net of any maintenance, repairs etc. reviewed annually.
Israel offers another jurisdiction with the majority of land in public ownership – 93% (Nachmany and Hananel, 2019:236), with a complex system of leasehold having emerged since the creation of the nation in 1948. The origin of the system lay in the Zionist movement to re-establish a homeland for Jews, and the Jewish National Fund which from the beginning of the twentieth century started buying land in Palestine, which was eventually handed to the state of Israel. By law, land cannot be sold in perpetuity, based on the biblical principle laid down in Leviticus, chapter 25. However, the pattern of taxation follows very closely to the OECD average, with only 10% of revenue coming from property taxes, (see Table 2-2). While the ownership of land offers an interesting model from a philosophical perspective, Israel does not satisfy the public revenue criteria for a property state. Economic growth has been high, and equity remains an avowed goal in society. However, over the last twenty years, there has been a concerted effort to circumvent the principle that land should not be sold in perpetuity, (Kats, 2016) in an attempt to align their land use policies with neoliberal principles of private ownership. For these reasons, Israel does not offer a good case study for the property state.

Although Ethiopia is a country with a high degree of state land ownership, as are Cuba and North Korea, they remain under-developed economies, with significant uncertainties over how land might be distributed, and its use controlled in future. Tribal warfare is once again raging in Ethiopia, minimum levels of public services are far from guaranteed, and each country appears as a special case. I will therefore not consider them as candidates for a property state in any detail.

Singapore became a British Colony twenty-three years earlier than Hong Kong (1819), and as a free port at a time of overbearing Dutch control of trade to Europe from the East Indies, soon flourished, eventually joining parts of Malaya in the Straits Settlement. During the late nineteenth century much of the land, originally leased from the Malayan Sultanate of Johor, was sold to local farmers and businessmen, including Chinese merchants. After the Second World War although the British reclaimed the colony from Japanese occupation, it was clear that the region would follow India on a path to Independence. Singapore eventually became an independent republic with a parliamentary democracy under the leadership of its
first Prime Minister Lee Kuan Yew in 1965. At that time, 49% of land was under state ownership, up from 31% in 1949, the remainder comprising a mix of leases of varying length, as well as freehold or landed property. With the help of the Land Acquisition Act 1966, by 2002 90% of land was in state ownership. Under the Act, land could be acquired by any public body, to fulfil any public purpose, and the compensation paid to previous owners was fixed to particular dates, which gradually changed over time: 1973, 1986, 1992, 1995. Eventually in 2007, compensation was paid at open market rates. Justification for this confiscation at below market rates was given by the Prime Minister: ‘I saw no reason why private landowners should profit from an increase in land value brought about by economic development and the infrastructure paid for with public funds.’ (Lee, 2011:97).

Over time, therefore, Singapore increasingly satisfied the first criteria for a property state.

2.2 Case study selection – sources of public revenue

A part of this thesis is about economic rent, which in the Classical Economic analysis is derived from land or location. It is the economic rent of land. Whoever controls the land, collects the rent. Marx therefore recommended the nationalisation of all land, in order to eliminate the rent problem, which is otherwise appropriated by the private owners of land. This notably happened in the Soviet Union, Cuba, and China. After the disintegration of the Soviet Union, Russia returned to the private ownership model, Cuba retains a hybrid model, while China adopted a leasehold system for all land ‘sold’ to the private sector, at least in urban areas; in rural areas, much of the land remains in community or collective ownership. In contrast, George recommended collecting all public revenue from the economic rent of land – the Single Tax.

4 Source: Motha and Yuen, quoted in Haila (2016) page 73
But does the fact of public ownership of land necessarily contribute to public revenue? And if so, how? From the OECD database on tax revenue source, these countries have the highest rates of property taxes as a percentage of total revenue:

**Table 2-2: OECD Global Revenue Statistics Database, Taxes on property as a % of total tax revenue, selected countries.**


<table>
<thead>
<tr>
<th>Country</th>
<th>Range and average of property taxes as a % of total revenue, 2000 – 2017.</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Range</td>
<td>Average</td>
</tr>
<tr>
<td>Singapore</td>
<td>9.30-17.10</td>
<td>12.98</td>
</tr>
<tr>
<td>United States</td>
<td>10.30-16.00</td>
<td>12.33</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11.50 – 12.60</td>
<td>12.11</td>
</tr>
<tr>
<td>Korea</td>
<td>10.30-12.80</td>
<td>11.73</td>
</tr>
<tr>
<td>Israel</td>
<td>8.40-10.70</td>
<td>9.76</td>
</tr>
<tr>
<td>France</td>
<td>7.10-9.50</td>
<td>8.24</td>
</tr>
<tr>
<td>OECD average</td>
<td>-</td>
<td>5.55</td>
</tr>
</tbody>
</table>

From this table, we can see that Singapore and the United States demonstrate the widest volatility in the revenue coming from property taxes; the United Kingdom figure is remarkably consistent over time, whereas Korea, Israel and France show an increasing level of revenue from property taxes; two other countries are also
increasing the rate of property taxation: Canada and Belgium, but over time are still below the average rates for this selection.

Singapore’s unconventional income from land value and property income, is included in this thesis, which go far beyond the conventional definition of property taxes, but they are not included in Table 2-2. Various mechanisms exist to gather public revenue from land values, including lease auctions, rental charges, road use charges and dividends from state owned companies, some of which are property development companies. In a presentation given in 2018, Professor Sock Yong Phang estimated that 50% of Singapore’s public revenue is derived from land values. There is no doubt that Singapore has achieved spectacular growth since independence, and their citizens enjoy a good standard of living.

Including these unconventional sources, the percentage of public revenue coming from property goes from 12.98% on average between 2000 and 2017, to 52% in 2017, as I demonstrate below. The figures for China and Hong Kong are not given by the OECD; but I have previously calculated that 35% of public revenue in Hong Kong is derived from land value (Purves, 2019).

What, however, is the general pattern of taxes for the OECD, and the countries featured here?

---

5 Re-imagining Inclusive Cities Conference, Chennai, 15/16 November 2018, presentation by Professor Sock-Yong Phang, Singapore Management University
Table 2-3: Summary of tax sources as a percentage of total revenue, selected countries; compiled by author from OECD global revenue statistics, country summaries.


<table>
<thead>
<tr>
<th>All figures are %</th>
<th>UK</th>
<th>USA</th>
<th>France</th>
<th>Israel</th>
<th>Korea</th>
<th>Singapore</th>
<th>OECD Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income</td>
<td>46</td>
<td>62</td>
<td>58</td>
<td>41</td>
<td>44</td>
<td>11</td>
<td>50</td>
</tr>
<tr>
<td>Corporate income</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td>10</td>
<td>14</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>Property</td>
<td>13</td>
<td>16</td>
<td>9</td>
<td>10</td>
<td>12</td>
<td>52*</td>
<td>5.7</td>
</tr>
<tr>
<td>Sales/VAT</td>
<td>21</td>
<td>0</td>
<td>15</td>
<td>23</td>
<td>16</td>
<td>19</td>
<td>20.2</td>
</tr>
<tr>
<td>Excise duties</td>
<td>11</td>
<td>16</td>
<td>9</td>
<td>8</td>
<td>12</td>
<td>3</td>
<td>12.5</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>2.6</td>
</tr>
<tr>
<td>Ratio of tax to GDP</td>
<td>33.3</td>
<td>26.8</td>
<td>46.1</td>
<td>32.5</td>
<td>26.9</td>
<td>14</td>
<td>34.2</td>
</tr>
</tbody>
</table>

This table has a number of striking features. First, Singapore collected 52% of its public revenue from land values and property income in 2017; a full analysis will be given in Chapter 7, with appendix 2 showing a longer time series for capital receipts. But an initial assessment is given here.

The path for certain forms of revenue in Singapore are convoluted, which I explain in this series of tables:

I take the 2017 actual figures (latest currently available) to illustrate, as later years remain estimates until two years after the year end. The starting point is the
Singapore Operating Revenue reported to Parliament each year in the Budget Speech, and published as a series of tables in the Budget Statement. The Operating Revenue includes Tax Revenue (B00), Fees and Charges (C00) and Others (J00) to which the Net Investment Returns Contribution (NIRC) is added, giving the Total Operating Revenue. This figure is not quoted in the Budget Statement, but is used to calculate the Overall Budget surplus/deficit after Special Transfers and Top ups to Endowment and Trust Funds, which in 2017 was $10.8bn.\(^6\)

\(^6\) Throughout this thesis, all references to prices are given in Singapore dollars ($), unless distinguished by a particular prefix, as in US$, or other currency such as sterling (£). For reference, the Singapore dollar has ranged from $1.70 to $1.87 to the pound over the last five years, currently exchanging for $1.83 (January 2022).
Table 2-4: Singapore Operating Revenue from annual Budget Statement, 2019

<table>
<thead>
<tr>
<th>Singapore Operating Revenue 2017</th>
<th>Actual 2017</th>
<th>% of operating revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue S$bn (Taxes, Fees &amp; Charges, Other)</td>
<td>75.82</td>
<td></td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>14.94</td>
<td>20</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>10.72</td>
<td>14</td>
</tr>
<tr>
<td>Withholding tax - on Singapore earnings of overseas residents</td>
<td>1.53</td>
<td>2</td>
</tr>
<tr>
<td>Statutory Boards Contribution</td>
<td>4.87</td>
<td>6</td>
</tr>
<tr>
<td>Assets tax - Property tax and Estates duty</td>
<td>4.44</td>
<td>6</td>
</tr>
<tr>
<td>Customs and Excise - petrol, tobacco etc.</td>
<td>3.13</td>
<td>4</td>
</tr>
<tr>
<td>General Sales Tax</td>
<td>10.96</td>
<td>14</td>
</tr>
<tr>
<td>Motor vehicles duty</td>
<td>2.15</td>
<td>3</td>
</tr>
<tr>
<td>Vehicle quota premium</td>
<td>5.8</td>
<td>8</td>
</tr>
<tr>
<td>Betting taxes</td>
<td>2.69</td>
<td>4</td>
</tr>
<tr>
<td>Stamp Duty - on documents and sales of property</td>
<td>4.91</td>
<td>6</td>
</tr>
<tr>
<td>Other - foreign worker levy, development charge, water conservation, annual tonnage</td>
<td>6.02</td>
<td>8</td>
</tr>
<tr>
<td>Fees and charges, includes road use charges</td>
<td>3.28</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>0.38</td>
<td>1</td>
</tr>
<tr>
<td>Plus unconventional public revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment Returns Contribution (NIRC)</td>
<td>14.72</td>
<td></td>
</tr>
<tr>
<td>Total Operating revenue, (including NIRC)</td>
<td>90.54</td>
<td></td>
</tr>
</tbody>
</table>
In this table, the NIRC is listed as unconventional public revenue, as it is drawn from reserves. The source for reserves is Investment and Interest Income (L00) and Capital Receipts (M00), (mainly from land sales); each year, the total revenue from Investments and Capital Receipts goes to reserves, but only up to 50% of the income from reserves invested can be spent through the operating budget as NIRC in any given Parliament, unless special authorisation if given by the President in exceptional circumstances. So in 2017, the total authorised operating revenue including NIRC was $90.54bn shown in Table 2-4. However, if one includes Investment Income and Capital Receipts, total government receipts for that year is higher, at $107.83bn, shown in Table 2-5:

**Table 2-5: Public revenue, actual 2017 including all investment and land sales income, taken from the reports for public revenue by Object Class, Ministry of Finance.**

<table>
<thead>
<tr>
<th>Unconventional receipts, 2017 $bn</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income and interest</td>
<td>16.14</td>
</tr>
<tr>
<td>Capital receipts, including land sales</td>
<td>15.87</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>32.01</strong></td>
</tr>
<tr>
<td>Operating revenue (conventional) as shown in Table 4-2</td>
<td>75.82</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td><strong>107.83</strong></td>
</tr>
</tbody>
</table>

Taking this higher figure for total receipts, and in order to calculate the percentage of total revenue from land value and other property income, we need to decide which sources of public revenue fall into this category. For the time being, I include the items set out in Table 2-6. I will describe these sources in greater detail in Chapter 7, and identify which agencies collect these revenues. In the meantime, I will explain the rationale for this classification, which is based on the fact of ownership. Ownership of physical property is clearly conditional on ownership of land, even if the property owned, as defined by a strata title, such as an apartment, is a three dimensional space above the land on which the building sits. Property taxes apply to
these titles, as do stamp duties on transactions in property, including financial assets such as shares and other investments. Included in Other taxes are the development charges, levied primarily for change of use and densification of particular sites; the precise total raised from development charges are not disclosed. The vehicle quota premium paid for a Certificate of Entitlement (COE), is clearly necessary in order to own a vehicle, while that vehicle is charged for the use of space on the public highway through Electronic Road Pricing (ERP) while on the move, and in a fixed location by payment for a parking permit.

**Table 2-6: Public revenue from land value and other property income, putting together the figures from Table 2-4 and 2-5.**

<table>
<thead>
<tr>
<th>Revenue from land rent, or other property income $bn</th>
<th>Actual 2017</th>
<th>Percentage of total receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets tax - Property tax and Estates duty</td>
<td>4.44</td>
<td></td>
</tr>
<tr>
<td>Stamp Duty - on documents and sales of property</td>
<td>4.91</td>
<td></td>
</tr>
<tr>
<td>Other - foreign worker levy, development charge, water conservation, annual tonnage</td>
<td>6.02</td>
<td></td>
</tr>
<tr>
<td>Vehicle quota premium</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>Investment income and interest</td>
<td>16.14</td>
<td></td>
</tr>
<tr>
<td>Capital receipts including land sales</td>
<td>15.87</td>
<td></td>
</tr>
<tr>
<td>Fees and charges, including road use charges</td>
<td>3.28</td>
<td></td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>56.46</strong></td>
<td><strong>52.36%</strong></td>
</tr>
</tbody>
</table>

We can now show that 52% of public revenue in Singapore is derived from land value and property income as defined here, against the OECD 32 country average of 5.7%: $56.46bn out of $107.83bn. While it is legitimate to classify receipts from land sales and investment income as revenue, it should be noted that not all receipts are spent through the operating budget.
While other jurisdictions may have sources of unconventional income, including for example revenue from planning obligations not included in Table 2-2, the scale of revenue is small compared to Singapore. For example, in the UK, in 2007/08, only £4.8bn was collected by this means (the highest ever total), representing less than 1% of total UK public revenue in that year (Crook et al., 2016:161). Other jurisdictions also collect revenue from parking fees, road tolls or licences for particular types of land use, such as fishing, but none are on the same scale as those fees operating in Singapore. Nor do these other jurisdictions have investment income, or significant capital receipts detailed below.

The largest two categories of revenue in this list are Investment Income and Interest (obtained by the MAS, GIC and Temasek Holdings, whose functions will be explained in sections 7.7, 7.8, and 7.9) and Capital Receipts, the overwhelming majority of which come from land (lease) sales, all of which is derived from ownership of assets. Once again, the process for lease sales will be described in chapter 7. Over the last twenty years, the amount of revenue generated from Investments and Capital Receipts has varied from 22% in 2009 to 39% in 2007 of the total, neatly falling either side of the great financial crisis (GFC), while it was 30% in 2017, the illustrative year shown above. The full breakdown, including conventional tax revenue is attached as Appendix 2.

In contrast, Table 2-3, for the 32 OECD countries, on average, 50% of public revenue comes from personal income taxes, compared to only 11% in Singapore. It is these two sets of contrasting statistics which justify the selection of Singapore as the case study. One further marked difference is in the ratio of taxation to GDP – only 14% in Singapore, against an OECD average of 34%, however the Singapore figure does not include its unconventional sources of public revenue, which if included, would inflate this figure. Annual expenditure is also higher as a percentage of GDP, once the spending of the Special Endowment Funds are taken into account – up to 20% per annum (Blondal, 2006:50). Another reason for the relatively low revenue and expenditure in Singapore is that transfer payments are managed (and subsidised for low income citizens) through the Central Provident Fund (CPF), Singapore’s compulsory savings scheme (to be explained fully in chapter 7). These funds can be
used for mortgage payments, healthcare and education, as well as retirement income (pensions), but fall outside the public revenue/expenditure system. In 2019 for example, $39bn went into the CPF, while $21.4bn was withdrawn (see section 7.11). I will discuss the socio-economic outcomes of this difference in Chapter 8, and whether this has an impact on levels of inequality in Singapore compared with the OECD average.

Clearly Singapore has a different typology for taxation to the OECD members, which can be summed up by the phrase: low personal taxes, high revenue from land value and property income, noting that not all revenue from land value and property are strictly speaking taxes. There is one other jurisdiction that has a similar typology: Hong Kong, (Purves, 2015). We can draw one other conclusion: high dependence on property income for public revenue is not a consequence of public ownership of land – Israel demonstrating this fact, with high public ownership of land, but only average revenue from land value. Rather, it depends on the conditions attached to use of land that determines the amount of revenue drawn from land value. It is the combination of these factors: land ownership, control of land use, significant public revenue from land, together with other characteristics listed in the Introduction which constitute the property state.

Singapore’s public revenue regime demonstrates in practice how much land rents can deliver, while its ownership of utilities and monopoly service providers demonstrate what additional revenue can be collected from their economic rents. Does this 52% figure represent the maximum possible percentage? In a comprehensive analysis of the potential collection of ‘total resource rents’ for Australia, the authors estimate that ‘the taxation of economic rents, can raise 87% (A$340.719 billion) of revenue needed’ (Fitzgerald, 2013:5). While Australia has many natural resources delivering economic rents, land values alone are estimated to have the potential to deliver A$206bn, 60% of the total. The report includes rents from multiple services enjoyed by the majority urban dwellers of Australia, including broadcasting, internet, banking, gambling and taxi licences amongst others. The theoretical analysis for Australia, suggests that Singapore could in fact go further.
The question of whether the property state forms its own variety of capitalism (Hall and Soskice, 2001), or welfare state regime (Esping-Andersen, 1990) will be left to the concluding chapter, once the empirical evidence has been laid out – showing the nature and consequences of adopting the property state model for equality. At this stage, one can acknowledge that Singapore’s welfare regime is perhaps a blend of the three dominant models; there is a degree of the liberal model in the contribution-related CPF; there is a degree of the social democratic model in the high quality universal education offer, as well as in the provision of public housing. At the same time, the conservative-corporatist model appeals to the idea behind the ‘Asian Values’ paradigm of reliance on family and community to provide welfare. Alternatively, to what extent does Singapore conform to a fourth ‘productivist’ category for Asia, where social policy is subordinate to economic policies (Holliiday, 2000). For Singapore, perhaps this category is no longer relevant as the growth phase of development is waning (Peng, 2020).

Equally, the Singapore economy incorporates many features of a coordinated market economy with the large number of government linked companies (GLC) and well planned industrial and commercial districts, while at the same time, the high number of multi-national companies operating in Singapore, with low barriers to enter the market suggest a predominantly liberal market economy. Perhaps the structure of Singapore’s economy combine the best aspects of both models, according to the logic of the property state.

In the introduction, I listed Haila’s seven features of the property state in Singapore, and included them again at the beginning of this chapter. Following what has been learnt from the literature review in this thesis, could an extended list help answer some of the research question posed, offering a general theory for a property state? In which case, one might extend the seven to ten. I list them now for reference, not as a route map or manifesto, as any such features will need constant revision and refinement as conditions and technologies evolve in the future, but as a guide or benchmark for further analysis. Expanding Haila’s seven reasons into ten might also reveal some gaps in her framework for analysis, as well as potential limitations in the
Singapore experiment, which will contribute to further theorising of the property state concept.

1. **Absolute government control of land use rights**, while guaranteeing security of tenure for users subject to meeting all conditions of ownership as well as the ability for the state to purchase private land on reasonable terms, to be repurposed in the public interest.

2. **Freedom to use unused land**, subject to meeting all conditions including payment for public goods.

3. **Capture any uplift in value** from public investment, and remove the possibility for speculative gain (rent seeking) from property, particularly when state sanctioned land use changes, without stifling development opportunities.

4. **An open land register** transparent, consistent, comprehensive, showing land ownership and use rights.

5. **Public provision of natural monopoly services**: utilities, transport, communications, ports.

6. **Adherence to the principles of efficient (optimal) taxation** – emphasising the central place of annual charges on immovable property (land/property value).

7. **Sufficient property rights for all** – not necessarily in equal shares of land – but the freedom to access or enjoy the wealth from work on land, either directly or indirectly.

8. **Treatment of land and property as a national endowment** to guarantee wealth/welfare for all, a common source of wealth.

9. **Land for life**: Ensure minimum levels of housing and essential services such as healthcare, education, recreation and transport to all inhabitants through judicious use of land resources, including a clean and healthy environment.

10. **Land for wealth**: Ensure land resources are used to offer space for commercial activities on reasonable terms to provide a substantive opportunity for work and wealth creation.

I will return to the political dimension of these features in Chapter 6. I will present a more detailed analysis of the wealth distribution in Singapore, together with an
alignment with other attributes of the property state in later chapters, and more explicitly arrange them under several headings in Chapter 8.

2.3 Methodology

Having justified the selection of Singapore for the case study, I now set out the methods used to answer the research question:

Research Question

*Private appropriation of economic rent from rising land values is increasingly identified as a key cause of rising inequality of wealth. Through a programme of land acquisition since independence and the collection of land rents to support public revenue, to what extent has Singapore ameliorated this tendency in advanced economies?*

Subsidiary Objectives

*To explain how Singapore was able to engineer a sophisticated public land value capture policy framework?*

*To understand any lessons to be learnt in the light of rising land values and land rents in advanced economies becoming a key driver of wealth inequality?*

I used a fixed mixed methods approach to my research, agreeing with Johnson et al. that ‘the primary philosophy of mixed research is that of pragmatism’ (Johnson et al., 2007:113), ‘for the broad purpose(s) of breadth and depth of understanding and corroboration’ (Johnson et al., 2007:123). While acknowledging the so called paradigm debate, I believe that both ‘quantitative as well as qualitative approaches have a valuable contribution to make’ but will ‘actively seek to utilise and integrate both’ (van Griensven et al., 2014:370).

The question of rising land values being identified as a key cause of rising inequality has been addressed in chapters 4 & 5, from both a theoretical and practical perspective. Turning to the specificities of Singapore, I researched the history and political development of the island, to trace how this issue has been addressed.
I began this chapter by looking at quantitative macro-economic data: national accounts showing the make-up of public revenue from different sources in a number of countries, to justify my choice of case study as shown above. This research will also establish economic performance and growth relative to OECD countries to confirm Singapore as an advanced economy.

In chapter 6, I undertook the qualitative analysis to understand whether there was a deliberate process involved in designing the property state. This began to address the second research question: how were the mechanisms to capture rising land values designed, and policies implemented through Act of Parliament, and by which Ministries or Statutory Board.

First, this involved a survey of the history of Singapore’s political economy leading up to independence in 1965, and then follow how it developed in subsequent years.

Second, in acknowledging Singapore’s first Prime Minister, Lee Kuan Yew as the key personality and political force in determining the path followed by his country, some time was spent on his own writing, both from published work, and archives. In particular, I attempted to identify the ideological influences on him, from references in his work. I also looked at critical biographies and analysis of his legacy. This analysis attempted to answer why it was possible to create the sophisticated public land value capture policy framework, and point to any lessons for other jurisdictions contemplating reform. I also discuss key elements of the founding principles of civil society in Singapore, such as the so called Social Compact.

Third, I reviewed a selection of political speeches by the leading protagonists, both within and outside parliament, to identify specific policies around land ownership, the institutions involved with land use planning and public revenue. Parliamentary debates are available online, and are searchable by topic, parliamentary session or keyword and are recorded verbatim. Significant recent Ministerial speeches are published by relevant departments, also available online, while the National Archive

contains an online record of older material, which I was able to search by keyword. I aimed to identify whether the politicians and policy advisors were following a plan to create a property state, or were driven by mere pragmatism. Equally, political party manifestos were read to understand whether policies had an ideological origin, and how these have changed over time.

Fourth, I present a timeline for the establishment of the statutory bodies, describe their mandates, or terms of reference in relation to development objectives. For example, was their purpose merely functional (to build housing for example) or were they designed with longer term goals, for example to generate public revenue, or build a National Endowment. How does their structure relate to providing the conditions necessary for a property state.

Inevitably, there is some overlap between chapter 6 and 7, but chapter 7 analyses in more detail individual Singapore government agency accounts, P&L, Balance Sheet etc. to understand how these agencies work as independent statutory bodies in line with the principles of the property state. This analysis demonstrates how any surplus generated is passed to national government as public revenue. Many of these processes are unconventional forms of taxation, in the sense that the transfers take place outside the General Revenue Account detailed in Singapore’s annual budget. In addition, the transfers are opaque, uncertain, and seemingly at the discretion of the agency concerned. I also studied and identified as far as possible, where these indirect revenue streams end up in the national accounts. This research was desk based, and required some forensic analysis of annual reports and accounts. It demonstrated how at least a part of the economic rent is being diverted from private appropriation to ameliorate inequality.

To assist the reader in navigating later sections, I set out in tabular form the list of Singapore institutions and Statutory Boards in Table 2-9.

Next, to establish the pattern of inequality in Singapore, and how this is changing over time, I researched the Household Sector Balance Sheets, and CPF data on holdings by age and socio-economic categories. Other measures were considered some of which are hard facts, such as found in the gini-coefficient or life expectancy.
But softer indicators are also used, such as measures of social inclusion, mental health or democratic participation. I also used statistical reports on healthcare outcomes, educational attainment and quality of life for example, and made international comparisons to judge the outcomes for Singapore citizens against the research question.

The results of this analysis were tested where necessary through interviews with officers from government departments or civil society institutions as appropriate. This method is particularly appropriate in measuring the softer outcomes of social welfare. More specific literature from social science research was used to identify the levels and nature of poverty to lend a more qualitative perspective. Comments from interviews and written answers were used to illustrate the level of understanding about Singapore’s value capture mechanisms.

The purpose of the mixed method design is one of expansion (Cresswell and Plano Clark, 2011) in order not only to report on the facts, but identify why the institutions of the state exist, and how they developed. I gave equal priority to each method of research, which was conducted in multiple phases, as I believe the two approaches informed each other: ‘qualitative data can play an important role by interpreting, clarifying, describing, and validating quantitative results, as well as through grounding and modifying’ (Johnson et al., 2007:115).

The design of this mixed method best fits the explanatory sequential design. This helped to identify trends over time – how and whether the political challenges to policy have informed or adjusted the priorities of the property state. I summarise the programme of research in this table:
Table 2-7: Programme of research

<table>
<thead>
<tr>
<th>Research Question/Subsidiary Objective</th>
<th>Methods</th>
<th>Chapter Foci</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case study selection</td>
<td>Comparison of state land ownership and source of public revenue, various countries from National Accounts, and OECD reports</td>
<td>Chapter 2</td>
</tr>
<tr>
<td>How has Singapore ameliorated this tendency for rising inequality in western economies?</td>
<td>Quantitative and Qualitative research of primary data, history and social/civil society development. The creation of Singapore’s land regime</td>
<td>Chapter 6</td>
</tr>
<tr>
<td>How did Singapore engineer its value capture framework?</td>
<td>Analysis of Ministries, Statutory Boards, performance and purpose from annual reports, Parliamentary debates, Policy Statements, interviews and written answers to questions.</td>
<td>Chapter 7</td>
</tr>
<tr>
<td>What lessons can we learn from this system?</td>
<td>Analysis of outcomes and shortcomings, against the property state model</td>
<td>Chapter 8</td>
</tr>
<tr>
<td>Conclusions</td>
<td>Answers to research question, and reflections on subsidiary objectives. Contribution of the thesis</td>
<td>Chapter 9</td>
</tr>
</tbody>
</table>

Unfortunately, it proved impossible to travel to Singapore during both 2020 and 2021 due to restrictions imposed due to the COVID pandemic. I therefore decided to conduct interviews online. While I was partially successful in organising online interviews, (six were conducted in total) many of the key agencies declined the opportunity. Very often, no reason was given, and reference was made to policy documents available on agency websites. In some cases, agencies agreed to answer a set of written questions by email. Most government agencies answered emails, even if refusing to engage. Some civil society organisations did not reply to emails; this difficulty in communication may have been exacerbated by lockdown conditions for much of the period of the research. Political Parties did not respond. I therefore referred to documents and statements available on their web sites, as well as blog
posts from individual MPs, to identify particular political issues. Some agencies gave pressure of work under difficult circumstances as the reason for lack of engagement.

Furthermore, it soon became clear from the interviews I conducted, that interviewees were not able or willing to go beyond confirming existing, published policies. Questions probing existing policies, in both interviews and written answers were often rebuffed in statements such as ‘I can’t share details of that...’ (Int2) or ‘We have no comment on this issue’ (WA1). I had been warned by one academic familiar with Singapore, that gaining access to public servants would be difficult. He suggested that given I had no personal stake in Singapore, it meant that the government could have no way to apply pressure on me to withdraw what might be seen as inaccurate, misleading or critical statements. Therefore, it was safer for them to avoid engagement. Even personal contacts gained through friends and other professional networks were reluctant to engage. One potential interviewee who had retired from one of the investment agencies several years ago refused to engage, citing Official Secrets legislation. Had I been ‘on the ground’ it may have been possible to bypass potential gatekeepers looking after their officials, or use one interview to elicit an introduction across departments.

A pattern emerged whereby enquiries were answered by reference to speeches given by senior ministers, in which often complicated government policies were introduced or explained. In addition, I was directed to government online sources, where articles are published in response to questions or comments posted on social media. This seems to be a mechanism to refute criticism, and justify government policies in a positive light. In one interview, it was stated that:

> From time to time, there may be claims or assertions about the CPF that are incorrect. These fallacies are usually clarified in a myriad of ways and you can usually find explanations on the CPF, Ministry of Finance or Ministry of Manpower websites (Int1).

As a result of this difficulty, a decision was made to concentrate more heavily on official policy documents, both online, and from records available in the British Library. The Tables 2-8, 2-9 and 2-10 list these sources. Table 2-11 lists interviews or written answers received with their codes used throughout the thesis.
Another difficulty presented by the remote nature of research, related to documents listed in the National Archives using the online search facility. Many documents are not yet available online. These could be requested, but often the format (microfiche) or printed material were only ever going to be available in person at the Library. In some cases, even digital formats, I was informed, could only be viewed on terminals in the respective libraries in Singapore. One useful source of background context, were recordings of ‘oral history’ interviews conducted by archivists in Singapore, with key Politicians and Civil Servants, some of which were available online. While these recordings were discursive, and not open to interrogation, in some cases, they added colour to my analysis.

Other contextual sources were extended essays and books written by ministers which offer a history and rationale for government policies implemented and adjusted over time. For example, Lee Kok Fatt who served in the civil service for over twenty years, including as Director (Fiscal Policy) at the MOF, wrote *Singapore’s Fiscal Strategy for Growth, A Journey of Self-Reliance* (Lee, 2017). It has been referenced in later chapters to illustrate this tendency. The tone of the book combines an element of collective self-congratulation at what has been achieved with a warning that abandoning the prudence and self-reliance at the heart of Singapore’s social compact will eliminate the possibility of further growth and prosperity. This message is reinforced in the History and Mission or Values section on most Government Ministry and Statutory Board web sites, often accompanied by images of liveried employees engaged in annual volunteering days, or sponsored events for charities to emphasise the importance of Community. While these resources often provide excellent references and insights for future policy development, it is necessary to be mindful of the ‘official’ nature of the source and retain a critical evaluation of what is being presented, which could be seen as little more than propaganda.

To assist the reader in understanding the sources, I set out here in a series of Tables, the key institutions and organisations used to build both quantitative and qualitative data for further analysis throughout the thesis. There is also a schedule of interviews, including refusals.
<table>
<thead>
<tr>
<th>Organisation</th>
<th>Type of report/Organisation</th>
<th>Purpose of analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Humanitarian Organisation for Migration Economics (HOME)</td>
<td>Annual report, Newsletters and case studies <a href="https://www.home.org.sg">https://www.home.org.sg</a></td>
<td>Provides services to, and advocates on behalf of migrant workers. To understand plight of foreign workers</td>
</tr>
<tr>
<td>Tansient Workers Count Too (TWC2)</td>
<td>Annual report, newsletter <a href="http://twc2.org.sg">http://twc2.org.sg</a></td>
<td>Promotes fair treatment for migrant workers (esp. domestic servants). To understand their working conditions etc.</td>
</tr>
<tr>
<td>Reach.org.sg</td>
<td>Annual report, newsletter <a href="https://www.reach.org.sg/about-us/">https://www.reach.org.sg/about-us/</a></td>
<td>Offers support to elderly, lonely, and families with low income or mental health problems</td>
</tr>
<tr>
<td>National Council of Social Service</td>
<td>Annual report, Objectives, Values, Advocacy and research <a href="https://www.ncss.gov.sg">https://www.ncss.gov.sg</a></td>
<td>To understand more of its coordinating role (Singapore Government Agency)</td>
</tr>
<tr>
<td>Habitat.org.sg</td>
<td>Annual report <a href="https://www.habitat.org.sg">https://www.habitat.org.sg</a></td>
<td>Improves living conditions in Singapore for poor (International Charity)</td>
</tr>
<tr>
<td>The Community Chest of Singapore</td>
<td>Annual report and campaigns <a href="https://www.comchest.gov.sg">https://www.comchest.gov.sg</a></td>
<td>Fundraising arm for NCSS (see above)</td>
</tr>
<tr>
<td>Singapore Indian Development Association</td>
<td>Annual report and programmes <a href="https://www.sinda.org.sg">https://www.sinda.org.sg</a></td>
<td>Helping Indian families in Singapore, especially in Education field</td>
</tr>
<tr>
<td>Centre for Liveable Cities, Singapore</td>
<td>Urban Systems Studies reports <a href="https://www.sinda.org.sg">https://www.sinda.org.sg</a></td>
<td>Research centre, set up by the Ministry for National Development</td>
</tr>
<tr>
<td>Institute of Policy Studies</td>
<td>Think Tank</td>
<td>Developing policy ideas</td>
</tr>
</tbody>
</table>
Table 2-9: Ministries and Statutory Boards

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Type of report/source</th>
<th>Purpose of analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>Tax revenue as a percentage of GDP, and broken down by type as a percentage of the total <a href="https://www.oecd.org">https://www.oecd.org</a></td>
<td>To compare revenue type across selected OECD countries and compare with Singapore</td>
</tr>
<tr>
<td>Singapore Government Ministry of Finance</td>
<td>Operating Budget estimates and outturn <a href="https://www.mof.gov.sg">https://www.mof.gov.sg</a></td>
<td>To cross reference and confirm OECD data</td>
</tr>
<tr>
<td>Central Provident Fund</td>
<td>Annual report and Accounts, Objectives, Vision and policy statements <a href="https://www.cpf.gov.sg/member">https://www.cpf.gov.sg/member</a></td>
<td>To identify the role of the Fund, and the rules whereby members can use funds to finance property purchases, as well as statistics on size and distribution of fund</td>
</tr>
<tr>
<td>Singapore Land Authority</td>
<td>Annual report and Accounts, Objectives, Vision and policy statements <a href="https://www.sla.gov.sg">https://www.sla.gov.sg</a></td>
<td>To quantify returns from land (lease) sales, and understand role and operations</td>
</tr>
<tr>
<td>Organisation</td>
<td>Type of report/source</td>
<td>Purpose of analysis</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Urban Redevelopment Authority</td>
<td>Annual report and Accounts, Objectives, Vision and policy statements</td>
<td>Identify the relationship with the Land Authority, and the handling of returns from land sales, and understand role and operations</td>
</tr>
<tr>
<td>Temasek Holdings</td>
<td>Annual report and Accounts, to include analysis of major subsidiaries, and their own contribution to the Holding Company</td>
<td>To identify and quantify the annual Net Investment Returns Contribution, and understand role and operations</td>
</tr>
<tr>
<td>Government Investment Corporation</td>
<td>Annual report and Accounts, Objectives, Vision and policy statements</td>
<td>To understand the role of the GIC in handling and investment of Government reserves, and understand role and operations</td>
</tr>
<tr>
<td>Monetary Authority of Singapore</td>
<td>Annual report and Accounts, Objectives, Vision and policy statements</td>
<td>To identify surplus for remission to Ministry of Finance, or other Statutory Board, and understand role and operations</td>
</tr>
<tr>
<td>Other Statutory Boards (supplementary information where required)</td>
<td>Annual report and Accounts - various</td>
<td>To identify any further surpluses from the smaller, functional departments, and understand role and operations</td>
</tr>
<tr>
<td>Economic Development Board</td>
<td>Annual report and Accounts, Objectives, Vision and policy statements</td>
<td>To understand Singapore’s industrial and economic development strategy</td>
</tr>
<tr>
<td>Centre for Liveable Cities</td>
<td>Urban Systems Studies</td>
<td>To understand the history and current status of development in Singapore</td>
</tr>
<tr>
<td>Organisation</td>
<td>Type of report/source</td>
<td>Purpose of analysis</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------</td>
</tr>
<tr>
<td>Accountant General Department</td>
<td>Annual report, Objectives, Vision and policy statements</td>
<td>Finance reporting advice for government departments</td>
</tr>
<tr>
<td>Statistics Singapore</td>
<td>Datasets, Table Builder, special reports</td>
<td>National Accounts preparation and reporting, for statistical references</td>
</tr>
<tr>
<td>Ministry of Social and Family Development</td>
<td>Annual report, Objectives, Vision and policy statements</td>
<td>To identify level of support available to citizens, Comcare, etc.</td>
</tr>
</tbody>
</table>
Table 2-10: Parliament and Political Parties

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Type of report/source</th>
<th>Purpose of analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Action Party</td>
<td>Manifesto, History and Constitution [<a href="https://www.pap.org.sg">https://www.pap.org.sg</a>]</td>
<td>To understand the founding ideology of the dominant political party of Singapore</td>
</tr>
<tr>
<td>The Workers Party (main opposition party)</td>
<td>Manifesto, History and Constitution [<a href="https://www.wp.sg">https://www.wp.sg</a>]</td>
<td>To understand the extent of policy differences</td>
</tr>
<tr>
<td>Institute of Policy Studies</td>
<td>Reports and research papers [<a href="https://lkyspp.nus.edu.sg/ips">https://lkyspp.nus.edu.sg/ips</a>]</td>
<td>Further academic analysis</td>
</tr>
<tr>
<td>National Archives of Singapore</td>
<td>Transcriptions of speeches and interviews [<a href="https://www.nas.gov.sg/archivesonline/">https://www.nas.gov.sg/archivesonline/</a>]</td>
<td>To understand the influence of Lee Kuan Yew both in Singapore and Internationally</td>
</tr>
</tbody>
</table>
### Table 2-11: Schedule of Interviews/written answers

<table>
<thead>
<tr>
<th>Department, Statutory Body, NGO or Political Party</th>
<th>Interview/written answers granted, declined, or no response</th>
<th>Interview or Written Answer code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>Interview declined, written answers received 13/9/21</td>
<td>WA1</td>
</tr>
<tr>
<td>Housing Development Board</td>
<td>Interview declined, written answers received 12/1/22</td>
<td>WA2</td>
</tr>
<tr>
<td>Jurong Town Corporation</td>
<td>Several requests sent to different email addresses. No responses</td>
<td></td>
</tr>
<tr>
<td>Central Provident Fund</td>
<td>Interview held 25/5/21, followed up with written answers</td>
<td>Int1</td>
</tr>
<tr>
<td>Ministry of National Development</td>
<td>Interview with Centre for Liveable Cities held 15/6/21</td>
<td>Int2</td>
</tr>
<tr>
<td>Singapore Land Authority</td>
<td>Interview, and written answers declined</td>
<td></td>
</tr>
<tr>
<td>Urban Redevelopment Authority</td>
<td>Interview and written answers declined</td>
<td></td>
</tr>
<tr>
<td>Monetary Authority of Singapore</td>
<td>Interview and written answers declined</td>
<td></td>
</tr>
<tr>
<td>Ministry of Social and Family Development</td>
<td>Interview agreed for 18/6/21</td>
<td>Int3</td>
</tr>
<tr>
<td>HOME charity helping foreign workers (home helps)</td>
<td>Interview agreed for 10/6/21</td>
<td>Int4</td>
</tr>
<tr>
<td>TWC2 charity helping foreign workers</td>
<td>Interview agreed for 20/5/21</td>
<td>Int5</td>
</tr>
<tr>
<td>TWC2 – foreign worker</td>
<td>Interview arranged by TWC2, held 28/5/21</td>
<td>Int6</td>
</tr>
<tr>
<td>Community Chest, charity helping Singapore citizens</td>
<td>Interview declined and written answers declined</td>
<td></td>
</tr>
<tr>
<td>Habitat.org, charity</td>
<td>No replies</td>
<td></td>
</tr>
<tr>
<td>Tzu Chi, charity</td>
<td>No replies</td>
<td></td>
</tr>
<tr>
<td>Peoples Action Party</td>
<td>No replies</td>
<td></td>
</tr>
<tr>
<td>Workers Party</td>
<td>No replies</td>
<td></td>
</tr>
</tbody>
</table>

### 2.4 Conclusion

In this chapter, I have established Singapore as a suitable case study for the Georgist property state, and introduced in broad outline the sources of public revenue in Singapore. In doing so, I have demonstrated the extent to which the Singapore model
for taxation differs from the standard model adopted by the majority of developed economies.
Chapter 3  The property State

The purpose of this chapter, is to give some historical context on why the ownership of land is so important to the disparity in wealth and income in particular historical periods. Five headings are used to review the relevant literature: Land Rent Theory; Creation of Wealth; Creation of Value; The Spatial Turn and Financialisation. These headings correspond approximately to periods of theorisation about the economy, from the Classical period including Marxist (18\textsuperscript{th}/19\textsuperscript{th} centuries), neo-Classical (early 20\textsuperscript{th} century), Marxist revival, New Economic Geography and Neoliberalism (late 20\textsuperscript{th}/21\textsuperscript{st} century), although clearly there is much overlapping in the narrative.

3.1 Historical context and ideas

Why is a state’s land regime so significant for the resolution of socio-economic problems, and associated injustice? When it comes to unravelling the causes of inequality, some historical context can at least explain how we arrived here.

After the departure of the Romans from Britain, the idea of the King ‘living off his own’ (land), providing sufficient resources for his household took hold. Therefore the King would not impose taxes on others, either his Barons, or the people for this purpose. In the first instance, several kingdoms existed in the island. The means to pay for the institutions of government, defence, war etc. were obtained under feudal arrangements, the Barons and his people owed service to the King or provision from their land, in men or materials, for example wood for ships. As the needs and responsibilities of the King grew, and the regions came together in a single English nation, ‘his own’ provided insufficient resources and a gradual merging of the King’s household with the institutions of government took place.

An essential feature of a nation is the establishment of a clear territory, with borders to defend and a finite property to manage. The larger the territory, the more people will be involved, and the cost of its management and defence will increase. A single person will not be able to control everything: laws, customs and institutions will be necessary to acknowledge and coalesce regional sources of power and wealth towards a central authority. A tribute will be paid, in return for security of ownership
and confirmation of authority beyond the centre. Gradually, there was a transition to private rights and monetary payments:

The development of private property and national taxation in England are closely linked, if only because taxation was levied on property, whether land, movables or income. Both were indicative of the gradual transition from a society dominated by feudal tenure to a national sovereign state ruled by King and Parliament. As part of this transition, customary feudal dues were gradually replaced by national levies (Wood, 2002:36).

During the twentieth century, the incidence of this taxation has shifted from real property to transactions, either in employment or trade and final consumption. At the same time, the obligations of ownership and use of land have diminished as the private rights in land have become sacrosanct: to what extent is this justified or desirable?

Discussions by political economists and philosophers on property usually begin by acknowledging that the Earth’s resources are held in common, as a gift from God (or nature) for all to use. But they quickly move to a qualified position whereby individual access to those resources, in particular to land, are constrained by notions of private ownership or use. The communist ideal: ‘from each according to his ability, to each according to his need’ (Marx, 1875) may apply in nomadic, tribal societies embodied by the idea of the gift economy, but as early Christian teachers acknowledged, the state of ‘fallen man’ required some division of land and possessions: ‘Very briefly the origin of private property was ascribed to original sin’ (Jarrett, 2007:122).

When England was invaded, for example by the Romans, or the Danes, or William of Normandy in 1066, arrangements were made to collect a tribute. Throughout the Roman Empire, the obligation of the colony was to supply goods or services, even money tributes to the centre, often by the work of a slave population imported for the purpose. Such a system required an infrastructure, or bureaucracy to make sure the transfers were made. There were benefits to this, in that if the individuals concerned (the so called tax farmers) failed to raise sufficient revenue, they could be replaced (Wickham, 2005). Under such a system it was essential to identify who ‘owned’ a piece of land or organised artisan manufacture, so that the tribute could
be obtained from that person. But such a system was expensive to maintain, and soon collapsed when the Romans left, to be replaced by a feudal network of allegiance from the ruler, through a hierarchy of Lords and vassals down to the common peasants. The Danes were more interested in collecting gold, while William replaced the incumbent network of Lords with his own, unless they were prepared to pay tribute or service to him. Gradually, these feudal rights to use land, either allocated in strips by the village Court Leet, or used in common, such as woodland and grazing conferred permanent ‘ownership’ in different degrees.

Each level in the feudal network owed service or produce to the level above in return for protection of their livelihood, but I would argue that the direction of authority or coercion was ambiguous: who was really in control? It was as much in the interest of the Lord of the Manor to tie his subjects to the land, by for example listing individuals as ‘copyholders’ on his Estate in order to ensure sufficient produce could be obtained to pass on to the King, as it was for that individual to wrest control of a lease, or even a ‘freehold’ from his Lord, and eventually become independent. As with the signing of the Magna Carta in 1215, the evolution of Common Law protection and private property in England is a story of unintended consequence:

At the beginning of the charter it was expressly stated that ‘to all the freemen of our kingdom’ were granted ‘all the liberties herein contained’: and the liberties contained in the charter were carefully circumscribed by the barons, as much against their lesser men as against the king. They were thus careful to state at the outset that the charter meant no more than it said. History in England is a record of the ignoring of this provision. It was misunderstood and men became free: or perhaps it may be more fairly stated that the charter was greater than the men who framed it had intended it to be. They were looking for remedies and they found principles. Chiefly a manifesto of the baronial claims and a determination to destroy what irritated them, it was subsequently discovered to imply those vague aspirations moving through the minds of contemporary thinkers, whence eventually were to be unfolded the notions of nationality, of patriotism, of equality before the law, and of the rights of men as men, that destroyed in the end the feudalism of the baronage….It tied the king down; yet it set the people free. (Jarrett, 2007:96).
Almost as soon as the Great Charter was signed, King John attempted to destroy or rescind it – but it was too late – several copies were made, and distributed around the country for safekeeping. Perhaps he realized the potential mischief that could be made against the principle of absolute authority over land in the monarch for his successors. While the Charter seemed to clear a path to civil liberty under law, it cemented the individual rights to property among the Barons who had forced the King’s hand (Harrison, 2015). Despite the provisions in the Charter of the Forest signed in 1217, which guaranteed the use of the commons for all free men, the enclosure acts of the sixteenth, eighteenth and nineteenth centuries completed this project by forcing people from the land as their common rights were privatised and in turn granted to a few larger tenants in order to clear the path for mechanised production methods of the agricultural revolution. The chain of obligation to the monarch (or the state) arising from ownership was broken, although it took many more centuries to transfer the overwhelming incidence of taxation from landed property to landless workers.

The Magna Carta was as much about restricting the power of the King in his incursions on private property, as introducing certain civil freedoms. Accommodating the power of the Barons and landowners was part of the process – a diffusion of power, introducing the concept of rule by consent – giving the landowners more control, a Baron’s charter. The later dissolution of the Monasteries was not only about destroying the power over England of the (Catholic) Church in Rome, but also raising revenue for the state. The dissolution also enlarged the landowning and merchant class who were able to buy this land from the king, and confirmed their growing power over the absolute monarch. The process of securing private property and increasing the private income from land continued with the enclosure of the commons by Act of Parliament, (by now controlled by landowners). These Acts removed the ability for landless people to secure a living, and maintain their capital on the Commons. They also removed the ‘strong conditionality’ on ownership of property in land, thus weakening the hold of the state over real property.
To give a flavour of the political debate over the use of land and property during this
time of transition – from a condition of state property towards private property – the
work of Thomas Hobbes (1588-1679) is revealing:

The distribution of the materials of this nourishment is the constitution
of Mine and Thine, and His; that is to say, in one word Propriety; and
belongeth in all kinds of Common-wealth to the Sovereign Power. For
where there is no Common-wealth, there is...a perpetuall warre of every
man against his neighbour; and therefore every thing is his that getteth
it, and keepeth it by force; which is neither Propriety nor Community;

The use of the word propriety in England in the late middle ages referred to
ownership of something, in particular what was proper (correct) for one’s own
nature. In ascribing the ownership of everything to the common-wealth, Hobbes
draws out the consequence of the opposite: uncertainty, which resonates with the
twenty-first century concept of precarity (Standing, 2014), bolstered by the idea
prevalent in neo-classical economics that private ownership of resources might offer
the best outcome for all, thus avoiding the tragedy of the commons (Hardin, 1968).

Why is land so important to the creation of wealth? Early treatises on Political
Economy present a two factor model of the economy (land and labour), for example
Hobbes: ‘for the matter of this nutriment... God hath freely layd them before us...so
there needeth no more but the labour and industry of receiving them’ (Hobbes,
1651:295) all wealth comes from work on land, (capital in the sense of machinery is
also the product of work on land – wealth used to create more wealth). Or Richard
Cantillon (c.1680-1734):

‘The land is the source or matter from whence all wealth is produced. The labour of
man is the form which produces it: and wealth in itself is nothing but the
maintenance, conveniences, and superfluities of life’ (Cantillon, 1755:1). Up to a
more contemporary iteration: ‘...land, as defined by economists, is a prime factor of
production, not just in the third world, but in all advanced economies, alongside the
natural forces of the universe and human labour’ (Hodgkinson, 2007:xi). Although
Adam Smith introduced Capital as a third factor of production, (and neo-classicists
often refer to entrepreneurialism as a fourth), both of these factors are but specialised manifestations of either wealth or labour.

The property state, therefore is the combination of its land and its inhabitants, its territory and its citizens. Without these two factors of production, land and labour under a central authority, it is nothing, no longer a state; with these two factors, it can create wealth, a Common-wealth. To illustrate the point, the foundation of the Commonwealth Bank of Australia is instructive. Established as a public bank in 1911, when asked about the capital of the bank, Denison Miller, the bank’s first Governor replied:

This bank is being started without capital, as none is required at the present time, but it is backed by the entire wealth and credit of the whole of Australia.

Later, in a speech reported by the Australian Press in 1921 he confirmed:

The whole of the resources of Australia are at the back of this bank, and so strong as this continent is, so strong is the Commonwealth Bank. Whatever the Australian people can intelligently conceive in their minds and will loyally support, that can be done (quoted in Brown, 2013:177-181).

To compromise these two factors (it is the bounty of land for the commonwealth that is compromised by the private appropriation of rent, while the freedom of the individual to work is compromised by enclosure) is to create the conditions for poverty. The response from George (1879) and Kerr (2017), to impose conditionality on property ownership, rather than taxing inputs and outputs from the productive process, implies that only a property state can ensure wealth for all. In this analysis, land is central to the concept of a state (as a territory), and the effect of giving so much away, creating ‘the private state’ – as in private appropriation of rent, libertarianism at the extreme, is the result. We should not forget the derivation of the word ‘private’ from Latin privare, to deprive, rob, privatus, taken away (from public affairs).

To illustrate the notion of the private state, as symptomatic of the current condition of many western economies, much has been written about the power of lobbying in
the direction of public affairs (regulatory capture) by corporate interests, and at the extreme in the form of State Capture in South Africa, for example (Swilling, 2017). The journalist James Meek describes the UK as a ‘Private Island’ after the liberalisation and sale of public assets since 1980 (Meek, 2015) which is documented in detail here (Christophers, 2018), characterised as a New Enclosure. Geographer Samuel Stein has written about the ‘real estate state’ (2019), describing the hyper private investment in property over recent decades.

So the question of public vs. private ownership of property, as debated by, for example (Nozick, 2012) and (Murphy and Nagel, 2005) and more particularly ownership of land is at the heart of the concept of a property state.

Clearly, the needs and expectations of the modern state are very different from the Roman or Anglo-Saxon. The twentieth century in particular saw the gradual introduction of direct payroll taxes. At the same time there was a gradual reduction in the number of goods taxed under the heading of excise duty (except for alcohol, tobacco, petrol) towards a general tax on consumer goods under the VAT system. In the process, the incidence of taxation has shifted too far onto income from employment and consumption of movables, and away from property, land values or immovables, which has fixed in place a system promoting inequality and injustice in most western economies. The accumulation of rents from private property are defended by neo-liberal theorists on the basis that expropriation of property is an attack on freedom itself (Hayek, 1944). Under the norms of a property state, the government/public services cease to be a burden on labour and capital (produced or private wealth), shifting instead to economic rent (property or public wealth). A balance is achieved between the privilege of private ownership, and the obligation to the community at large.

3.2 Ownership of land

The contested nature of land ownership and the conditions for its use, can be contrasted to the relative agreement in England in law relating to civil and criminal matters. The principle that everyone is equal under the law (Bracton, 1236), with corresponding rights and duties (Blackstone, 1766) is well established and accepted.
In contrast, in respect of land ownership, the two poles of opinion, are both absolute, (private vs. state) and politically polarised. There is little acceptance for the possibility that everyone has an equal right for access to land in order to make a living. Those with land now have abundant rights, but few duties. An early pamphleteer on the Rights of Man recognised this discrepancy: ‘For, as I said before, there is no living but on land and its productions, consequently, what we cannot live without, we have the same property in, as in our lives’ (Spence, 1796: 6).

This imbalance between the civil and the economic equity in England was recognized in 1923 by Lord Skelton, in a series of articles in The Spectator, in which he coined the phrase ‘property owning democracy’ to restore it:

For the mass of the people – those who live by the wages of industry – political status and educational status have outstripped economic status. The structure has become lopsided. It is therefore unstable. Until our educated and politically minded democracy has become predominantly a property-owning democracy, neither the national equilibrium nor the balance of the life of the individual will be restored (Skelton, 1923:789).

I will return to this concept of the property owning democracy in chapter 5.

A global history of the diverse claims to own land is given by Geographer Andro Linklater. The colonisation of America provides a canvas for his exposition: the early settlers, having staked a claim, established a legislature and formed militias to legitimize and defend those claims (Linklater, 2014). The indigenous people they usurped could not conceive of ‘owning’ land – it was a common resource, and a part of their nature. The question of ownership did not arise for self-sufficient or nomadic societies where land and resources were readily available, and populations were low. During the process, they were largely eliminated or pushed to the margins. But as new ideas, skills and specialisation supported larger numbers, and cultivation and exchange took place between settled communities, the need for continuous use of land became essential – security of tenure – and a surplus in one form or another brought with it the question of equitable distribution.
In practice, private ownership has become the norm in western style democracies. There are some variations to this in a few countries, and any hybrid model often combines absolute ownership with new forms of private ownership, for example by lease. Some countries also retain land in public ownership for particular purposes. From a historical perspective, during the last two hundred years, the choice was presented either in terms of competition – the individual winner takes all, following a process of enclosure and/or emancipation. Or confiscation – state ownership, with redistribution from private beneficiaries through a social democratic settlement offering a middle way.

The tension inherent in the settlement of this question is highlighted by another of the early theorists of political economy John Locke who, whilst recognising that the earth and all resources are given to man in common, nonetheless suggests that once a man combines his labour with something from nature, it becomes his property – however, only if ‘there is enough, and as good left in common for others’ (Locke 1688:130). This proviso seems to put a limit on what an individual can take to be his property, or suggests that he can only lay claim to something when the needs of everyone else can also be satisfied. Locke offers one means of tempering what a man might claim as his property: ‘as much as any one can make use of to any advantage of life before it spoils... Whatever is beyond this is more than his share, and belongs to others’ (Locke 1688:131). These provisos suggest that ownership cannot be absolute, or that obligations to others exist – there is a limit to how much land can be owned.

Between these two poles concerning ownership, collective and private, what has been called the mode of production of wealth has been transformed by specialisation, division of labour, invention of capital equipment, information technology, as well as efficient methods of transport and distribution. New factors of production have been theorised to take their share of any surplus. As a result, those factors which have conferred advantage, or economic rent and surplus value have changed: today, what are the roles of capital, labour, or entrepreneurialism, intellectual property and finance? The relationship between finance and land is critical, given the practice of using land as collateral for loans which enabled rapid
industrialisation in England ahead of her European neighbours (Daunton, 1995). This potential (of collateral) is brought to life in contemporary development economics by Hernando de Soto (2001), although security of tenure is in fact the essential ingredient, rather than ownership of land per se. Although de Soto recognised the advantage to wealth creation conferred through security of tenure, he failed to appreciate the importance of imposing conditions on the use of land, such that any economic rent could be secured for the public good. Instead, he paved the way for the private appropriation of rent.

Nonetheless, the proportion of wealth identified as land value has escalated dramatically – land value having risen faster (particularly urban land) during the last fifty years than the value of many other assets, ‘the share of land in non-financial assets has increased sharply in some countries. In Britain, for instance, it went from 39% in 1995 to 56% in 2020’. The UK government now includes an estimate for land value in its Blue Book record of the National Accounts; the 2016 estimate for land value in the UK was 51% of the country’s total net worth, while the 2019 edition reports that land values have continued to rise, giving owners of land an ever greater share of the total wealth.

Contemporary economics textbooks usually begin with the idea of scarcity. For example, the first sentence of Chapter 1, in such a standard text: ‘Economics is the study of how societies make choices under conditions of scarcity’ (Begg, 2014:2). There is an assumption that not all needs or desires can be satisfied, therefore choices are made by competing interests. Land is not defined until Chapter 11: ‘Land is the factor of production that nature supplies’ (Begg, 2014:249), neglecting to identify the concept of land being a free gift, which other texts acknowledge (Lipsey and Chrystal, 1995:4). Scarcity, however is relative, resources can be used more

\[\text{8} \] The share of land in non-financial assets has increased sharply in some countries. In Britain, for instance, it went from 39% in 1995 to 56% in 2020. https://www.economist.com/finance-and-economics/2022/07/28/how-high-property-prices-can-damage-the-economy viewed 1/8/22

\[\text{9} \] The 2016 estimate for land value in the UK is 51% of total net worth https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/nationalbalancesheet/2018 viewed 17/1/20
intensively, or re-used, or equipment repaired. The limits are reached more often when resources are abused.

But the more fundamental question is: where lies the balance for the control and use of land (in the economists’ definition, which includes all natural resources), between the private individual and the wider community, the private or the property state? How much land can an individual own? Does that individual at the same time have a duty to give back to the community a portion of the fruit of their work on that land? If so, how much? Are there mechanisms or laws that can be applied to any situation which would provide answers to these questions in an equitable way? If these laws are applied, will this limit what the individual owner can do in or on their land; what conditions must be satisfied to ensure continued ownership and use, and what will be the outcomes for society on growth, inequality of wealth and sustainability for future generations? These questions, under the heading land rent theory have been tackled by political philosophers and economists for millennia, and relate to the creation of value, and its distribution.

3.3 Land Rent Theory

In this section it is necessary to define more terms, their relationships to each other, and how the relationships have been theorised. What is land, what is its rent, how is that value generated, and how do we quantify that value? How much is someone willing to pay for that land, either to own (its price) or to use for a period (its rent)? And what is the law of rent?

I defined in Chapter 2, land as a free gift of nature, that includes not only the surface of the earth, but the natural resources under land, the water, rivers and oceans that run through and surround land, including the seabed, as well as the air that lies above, including the space in the atmosphere, which can be harnessed for radio and satellite communication.

Assuming a market in land exists, land will have a price – the amount in generally accepted currency that someone is willing to pay for exclusive access to a piece of land. However, the price can be expressed in two ways, one of which is a function of
the other: a single price, or one-off payment to own (and use) land for a defined period, which might be in perpetuity (the importance of this caveat will become obvious below). Or, an annual payment, or rent for the same privilege. The agreed price, of course, is only an expression of the value which someone attaches to a particular piece of land at a particular time. The one-off payment can be described as ‘value in exchange’ at a particular point in time, as agreed when the ownership changes between individuals. Whereas ‘value in use’ is closer to the annual rental payment agreed between an owner and tenant, or the user of a piece of land. The actual value to an occupier of land to use it, will be higher than the rental charge for the land, given that a user must earn a surplus well above the level of this rent – to pay for wages, raw materials, and any equipment used to generate his income, from which the rent is paid. However, this income, including any surplus is generated from production, not from the land itself. In fact (Ricardo, 1820(1987)) characterises the rent of land as a payment that can easily be secured by the owner of land from the tenant without disrupting the tenant’s business – this is often called its economic rent, distinct from a formal commercial rent, which might reflect other obligations, to repair, for example. How much the landowner can charge will reflect the advantage derived from a particular piece of land relative to all others. A piece of land where the cost of production will equal the revenue from the sale of the goods produced will offer no rent. We can therefore divide the cause of any surplus between the production of goods, and any advantage of producing them in one place over another. This fact, the ability to separate land value from the value which can be generated from improvements (buildings, equipment etc.) and materials combined with labour, is important to understand when it comes to applying conditionality to the use of land. This is what distinguishes the Geo-classical paradigm from the Neo-classical paradigm, where land is conflated with capital. Under the Geo-classical paradigm, the land value is generated by the location – primarily its proximity to a community or natural resources.

The one-off payment for land is sometimes described as ‘capitalised rent’, (the annual rent multiplied by a number of years). In practice, the number of years rent used to calculate the final price can vary according to the competition for a particular piece
of land. Often an agreed price will be determined by a speculative value based on future (potential) rent after re-development.

It is important to distinguish between the rent of land, the location on the surface of the earth, and the rent for any improvements, infrastructure or buildings built on it. This so called ‘ground rent’ reflects the value of that location only – the amount someone might be prepared to pay to use an empty site in that place. However, land, particularly in an urban context is often sold with an existing building on it. We need therefore to distinguish the amount paid for the land, from the amount paid for the building (which will also need maintenance on an annual basis to keep it from leaking or collapsing). Meanwhile the land generally needs no maintenance save perhaps adequate drainage, which despite being embedded in the land should be classified as an improvement, separate from land. Marx confuses his readers by claiming that such improvements made to land bring the land itself into the orbit of capital by what he calls a process of primitive accumulation, an argument to which I will return in section 3.5. This is a mistake, as it implies that man has now created the value in land. By combining some capital (such as drainage) with land, land has somehow become capital.

In a high rise building with multiple occupiers, the concept of ownership must be separated into two parts by a legal construct: the land underneath a building can be held in common, while each apartment is held by individuals by way of a lease granted for a fixed term, which might be extended by a further payment to the landowner. The owner of a lease might also own a part of the land, by way of a share of the freehold. Alternatively, the freeholder, or landowner could be a third-party individual or company, who usually manages the common parts on behalf of all leaseholders, in return for a management fee. This separation of ownership rights is less easy to justify in the case of a single building on a piece of land. But it is crucial to understanding the principles of the Georgist State.

The conflation of land and buildings into ‘property’, or ground rent and building rent into a uniform valuation, is a source of continued confusion, and can be used to deny important theoretical distinctions as will be demonstrated below.
Returning to the law of rent, as understood by Ricardo, the level of rent that can be charged in any particular location is the difference between the revenue generated from the sale of goods produced at the least productive (marginal) site, where there is no rent, and the next best (more productive) site. Three things might influence that difference, which will be further illustrated in the following sections. First, the natural state of that land, fertility, geological structure or pure location (sea view for example). Second, the amount of any public investment in or near that location, such as roads and public transport. Third, the presence, and size of the community with their purchasing and investment power in that location. The law (of rent) indicates what level of rent can be taken without disrupting the use to which that piece of land is put.

3.4 Creation of wealth and appropriation of rent

As described earlier all wealth comes from work on land. We depend entirely on the wealth that can be produced in this way, there being no other source for the things we need for our survival, whether that is food converted to energy, clothing to keep us warm, or buildings in which to shelter.

The quality of human life is largely dependent on how much of this wealth is available to us, and we can readily observe significant discrepancies in the distribution of that wealth, both within nations and between nations. We can recall that land was originally conceived as the gift of nature, for use in common. How did it become something separate, private, something that one man could charge another to use? David Ricardo in the nineteenth century set out the reason concisely:

...no one would pay for the use of land when there was an abundant quantity not yet appropriated, and therefore at the disposal of whosoever might choose to cultivate it.

On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quantity. With a given quantity of materials, and with the assistance of the pressure of the atmosphere, and the elasticity of steam, engines may perform work, and abridge human labour to a very great extent; but no charge is made for the use of these natural aids,
because they are inexhaustible and at every man’s disposal. In the same manner, the brewer, the distiller, the dyer, make incessant use of the air and water for the production of their commodities; but as the supply is boundless, they bear no price. If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. (Ricardo, 1820:34-35) (my emphasis).

This clearly demonstrates why people seek to own land, rather than merely using it. Not only does ownership secure tenure, which is important for continuity of production, but also means that an individual owner can collect a rent from the most productive land, either directly (super profits), or by letting others use it, in effect excluding others from using a piece of land, unless a rent is paid. This unearned, or property income – the appropriation of rent, over and above the normal profit of production – is a key driver of inequality. While a person with access to land has a place on which to create wealth with his labour and other inputs; the owner of that land can equally exert a claim on wealth over time by doing nothing, so long as the land commands a rent for its use. As land was enclosed, removing the opportunity for people to live on free, common, or community land, private ownership and use, or a tenant relationship to an owner became the norm. The nature or source of that rent, its peculiar advantage, whether differential, absolute or monopolistic, (the attributes assigned to rent by Marx, and adopted by many later scholars) will be discussed below.

3.5 Creation of value

Another source of confusion in land rent theory arises from the dominant type of wealth created through the use of land at particular points in history. As society has developed and become more sophisticated, the way in which land is used to create wealth has changed. In an agricultural society, the condition of the soil – fertility, topography, level of moisture – will determine its value. Political Economists developing theory at this stage would naturally concentrate on what is produced by the farmers – it is agricultural produce which both keeps the farmer alive, but in some cases provides a surplus which can be traded for money, which in turn can be used to buy other goods. To the extent that one farmer is using more productive or better
land than his neighbour, thus generating a bigger surplus, this difference is strictly speaking an economic rent.

In essence, this fertility is a function of its location (topography, moisture levels, depth of topsoil etc.), but it is all too easy to be distracted by the activities (agriculture in this case) observed in that location, and believe that what is being produced (the product) is the only source of value. It is also true, as described by Henry George in the Savannah story (1879:224-229), that the presence of neighbouring farms, a community of farmers will enhance this creation of value, through co-operation over particular tasks. People can achieve more, produce more by working together, at harvest time for example.

For the Physiocrats, writing in France, in the middle of the 18th century, all value was created from land, in the sense that only land had the capacity to produce anything new (of value). A fixed quantity of seed, would multiply that quantity at harvest; man had a secondary role in transforming what could be found in nature into other material goods, but no new material was produced. The body of work created by the Physiocrats comprise a series of essays by Mirabeau, Turgot, and especially Quesnay (1694-1774), whose Tableau Economique was published in 1758, and is the first attempt to create a model of an economy using prices to quantify values in exchange of products between different groups or classes in society. Quesnay defined three groups: the agricultural producers, the ‘sterile’ manufacturers or artisan craftsmen and the aristocrats who owned the land, neither of which latter groups produced anything new.

All three groups were sustained by the produce of the farmer, who ‘works the land, obtaining from it a physical quantity of economic goods (foodstuffs) that... is greater than the physical quantity of the same goods used initially as raw materials. Thus land is considered to be the only factor capable of giving a ‘net product’’ (from the English translation of Luigi Pasinetti’s essay on ‘The Tableau Economique and the Modern Economy), reproduced in (Coffman, 2021:69). The sterile class cannot add anything to the net product – only transforming the material of nature into something useful – while the aristocrats are able to extract this surplus value, the ‘produit net’, over
and above the costs of production and material needed for the next cycle, simply from the fact of owning the land – its rent.

Given the nature of this surplus, arising from no effort, the costs of administration of the nation could be funded by means of an ‘impot unique’ taken by the state against this product (or the rent paid for the land to produce it) – the precursor of George’s single tax. Thereafter, the aristocrats would have to work for their living. The key insight of the Physiocrats, is that such an imposition ‘was the optimal tax, because it taxed the net product of the land, leaving industry and commerce free from taxation’ (Coffman, 2021:66). The confusion arises because the value is derived from the sale of this agricultural product, but once you filter the process of this creation of value through the law of rent, the surplus value has in fact arisen due to the qualities of different locations. The least productive location in use may produce something that can be sold, but no surplus, no rent for appropriation either by the worker, or the owner. Ricardo called this fact or condition imposed at the margin, the Law of Rent. Given this insight, similar rents can be generated from other productive activities, including manufacture of goods, where the particular location or ‘peculiar situation’ confers a similar advantage.

More or less at the same time as the Physiocrats in France, in Britain, Adam Smith (1723-1790) was observing and documenting the industrialisation taking place around him, and focused on the extra value that could be created by specialisation and the division of labour (Smith, 1776). He also acknowledged the contribution of capital machinery (natural resources used to create equipment or tools which are not consumed in the productive process of creating wealth). At the same time, the organisation of labour into purpose-built factories was gathering pace – the creation of an urban environment for production. The type of product which commanded the highest value in exchange was changing: clothes, furniture or carriages, rather than food. Deciding where to locate these factories was important for several reasons. Proximity to energy, at first provided by water driven wheels, later by steam was essential to power the new machinery of production. Secondly, for the heavier industries of steel production for example, proximity both to the ore, and coal to heat the furnaces determined where investments were made. Also important: transport –
roads, canals and by the middle of the 19th century rail was vital. Finally, larger numbers of people were needed to work in the new factories, to enable specialisation. Housing the large numbers of people not only created a problem, but an opportunity for landowners near the factories to generate rents far higher than those which had been enjoyed from growing corn. The sites benefiting from these advantages of location delivered the highest values, or rents.

David Ricardo (1772-1823) writing at this crossroads of the transformation of the economy from an agricultural to an industrial mode of production, albeit forty years after Smith, focused on the price of corn to theorise the question of rental value for several reasons. First, he postulated that the main driver of wages would be the price of food. Without a reproducing working population, industrial activity and growth would grind to a halt. If the demand for food grew, the price of corn would rise, and more land would be required to cultivate it, notwithstanding any improvements in productivity on existing farms. Therefore, land either of inferior quality (more land would be required to grow the same quantity, or more distant from the market (leading to higher transport costs) would be brought into use. If the product could be sold at the higher price, this would justify the investment to the owner of the inferior land. At the same time, the farmer using better land (with lower production costs) would make a surplus profit on the sale of his corn – an economic rent derived from the location of his more fertile land. If the farmer owned the land, he could pocket this surplus, if not, the landowner might charge a higher rent.

In conditions of full enclosure, a position reached in most parts of England by the middle of the nineteenth century, owners of land were in an advantageous position over the landless labourers, who could no longer feed themselves. The Economist Daunton describes the process of enclosure: ‘its most important outcome was to increase the share of income taken by the landed elite’ (1995:117).

Ricardo is seen as a pivotal figure in the development of political economy as he articulated a belief that a system or ‘science’ of economics could be developed, which would allow the Economist to experiment with different concepts in a mathematical
way, abstracted from real life, but which would allow theories to be developed and then re-applied in the world.

Another early example of such an abstraction came from Johann von Thunen (1783-1850) who, in order to demonstrate the effect of rising transport costs on the price of farm produce, as well as the type of farming activity relative to its location, developed a formula to seal these costs together and assumed all other factors would be the same in all locations radiating in distance from any particular town (von Thunen, 1826). The difference in transport costs in each location would determine the use to which land would be put: horticulture would be closest to the town, corn and other grains would come next, followed by pasture. Once again, the theory was based on an agricultural society, albeit using the added cost of transport to theorise the creation of value. Rents would be higher in the locations close to the town, but rents would once again, be determined by prices of the produce, rather than these prices being determined by rents.

Karl Marx (1818-1883), wrote at a time when industrial production was becoming the dominant form of wealth creation, and therefore developed an entire model of the economy and society based on the new (Capitalist) ‘mode of production’ in which his theory of surplus value created by labour power was the central element. In this model, all value was created by labour in transforming raw materials in all sectors of the economy into commodities that could be sold. The capitalist, who organised production in this economy, and provided the equipment to increase productivity could ‘alienate’ the worker from the full value of the product. After deducting the costs of reproducing labour (the means of subsistence paid for by wages), or socially necessary labour time from one generation to the next, the value or ‘surplus’ could be taken by the capitalist, out of which he paid all his costs. Any payment to an owner of land was considered an obligation created by the ‘social relation’ between the owner and the capitalist. The social relationship between landowner, capitalist and labourer is defined by ownership. Marx, therefore offers a new theory of value creation, based on labour value, abandoning the earlier acknowledgement of value from location.
However, the reason the factory owner can extract this value from the labourer, is that the labourer’s options to make a living elsewhere, on the commons has been restricted by the Acts of Enclosure, not by the new mode of production itself. Owing to the labourer’s lack of choice, he is forced to accept whatever wage the capitalist is prepared to offer – both the landowner, and the capitalist now stand in the way of the labourer receiving the full product or value from his labour. At the same time, the landowner stands in the way of the capitalist receiving the full value of his product, as, unless the capitalist also owns the land, he must pay a rent for its use. The labourer, had not only lost his land, but also his capital – the cows or seed, from which he derived his means of subsistence – leaving him only his labour power to sell. As Adam Smith put it:

\[ \text{In that original state of things, which precedes both the appropriation of land and the accumulation of stock the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him.} \]

By accumulation of stock, I take it that Smith means capital, while the master is the Capitalist. (Smith, 1776:27)

Of course, landowners have generally been always able to command a rent from their tenants, whether in the form of produce or (labour) time or payment. Marx described a form of ‘primitive accumulation’ explained in section 3.3, in pre-industrial production to explain the existence of a surplus in the era before capitalism. If one accepts that the only source of surplus value arising in the capitalist mode of production is labour, what is the payment of rent except a consequence of primitive accumulation?

It is a circular movement, no way in or out of the theoretical constraint as he describes it for any other kind of value. In Chapter 26 of Capital, volume I, primitive accumulation performs ‘the same role in political economy as original sin does in theology’ where, by conquest, the landowner is able to separate the worker from the means of reproduction ‘whereby the social means of subsistence and production are turned into capital, and the immediate producers are turned into wage-labourers’, free of any feudal tie to the soil. The pre-requisite for the capitalist mode of production to begin, is to replace this feudal exploitation with a new form. The free
labourer, is divorced from the encumbrance of any means of production (land, or common use rights), and ‘carries his commodity (labour) wherever he can find a market for it’ (Marx et al., (1867) 1981:873-875). The accumulation by the capitalist is now no longer primitive, but a part of the capitalist circulation of capital. But rent is still paid to the landowner.

Once this new mode of production is established, Marx defines different forms of rent. Some of these forms of rent are dependent on there being no free land at the margin: all land is now in private ownership, but location continues to play the key role in determining the level of rent that can be extracted from the capitalist.

Types of rent

1. Absolute rent is a payment that can be extracted at will, by the landowner based on the fact that as the owner, he can make a charge on anyone who might want to use a piece of land, regardless of whether surplus value can be obtained. This applies in particular when all land is enclosed.

2. Differential Rent 1, (DR1) is an expression of a higher rental payment between two different locations producing the same goods, where one location has some natural advantage – usually expressed as a higher fertility – therefore producing more value. In this case, the use of other inputs such as capital are the same.

3. Where the intensity of the use of capital is different, or where each location is put to a different use, giving rise to a different value of output, Differential Rent 2 (DR2) can be extracted by the owner of land. These definitions are sometimes described as extensive (DR1) or intensive (DR2).

4. Monopoly Rent, where the unique characteristics of a particular piece of land are so special, that the owner can levy a charge that is out of proportion to any realistic assumption of actual value creation on that site. One can consider these sites to be ‘trophy sites’ in today’s context, for example, houses in the most desirable parts of a city. Marx gave the example of wine from a particular Bordeaux Chateau, of a particular vintage, that was in high
demand, allowing the owner of that land to charge a very high price for the wine.

However, it is difficult to draw many conclusions from Marx’s categorisation of rent for two reasons: one, he is more interested in labour as the creator of all surplus value, which relegates any potential effect of land or location to secondary importance. Second, many of his observations are left to the imagination, he died before completing his work on rent (Capital III). Prior to Marx’s birth, Ricardo, had already rejected the idea that land in and of itself creates no value: ‘rent is a creation of value (as in a higher price), as I understand that word, but not a creation of wealth’ (1817:273). What he means, is that in the creation of a product, whether it is food, or a tool, or a chair or clothing, there are two elements in its price (which is determined by the market – in the relative demand of people to use that product) one being the cost of production, materials and labour or energy used to create it (the wealth), the other being a surplus, a rent, payable to the owner of the land on which it is produced. The value of that rent will vary according to the advantages of location for the production of any given product or service. But the rent itself is not part of that which is produced – the wealth, or product; furthermore, at the marginal site of production, there is no rent. This is where the cost of production meets the market price. This explanation leads to the assertion of George and others, that land is not wealth, and therefore the rent of land is something separate in value terms from the product of work on land, which can more accurately be described as wealth.

Insofar as land in particular locations, or under particular class relations generated these rents, Marx advocated the nationalisation of all land, in order that all payments of rent would accrue to the state. It was perhaps for this reason, that most revolutions of the twentieth century began with a programme of land confiscation. While such programmes avoided the private appropriation of rent, it gave the state the power (and problem) of how best to allocate the use of land, which did not always achieve the most productive outcome.
But it was in the context of increasing urbanisation, and the inexorable rise in the price of urban land that Marxists, in particular David Harvey returned to an analysis of land rent theory in the 1970’s, which I will address in section 3.6.

In the meantime, a contemporary of Marx, Henry George (1839-1897) developed a practical policy approach at odds with nationalisation of land, but placing rent theory, and land ownership, and its capacity to enrich some at the expense of others at the heart of his theoretical understanding. George was emphatic that all rents were monopolistic, given that every piece of land has its own unique character, which cannot be exactly replicated in any other location. Business owners accept this fact and judge every location accordingly. Even factors such as the trajectory of the sun will have an impact on one side of the street (and the rents that can be charged) due to the presence or absence of shade. His perspective on rent theory was informed by his direct observations of a growing nation, particularly in California: he joined the gold rush, and witnessed the subsequent growth of San Francisco. He presents in his Savannah Story the argument of the extensive margin (bringing more, less fertile/distant land into production) and the intensive margin (higher investment of capital/intense use), as well as the comfort and advantage wrought by community: ‘It is population that gives value to land. Much of that value is captured by the rent of the landlord’ (George et al., 1879:13). On a trip to New York, he noticed the paradox of rising wealth alongside growing poverty: ‘as land prices rise, rent absorbs so much of the product that labour and capital are squeezed down to a level at which they cannot work’ (1879:14). This meant that in his opinion, land was the primary factor in the creation of value due to its location and advantage relative to other pieces of land:

All these advantages attach to the land; it is on this land and no other, that they can be utilised, for here is the centre of population – the focus of exchanges, the market place and workshop of the highest forms of industry. The productive powers which density of population has attached to this land are equivalent to the multiplication of its original fertility by the hundred fold and the thousand fold. And rent, which measures the difference between this added productiveness and that of the least productive land in use, has increased accordingly (George et al., 1879:228).
In his final work, he describes the owner of this land collecting all this value, a value in obligation: ‘there is in all this no increase of wealth; but there is a creation of value – a value arising out of obligation and dependent entirely upon expectation, but still a value – an exchangeable quantity, the possession of which could command through exchange other valuable things’ (George, (1898) 1981:244-246). Here, he distinguishes two forms of value: one from production, ‘which may require the rendering of exertion without the return of exertion’ the second from obligation.

Labour and Capital enhance productivity – without these factors nothing will happen, but the owner of land takes advantage. His proposed solution: a single tax on the value of all land (excluding the value of any capital on the land) rather than confiscation (of land): ‘we may safely leave them the shell, if we take the kernel’ (1879:352). If care is taken to assess land value correctly, such an imposition will have no adverse effect on industry, and George makes explicit the dual advantage of such a levy for the State, and the population at large, given that the tax cannot be passed on: ‘Here is a fund which the state may take while leaving to labour and capital their full reward’ (1879:375). If this rent is not taken by the state, there are two consequences: the owners of land keep the rent and prosper, while the costs of the state are imposed on labour and capital through other taxes. Labour and capital now have a double burden: rent for the use of land, and other taxes to secure the social benefits provided by collective government. This is the triumph of the private state over the property state.

George’s ideas enjoyed a moment of popularity leading into the turn of the twentieth century. Progress and Poverty, was an instant bestseller on both sides of the Atlantic, and George received invitations to tour Ireland, Scotland and England, thereafter entering politics in New York. His ideas and influence spread throughout the British Empire, (Dawsey, 2018:7-10) and as far as China. Land Value (more accurately site rating) taxes were adopted in many countries. However, they also received much critical attention from the growing band of Economists, determined to create a Science of Economics, in order to present a rational case for the direction of policy. Perhaps the most influential was Alfred Marshall (1842-1924), whose book Principles of Economics introduced the tools of supply and demand, marginal utility and costs
of production. His definition of rent, while acknowledging the nature of a surplus on all locations determined by the output of the marginal site, included capital together with labour with the factor of land:

Rent ‘is the excess of the value of the total returns which capital and labour applied to land do obtain; over those which they would have obtained under circumstances as unfavourable as those on the margin of cultivation’ (Marshall, 1890:355) (my emphasis).

This combination of factors gradually stripped from land its unique qualities, particularly its potential value when unused or underused, classifying it more as a cost of production, like any other factor. As the economist Mark Blaug (1927-2011) confirms:

‘The easiest way of undermining Ricardian rent theory, rendering it totally irrelevant, is simply to deny the standard classical assumption that territory or pure space is a factor of production distinctly different from either capital or labour’ (Blaug, 2000:274).

The economist J B Clark (1847-1938) was perhaps most insistent on this point, while Joan Robinson (1903-1983) argued that any factor, whether land, labour or capital was immediately transferable through the price mechanism, and therefore devoid of any special characteristics. The obvious counter argument to this, is that land is uniquely finite in supply (except in exceptional circumstances of reclamation), and therefore subject to severe price elasticity over time, whereas the supply of the other two factors can more easily be increased. However, land rent theory became ossified – accepted as relevant only to the Classical period - or superseded as a means to explain inequality by the Marxist theory of value, in which the Capitalist appropriates the surplus value created by labour alone.

Economic theory entered the neo-classical era, with its concentration on modelling the economy under the conditions of perfect competition, atomistic representative agents with perfect information making rational choices, and homogenous factors of production. Growth and development would resolve lingering inequalities, and any potential class war. Land use would be managed through a Planning system – any
uneared income or increases in land value would be collected through planning obligations, rather than fiscal measures see (Vejchodská et al., 2022) for an explanation of this divergence. I will return to the discussion of public revenue in the next chapter.

3.6 The Spatial turn

With continued global urbanisation, a growth in the city of service industries, combined with ongoing cycles of recession and stagflation, the land question refused to go away: rising land prices were dominating economic cycles. The first post war property bubble in the UK burst in 1972/3, and some economists began to re-consider the peculiar nature of land as a factor of production. David Harvey was the most prominent, as he attempted to introduce a spatial element to the Marxist theory of capital accumulation.

His starting point is use value – humans take material out of nature ‘appropriation’ to satisfy their needs, creating the so-called material side of commodities. All commodities are the ‘products of human labour’ (Harvey, [1982] 2018:14) and therefore labour itself comes to embody nature (when it becomes a commodity). Commodities can acquire exchange value as soon as there is money – the means to exchange them at any given price. However, nature does not produce money, any more than it produces rent. Land, which is not produced by human labour is not therefore a commodity in the strict sense, even though it can have a price, at which it will be exchanged – therefore acquiring a ‘commodity form’ - Land and money create ‘fetishisms’, the illusion of them being commodities: ‘we will discover (in Chapter 3 of Capital) the fetishism that attaches to the categories of rent (which puts a price on land and makes it seem as if money grows out of the soil) and interest (which puts a price on money itself)’ (1982:18).

When the Capitalist can remove, or separate labour from the (pre capitalist) means of production (land), he can control the hours labour will work, and through the capitalist mode of production, can force the labourer to work for longer than necessary to reproduce himself, thus creating surplus value. The capitalist embodies capital, just as the labourer embodies commodities – and in the capitalist mode of
production (the means to extract surplus value from labour) the two groups are bound together into a social or class relationship that is unbreakable. The overriding purpose of the capitalist mode of production is to accumulate this surplus. How does the capitalist control the two other factors of production: labour and land? Harvey answers that ‘the labourer gives up rights to control over the process of production, to the product and to the value incorporated in the product in return for the value of labour power’ (1982:42). Whereas:

the monopoly power that accrues to landowners through the private ownership of land is the basis of rent as a form of surplus value. The power this privilege confers would come to naught, however, were it not the fact that land is an indispensable condition of production in general (Harvey, 1982:73).

This applies more particularly to the case of land, given that it is fixed in supply, while in theory, the capacity of labour to deliver surplus value can be increased with population, so long as the means to reproduce itself is maintained by higher levels of production.

Harvey acknowledges that Marx found rent difficult: ‘Rent, it is fair to say, troubled Marx deeply’ (1982:330). While we can see that land has both use value and exchange value, the question is, does it have value (in a Marxist sense) – the troubling part is the ‘pure payment to raw land’ which Marx refers to as ground rent, although for ease, Harvey refers to as rent – independent of any improvements on the land. He seems to acknowledge that land does have value, as evidenced by the existence/collection of ground rent, but how is this possible when all value is generated by labour (embodifying the commodity of land)? In a telling passage, Harvey attempts to equate any improvements in land over time, with a free good:

Capital creates in one place conditions of production that are the free gifts of nature elsewhere. The boundary between interest on Capital and rent on land appears somewhat blurred until the investment is amortised, when any permanent improvement becomes a free good and therefore in principle no different from free gifts of nature (Harvey, 1982: 337)
allowing Harvey (and Marx) to dismiss Ricardo’s assertion that rent is a payment for the original and indestructible powers of the soil. There is some sleight of hand in this reasoning, as the improvement disappears.

What function, therefore, does the land market play for capitalism? Could it be a ‘co-ordinating role’ in the same way that money-interest has a role in encouraging investment in new machinery in the form of a finance lease. If so, the role has both positive and negative outcomes – the condition for production, but also, speculation, inflation and subsequent falls in value damaging the process of capital accumulation. Could the unearned income enjoyed by the landowner be of secondary importance in terms of class relations and struggle than the extraction of surplus value from labour? While the landowner still owns the land, he no longer controls what happens on the land.

Putting the class struggle aside, Harvey turns to the question of location:

...rent, we will later show, provides a basis for various forms of social control over the spatial organisation and development of capitalism. This can be so because land serves not only as a means of production but also as a ‘foundation, as a place and space providing a basis of operations’ – ‘space is required as an element of all production and human activity’ (Capital, vol 3 pp. 774, 781) as Marx asserted (Harvey, 1982:337).

This fact cannot be denied by Harvey, and he accepts the concept of advantage in location – in terms of distance from the market, for example - furthermore this advantage is more permanent than any short term technological advantage brought about through innovation, and ‘it follows that those who own land in favoured locations can convert the excess profits into ground rent without affecting the average rate of profit’ (1982:339).

Equally, those who live closer to markets (in town centres) initially receive a higher wage than necessary, as the level of wages is set ‘at a level needed to ensure the reproduction of the worker who lives further away’ (1982:340) – with additional transport costs at the margin. However, this is only a temporary advantage, as: ‘It then follows that those who hold land can convert the excess wage (of those living in
town) into ground rent without in any way disturbing the value of labour power’ (1982:340), by charging those workers a higher rent for their lodgings, thus eroding the advantage.

In both cases we are back to Ricardo’s law of rent, but Harvey does not acknowledge this, instead bringing land rent into the capitalist mode of production. Land enters the fully capitalistic mode of production when it ceases to generate value due to its inherent qualities or location, but when it can be turned into a financial asset – in the form of private home ownership in particular – or investment in the private rental sector in general. Or as Harvey says: ‘when trade in land is reduced to a special branch of the circulation of interest bearing capital, then, I shall argue, landownership has achieved its true capitalistic form’ (1982:347) – land has become a commodity. Due to the monopolistic nature of land, and its ownership, it becomes attractive to the money-capitalist as a means of appropriation of value. At the same time, with the ensuing competition for this special commodity, it attracts speculative capital, and becomes an agent for the instability inherent in the capitalist system: ‘what is bought and sold is not the land, but title to the ground rent yielded by it. The money laid out is equivalent to an interest-bearing investment. The buyer acquires a claim upon anticipated future revenues, a claim upon the future fruits of labour’ (1982:367) – from the rents or mortgage paid for their housing. This is the secondary circuit for capital. The source of value has once again shifted, this time from labour to the secondary circuit – finance, giving rise to a new form of appropriation: financialisation.

In an urban context, Marx recognised that the land itself would have a higher value than the building on it, and even suggests that the potential to drive a higher revenue or yield will encourage more intensive use – even a ‘highest and best use’ outcome. While Marx ignores the extra value given by ‘spatial organisation’ (or location) Harvey is all too well aware of it, referring to the process as the means by which capital is ‘fixed’ to a particular place – the spatial fix.

To control the orgies of speculation that might circle the most efficient land markets, there are two options: monopolisation, by which he means large scale developers
controlling enough land to keep out troublemakers. Or nationalisation, of which there are several shades – land use regulation (zoning), land expropriation (nationalisation without compensation), land use planning (control of development rights) or outright purchase by the state (nationalisation with compensation).

Some freedom for the capitalist to allocate land seems to be essential in order to facilitate the greatest accumulative potential – landowner as co-ordinator in the capitalist mode of production. For land to have a price (and differential prices) the land monopoly must be preserved, AND it must exist purely as a financial asset: ‘an open field for the circulation of interest-bearing capital. Only under such a condition does the apparent contradiction between the law of value and the existence of rent on land disappear’ (1982:371). Thus, Harvey squares the circle, incorporating land rent theory into the Marxist /Capitalist mode of production. As a financial asset, it exists only in the circulation field, alongside retail trades, separate from the truly productive process.

Which policy, therefore, would keep the capitalist away from owning land with its illusion of capital accumulation? Taxing away the ground rent:

Relatively permanent spatial configurations of excess profits would dull the incentive of capitalists to engage in technological change in those advantaged locations, unless the excess profit is taxed away as land rent. We here re-affirm the thesis explored in chapter 11, that the appropriation of rent plays an important role in equalizing the rate of profit to producers across locations, thus forcing individual capitalists back onto the straight and narrow path of seeking excess profits through technological change (Harvey, 1982:391).

If the rents are not taxed away, a business owning land could become inefficient, coming to rely on unearned income (rent). In the absence of a tax on ground rent, a true capitalist operation would insist on sale and leaseback to ensure best use of capital, and maximum accumulation. This has become the mantra of business schools today, see (Tipping and Bullard, 2007) for an early history, and is reflected in the so called gig economy paradigm of ever more temporary rental of any assets needed to operate a business (including labour) by means of zero hour contracts. In reality, many businesses have ignored the path of pure accumulation by relentless
investment in innovation and production, instead coming to rely on ownership of assets in a variety of forms for their profits: a mode of production described by Brett Christophers (2020) as ‘rentier capitalism’ who examines the opportunities to appropriate rent from finance, infrastructure or platforms such as Uber. George himself seemed to foresee the potential of these platforms and their users to generate value, when in A Perplexed Philosopher he included the ‘nexus of media and forces’ (George, 1892:140) in his definition of land. In his conclusions, showing the need to tax away ground rents, Harvey is aligned with the Geo-classical school, albeit he arrives at this point by a different route.

Harvey’s work sparked a burgeoning debate, not only within the Marxist circle, but also Economic Geography and Political Economy, which escalated in the wake of the financial crisis of 2008. Michael Ball brought together many of these essays in a book first published in 1985, reprinted in 2018, (Ball, [1985] 2018). For example, Topalov (chapter 2) talks about ‘Competition between capitals’ bringing about a flow between different activities seeking profit and accumulation. But investment in housing creates a surplus value derived from the activity of capital in the neighbouring area, ‘the property sector draws heavily on the surplus value created in other sectors’ (1985:25), which also reduces the general level of profit in other sectors. However ‘these surplus profits, their incorporation into prices and their transformation into rents are all the result of social relations’ (1985:27). Folin (chapter 3) analyses the impact of large-scale construction of public housing over the previous thirty years, and the potential for dislocation in the aftermath: once built, housing can no longer function as a macro-economic tool, to increase GDP, as it is not ‘producing’ anything in the sense that machinery produces goods, and in particular, it is not creating surplus value. Housing can therefore be seen as the equivalent of land, with its monopoly characteristics: ‘and like land, its increase in price over time and its existence as a sphere of investment are results of the exercise of a monopoly and not of a combining with labour in a production process under the command of capital’ (1985:52). In many of these debates, the ability for pre-existing assets, housing built sixty or a hundred years previously for example, to increase in value is a mystery to a Marxist steeped in the traditional belief that only labour creates value.
While many of these essays are interesting, they seem to ignore, or seek to circumvent this apparent mystery in ever rising land values. The Marxist understanding of surplus value is unable to engage fully with land rent theory. Urban planner and economist Anne Haila (1953-2019) asserts that the result of this impasse in the development of a coherent rent theory for the late 20th century has been that the two camps (Marxist vs. Ricardians/Georgists) have been discussing ‘distinct questions’ (Haila, 1990:293). Either the question of whether land rent was predominantly the result of social relations, or whether there was a general theory that could be applied to land, despite its obviously unique characteristics on every site. Contemporary economists, including Piketty continue to include only ‘agricultural land’ as a ‘means of production’ while, in acknowledging that Marxists have ‘neglected’ any factor outside their ‘productive’ sphere, refer only to ‘housing’ as the sphere for social reproduction, as if neither housing nor factories exist on land (Piketty and Rendall, 2022: 36-37).

In an earlier paper Haila begins an exploration of the transformation of real estate markets in response to the ‘globalisation of economies and especially the concomitant changes in the financial system’ (Haila, 1988:79), acknowledging Harvey’s contribution in incorporating the new reality of finance (deregulation, including the abandonment of capital controls between countries) in the operation of these markets. However, she makes the distinction between a tendency for finance to distort land markets by treating it as an investment vehicle, and the necessity for it to do so: ‘the weak link in Harvey’s reasoning is the interpretation of the tendency as a necessity’ (1988:85). This period also marked the beginning of fierce competition between ‘Global Cities’ to provide superlative, well connected office buildings, often with open plan floor plates to accommodate trading desks and cabling to ensure connectivity for the global players in financial markets. Potential tenants not only wanted superior offices, but the opportunity for retail therapy and culture nearby. This meant that local authority planners were needed to clear a path for large scale development, thus enhancing the nature of these developments as ‘investment grade assets’. An excellent account of the constantly shifting pattern of commercial investment, and the need to change location according to technological
innovation and market maturity is given by Geographer Allen Scott (1982). Canary Wharf in London is a good example of such a ‘place’ developed in the 1990’s, while the dynamics of more recent Mega Projects are described by Urbanist Susan Fainstein (2008) in several different locations. Some Marxists refuted the new attempts to explain rent, for example Derek Kerr took on Ball, Harvey and Haila in his 1996 paper, suggesting that:

...rent is not seen as some autonomous entity (Haila), or as a market price (Ball), or as a means of enforcing the ‘logic’ of capital (Harvey). Rather, rent is a contradictory social form; a necessary barrier posited by capital and internal to the capital relation and hence determined by the movement of that relation... It is a necessary form through which capital appropriates and commands space while at the same time enforcing labour’s exclusion from that space, thereby reproducing the commodity status of labour power (Kerr, 1996:85).

He is instead encouraging theorists to return to the Marxist orthodoxy.

Don Munro, in contrast has returned to Marx’s original writing on land and rent to bring this orthodoxy into current debates on its relevance to different traditions and forms of land tenure in the Global South, concluding that the two factors, land and labour, ‘are essential to political economies of communities and societies in all modes of production’ not just the capitalist mode, however, ‘there cannot be a general theory of rent, because how rent is extracted from labour varies with each indigenous, ancient, Asiatic, feudal, capitalist or communist mode of production’ (Munro, 2022:15).

Haila continued to place the cause of this tendency (the constant transformation of urban space) in land rent theory, rather than the secondary process of financialisation (Aalbers and Haila, 2018). She returned to land rent theory in her final book echoing many of the assertions made by George, particularly in respect of the monopolistic nature of all land: ‘all forms of rent are monopoly rent in the sense that their cause is exclusive ownership of land’ (Haila, 2016:224), and uses Singapore as a case study, to demonstrate the characteristics of a property state.
Since the global financial crisis of 2008, the third implosion of property values in the UK since the war, Economists continue to consider the unique nature of land, acknowledging that rising property values, and the financial instruments invented to exploit them lay at the heart of the crisis, given the higher propensity for volatility (Jorda et al., 2016). Global concentrations of population in cities, highlighted growing inequality: poverty alongside progress, unresolved by the growth in GDP. New articulations highlighted the danger of conflating land with capital (Gaffney, 2015; Ryan-Collins et al., 2017), which had consigned land rent theory to the margins of debate. Ever greater inequality, and rising asset prices despite a global recession and austerity measures imposed in some economies exposed the profession to a degree of introspection, (Jacobs and Mazzucato, 2016; Keen, 2011; Reiss, 2011) particularly by students (Earle et al., 2017) to re-think Economics itself.

3.7 Financialisation

One theme has emerged over several decades – financialisation – which seems to stand outside land rent theory, although I would argue that its origins lie within the debate. One strand is discussed by Harvey and Haila, with its origins in the Marxist idea of capital switching, (Aalbers, 2016) and the ‘wall of money’ (Rolnik et al., 2019). An early critique of this concept (financialisation) sees the attraction of switching investments from industry to the higher profit of the built environment, but finds no empirical evidence for capital switching, and concludes: ‘Harvey, then, was explicit about the weak empirical substantiation for his position, but this critical caveat was forgotten as the logic of the theoretical explanation enticed urban theorists’ (Beauregard, 1994:718).

Another strand refers to a ‘debt switch’ where creation of credit and lending to the real estate and finance sector has grown faster than lending to the non-finance sector. Bezemer (2021) argues that this not only has a destabilising effect on the macroeconomy, but has led to growing inequality, consistent in its timing with the turn to neo-liberalism (Offer, 2017). This strand offers stronger empirical evidence, particularly since the GFC.
Economic Geographer John Bryson acknowledges the increasingly important role of global financial entities (Banks, Pension funds, Insurers, Private Equity etc.) in the realisation of urban development schemes, but disputes whether these actors hold the leading role:

This more recent literature has a tendency to foreground ‘financial investors who manage real estate assets’ (Guironnet, 2016:1443) but paradoxically fails to fully engage with land and more specifically the relationship between land tenure or land rights and the development of cities (Bryson et al., 2017:456).

Meanwhile Geographer Paul Langley asserts that ‘centring research on assets and assetisation can also more explicitly connect work on financialised capitalism to wider normative and political debates over the intensification of inequalities’ (Langley, 2021: 385).

Bryson tells the story of Birmingham City Council, (BCC) which, under the leadership of Joseph Chamberlain as Mayor bought land in the city from 1875, as well as private gas and water companies in order to enable redevelopment of the city centre. These purchases were enabled by the anticipated uplift in land value after investment, and therefore, revenue from future rates. The council continues to own this land, and has continued to re-develop sites itself, or with leasehold partners. Bryson calls this process a ‘financialisation fix’ to distinguish it from Harvey’s ‘spatial fix’, emphasising the importance of the bundle of use rights to land, buildings, air and adjacent space such as roads and other public infrastructure in creating value, demonstrating that finance without land is nothing. He illustrates the process with case studies of the National Exhibition Centre (NEC), new City Library and New Street Station developments:

The land value capture model developed by Chamberlain as the first TIF (tax increment finance) scheme has ensured that BCC has been able to mediate the relationship between global finance and locally embedded assets to the financial advantage of the city and to the advantage of citizens.... This highlights that financialisation is not a new process, but is perhaps as old as capitalism (Bryson et al., 2017:467).
Haila places the concept (of financialisation) firmly as a category of rent regime, characterised by identification of land as an asset, an object for investment, subject to regular bouts of speculation, where the rental income is often derived from the financial instrument, such as a securitised loan or Real Estate Investment Trust (REIT) Table 2.1, (Haila, 2016:28), thus creating a new form of rent: derivative rent, one might call it sophisticated accumulation. In a posthumous contribution to this literature, Haila emphasises the technical innovations (securitisation & REITs) which made it easier for asset managers and retail investors to hold and trade property assets in the secondary markets. It was possible to ‘divide the ownership of real estate into smaller doses’ (Orum et al., 2021:566), while the ‘moral feeling(s)’ of traditional landladies towards their tenants was absent from the REIT (Orum et al., 2021:569). Harvey seems to support this view in his more recent work, (2010), while others identify such claims on ‘pseudo-commodities’ such as land as ‘value grabbing’ (Andreucci et al., 2017); George, as described earlier, distinguished this concept as ‘value in obligation’ (George, 1898). Illustrating this difference of approach, a fascinating debate took place between two key protagonists, where the relative importance of land and money as a driver of house prices is discussed. Haila refers to her ‘various categories of rent; these forms are tools to unveil the unjust landed property under them’ (Aalbers and Haila, 2018:1824), whereas Aalbers claims: ‘in the age of financialised capitalism, house prices are primarily, but never exclusively, driven by the supply of housing finance’ (Aalbers and Haila, 2018:1827) (my emphasis), suggesting some common ground for an understanding despite their different approaches.

Given the focus of this thesis on land rent theory, I will not devote more time to the financialisation literature. In conclusion, in an insightful paper on ‘the shitty rent business’, the authors ask the simple question – ‘why does land command large values, the largest portion of which cannot be attributed to labour or interest on capital investment but seemingly appears for nothing?’ (Ward and Aalbers, 2016:1761). Many theorists try to show agency for this value as this Chapter has demonstrated – but perhaps it appears just from being there, in other words land
being where it is. The value attributed to land is conferred by the people around it, the value that can be derived from people using the piece of land in that location.

3.8 Returning to land

In fact, an earlier comprehensive case study of Singapore and Hong Kong illustrates the different approach and interpretation of the competing ideologies nicely, when contrasted with Haila’s analysis. Although Sociologist Manuel Castells no longer identifies as Marxist (Rantanen, 2005:137), his approach to describing the two City States provision of public goods, especially housing, for ‘collective consumption’ speaks of the state operating in such a way so as to accumulate rent through capital formation on an epic scale:

The set of conditions for investment and growth in the Singapore economy boils down to a simple and fundamental mechanism: the state seizes directly and indirectly a substantial share of the value produced and allocates it for investment of savings along carefully defined economic, social and political objectives. It is indeed a process of politically determined primitive accumulation of capital, a process underlying all major developmental experiences in history (Castells et al., 1990:176), (emphasis in original).

While at the same time, the authors acknowledge the key role of land:

Thus, for public housing projects to be successful in the long run, there must be an effective land policy that would keep land cost affordable and prevent excessive speculation and skyrocketing land prices (Castells et al., 1990:327).

Nonetheless the authors stick with the Marxist theory that all value comes from labour, relegating any value in land to the pre-capitalist period, thus representing a primitive accumulation.

It seems that theorists often see what they want to see. In another comprehensive analysis of the development of post-war Hong Kong, Economist Neil Monnery ascribes the cause of its astonishing growth to what he calls ‘positive non-interventionism’ (2017), practiced by successive Financial Secretaries in the colonial administration, particularly Sir John Cowperthwaite, from 1961-1971. In other words,
giving free reign to market forces, deregulation and free trade, a neoliberal prescription for growth and development. High levels of public revenue from land rents are mentioned only in passing, while low personal taxes are identified as providing the incentive for entrepreneurs to create wealth. Milton Friedman famously declared in 1980 standing in front of a panoramic view of Hong Kong harbour: ‘If you want to see how the free market works, this is the place to come’, in his introduction to the TV series: ‘Freedom to Choose’. He failed to mention that the land he was looking at belonged to the state.

The question remains: how to balance the competing interests over land between the public and private? Perhaps Linklater is right: ‘The iron law of private property turns out to be a paradox. Although it promotes individuality, it only works by giving equal weight to the public interest’ (Linklater, 2014:397). One intriguing feature of the Singapore model is the fact that while 90% of the population own their own homes (mostly leasehold), the government owns 90% of the land (freehold). I will explain this apparent contradiction fully in chapter 7; it is a key feature of the property state. Is this balance the potential solution? Are there any alternatives?

Over the last hundred years, we have seen that the nationalisation of land, and collectivisation of industry within a planned economy has proved, after an initial period of success (as in the Soviet Union up to the 1960s), to be a poor mechanism, either to foster equity, or economic efficiency. On the other hand, large scale land reform, involving major redistribution seemed to achieve both objectives for Japan and Taiwan in the second half of the twentieth century, inspired by the work of Economist Wolf Ladejinsky at the end of the second world war (Ladejinsky and Walinsky, 1977). However, old habits often re-emerge, and imbalances in land ownership can be re-embedded over time, necessitating periodic disruption if not revolution if a balance of interests is to be restored.

Perhaps land rent theory needs to shake free the shackles imposed by the constraints of rent gap theory (Smith, 1979), spatial fixing, (Harvey, 1982) and financialisation, (Aalbers, 2016) to rediscover the concept of potential rent, how it arises, how it is measured (see (Clark and Pissin, 2020) for a discussion on this) and devise a
mechanism to tame its destructive power in the rent gap. To take its sting, or kernel as George described it. Perhaps a strong conditionality on the ownership of land, consistent with both the property state and the Geo-classical principle is the solution which Haila promoted in her case study of Singapore.

3.9 Conclusion

In this chapter I have discussed the origin and history of land rent theory as it crystallised in the Classical period, became problematic under the Marxist understanding of value creation, and disappeared with a neo-classical analysis suggesting that all factors of production were interchangeable. During the second half of the twentieth century, land continued to influence the business cycle forcing theorists to re-evaluate the role of land assigning to finance the co-ordinating role previously undertaken by landowners. During this period, Haila continued to challenge the new orthodoxy, ensuring that rent and land continue to engage Political Economists, Geographers, Economists and Sociologists grappling with the causes of inequality.
Chapter 4  Taxation, its history and relationship with ownership and land rents

Running in tandem with the debate over the validity of the private ownership of land, elaborated in Chapter 3, is the question of whether, and to what extent does the State have the right to tax private property of any kind. Where does the property state sit in relation to this question, and what form of tax is most appropriate for a property state?

Some theorists go further, and ask: does the State have the right to exist at all? Before there is taxation, there has to be the State. Without the State, there could be no taxation. But one can equally argue that without the State there could be no property. Indeed, in some cases, without the protection of the state, the field is open to extortion, given that the State itself defines and agrees to guarantee and protect the rights to individual property; thus property is the state. From a minimum, material point of view, the state is its territory, its property.

In return for the protection of individual produce gained by one’s own effort, some part of this is given up to a collective authority, who can command a part of that property or service in order to maintain law and order, even if it is only against the encroachment of your neighbour.

Perhaps in response to the ever-growing presence of the State in people’s lives during the twentieth century, there has been a reaction from some theorists, asserting a pre-political right of people to exist and command their own lives entirely free of any interference, including absolute ownership of land and property. Taxation in this context is an affront to liberty ‘on a par with forced labour’ (Nozick, 2012:169).

These Libertarians promoted the position that the level of taxation should be more aligned with services provided, as well as a matter of choice, rather than having to accept a one size fits all, arbitrary, annual fee in return for public services – whether used or not. On a practical level, it was considered that competing individual local authorities, or cities could offer their citizens a choice in the level of service provided at a particular price – a theory developed by Tiebout (1956). While this might work in a dense urban area with small jurisdictions, (Oates, 1969) it could prove impractical.
in more sparsely populated areas, and give rise to stark differences of wealth within a city. Furthermore, beyond the provision of basic services such as sanitation and roads, Libertarians argue that any form of redistribution is the domain of charity – collecting voluntary contributions by privately governed entities would be more efficient in delivering support to those with disability or struck by misfortune. The State had no right to impose a moral dimension to social life through a redistributive system of taxation.

In dramatic contrast to this position, John Rawls in his Theory of Justice, (Rawls, 1971) argued that a universal system of taxation, applying to all members of society is the principal method by which a government ensures a basic level of economic justice for all. Subscription to such a system is the entry ticket to a civilised society. Such a system would be progressive, meaning that those with greater means or resources would be taxed at a higher rate, in order that social benefits such as education or housing could be provided on a redistributive basis to all, thus ensuring equal opportunities for each new generation. He explicitly rejected the idea of a pre-political pattern of property ownership, arguing that the privilege and existence of private property was only possible in a system of collective protection, where property is a consequence of the State’s existence, rather than a pre-existing condition. The burden of tax within such a conception of the State, is not then determined by notions of individual fairness or equity relying as they do on some notion of a before tax, after tax distribution of income or wealth, but rather on a more holistic understanding of society as a system whose aim is to ensure justice for all – justice as fairness.

The particular system of taxation chosen, sits within a bigger system – a set of institutions and rule of law, which offer the advantages of living together in a cooperative fashion:

This is not the view that equality matters above all, so that even equal misery is better than inequality... (T)he ideal is rather that of a community committed to making the lives of all its members better (Murphy and Nagel, 2005:141).
One can see the output of our economy, that which we produce collectively, as the result of this bigger system. The produce does not belong at the outset to any individual – hence the title of their book The Myth of Ownership, but only that share of the produce that remains to them after tax: ‘we have to think of property as what is created by the tax system, rather than what is disturbed or encroached on by the tax system’ (Murphy and Nagel, 2005:175) – that which is protected by the state.

There is one theoretical position (left libertarianism) which combines elements of these two extremes. It holds that there are certain goods (natural resources), the value of which can be justifiably distributed to everybody. As Vallentyne explains: ‘individuals who appropriate more than their fair share are required to pay the full competitive value of their excess share to those deprived of their fair share’ (O’Neill and Orr, 2018:105). This is reminiscent of the position taken by Geo-classical liberals – if one equates the ‘excess share’ with rent. In the same book political theorist Barbara Fried argues that it is not enough to calculate the value of obvious public services such as sanitation and roads referred to above, and charge for it; but that we can also observe how much people are prepared to pay to live in a particular place – for example in the centre of a large city. The elements that create that value are not simply tangible goods and services, but include many intangible benefits, ‘norms of civility and trust, cultural institutions, good restaurants, job opportunities,… and all the other working parts that make a city… a place in which people want to live’ (O’Neill and Orr, 2018:164). Payment for this larger collection of advantages which are the result of social interaction, she identifies as ‘benefits taxation’. The richer the experience of city life created by this combination of private initiative and public investment is what people should pay for through a system of taxation:

…and if the unique value of its social capital gives a polity quasi-monopolistic power, why shouldn’t its members be free to price discriminate, setting membership fees in accordance with a means-tested sliding scale? After all, no one is forcing anyone to move to Manhattan… (O’Neill and Orr, 2018:164).

This notion turns the idea of taxation in the opposite direction – a voluntary payment for exclusive benefits, rather like a private club. Such a membership fee could be
calculated on the land value of every site in the city. An indication of how much someone is willing to pay to benefit from this collective provision in any particular location.

In the following sections, I will begin to classify and define more carefully what is meant by the property state, in order to position the concept on this scale, between land ownership, Geo-classical liberalism and Modern Monetary Theory, via the concept, history and evolution of tax theory.

4.1 Geo-Classical liberalism

To do so, and in order to distinguish the concept of a Geo-classical form of liberalism from two of the more established forms of liberalism: social liberalism and classical liberalism, all three of which can be regarded as moderate, I have drawn up this table showing types of state with their respective characteristics of economy, governance, priority and relation to property etc.. Each moderate form also has an extreme form, thus, the extreme form of Social liberalism is communism; the extreme Classical liberalism is right libertarian, and the extreme Geo-classical liberalism is left libertarian. Of necessity, and in the interests of brevity, the classifications and descriptions are very broad brush.
**Table 4-1: Classification of Liberalism, Moderate and Extreme, compiled by author**

<table>
<thead>
<tr>
<th>Types of Liberalism</th>
<th>Social Liberalism</th>
<th>Classical Liberalism</th>
<th>Geo-classical Liberalism</th>
<th>Left Libertarian</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Moderate</td>
<td>Extreme</td>
<td>Moderate</td>
<td>Extreme</td>
</tr>
<tr>
<td>Social Liberal</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Theorists</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Owen, Mill, Keynes, Beveridge, Rawls</td>
<td>Smith (amoral, invisible), Friedman, Hayek</td>
<td>Locke, Tomasi, Brennan</td>
<td>Smith (moral), Ricardo, George, Stiglitz, Mazzucato, Sen</td>
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<td></td>
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<td></td>
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<tr>
<td>Taxation</td>
<td>Re-distributive, high rates on income, VAT, inheritance, customs and excise, property</td>
<td>Nationalise Rent</td>
<td>Minimal (including Privatise rent)</td>
<td>Socialise Rent: primarily based on land value, but other forms may apply to the commons – money creation, bandwidth licences, media platforms etc.</td>
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<tr>
<td>Government</td>
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<tr>
<td></td>
<td>Big, pre-distribution, regulation, intervention, nationalisation, anti-trust/ monopoly</td>
<td>Big, all pervasive</td>
<td>Small – essential services only</td>
<td>Small</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Economy</td>
<td>Mixed – public utilities and other services, Co-operative, but also private ownership</td>
<td>Planned, State owned enterprise</td>
<td>Orthodox Market, private provision of as many services as possible</td>
<td>Market</td>
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<tr>
<td>Productivity</td>
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<tr>
<td></td>
<td>Inefficient, unresponsive</td>
<td>Efficient, but exclusive, tends to monopoly</td>
<td>Efficient, but discriminatory</td>
<td>Efficient, but limited to private sector</td>
</tr>
<tr>
<td>Types of Liberalism</td>
<td>Social Liberalism</td>
<td>Classical Liberalism</td>
<td>Geo-classical Liberalism</td>
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<tr>
<td>Moderate</td>
<td>Extreme</td>
<td>Moderate</td>
<td>Extreme</td>
<td></td>
</tr>
<tr>
<td>Social Liberal</td>
<td>Communist</td>
<td>Classical Liberal, (neo-classical, Neo-liberal)</td>
<td>Right Libertarian</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Geo-classical Liberal, Market Democratic (after Kerr)</td>
<td>Left Libertarian</td>
<td></td>
</tr>
<tr>
<td>Property in land</td>
<td>Public/ Private</td>
<td>Nationalised land, social housing</td>
<td>Private (absolute)</td>
<td>Quasi-private, strongly conditional, or leasehold system</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Private (absolute)</td>
<td>Private (specific, conditional)</td>
</tr>
<tr>
<td>Other property</td>
<td>Private, but subject to tax</td>
<td>Private, take what you can get, barter</td>
<td>Private, minimally conditional</td>
<td>Private, free of other taxes</td>
</tr>
<tr>
<td>Principle</td>
<td>Justice as fairness, difference principle, equal opportunity</td>
<td>Equal</td>
<td>Pursuit of self interest, to serve others</td>
<td>Just deserts, reward for effort, Self ownership</td>
</tr>
<tr>
<td>Society</td>
<td>Welfare state, egalitarian</td>
<td>Fatalistic</td>
<td>Individualistic, with safety net</td>
<td>Self reliant, Philanthropic</td>
</tr>
<tr>
<td>Priority</td>
<td>Civic and political rights</td>
<td>Conformity</td>
<td>Economic freedom</td>
<td>Work</td>
</tr>
</tbody>
</table>

Geo-classical liberalism conforms closely to the idea of the property state, and offers an opportunity to reduce inequality without undermining the benefits of market freedom and economic efficiency. The key element is to socialise rent, rather than allow it to appropriated privately. The Geo-classical approach, developed by Political Economist Gavin Kerr, is similar to the left-libertarian tradition, and proposes:

a division of rights of private ownership into two distinct kinds: first, *minimally conditional* rights of private ownership, which apply in respect of what I call ‘privately created property’; and second, *strongly conditional* rights of private ownership, which apply in respect of property that is not created by applications of labour and capital, namely, land (Kerr, 2019:11).
Nationalisation of land – the Marxist solution, interferes too strongly in terms of market freedom – it is only the rental value of land that needs to be socialised, not the land itself. The economic efficiencies of such a system would in turn offer more protection for privately created property, by removing the need to tax it so heavily to support redistribution (or pre-distribution) in the social liberal form:

...on the unorthodox conception, (of market freedom) once the strong condition which applies in respect of land has been satisfied, the minimal condition which applies in respect of privately created property does not include any kind of additional tax burden (Kerr, 2019:12),

thus restoring greater freedom to the economic sphere.

Political Economist Franklin Obeng-Odoom, who worked with Haila at the University of Helsinki has a similar classification for the two dominant paradigms. On the one hand, there is what he calls a ‘Conventional Wisdom’ which although prepared to accept new ideas, such as Ostrom’s analysis for the governance of Common Pool Resources, they can only be adopted into a broadly neoliberal model. On the other, there is the ‘Western Left Consensus’ avowedly anti-capitalist, and pro collectivisation. Neither approach is capable of tackling the global problems of climate change, inequality, and regional division (broadly Global North/South). Instead, he proposes a ‘Radical Alternative’ a decolonising agenda, which places nature, and in particular ‘landed property relations as a research approach’ (Obeng-Odoom, 2021: 13) as the guiding theme, which would reverse the privatisation of nature that continues to gather pace in Africa. His alternative approach suggests the central importance of land, and land rent collection as part of a new solution, not only steeped in the ideas advanced by George and Haila, but rooted in the commoning traditions of the Global South.

Under both iterations, while such a social collection of rent would apply to all locations, its biggest impact on the economy as a whole would be the removal of taxation from marginal sites, where there is no rent to socialise. Property ownership to collect an absolute rent would become unattractive, especially if a condition of ownership would include maintenance of land involving direct costs for future use. Not only would it secure the full product of labour to the labourer, geo-classical
liberalism would remove the security of unearned income from the landowner, as well as his power to extract a rent from both capital and labour. Under both the social liberal, and classical liberal arrangement, rent creates inequality of both opportunity and wealth:

On this view, the private appropriation of socially created rent generates actual distributions of privately created property which depart significantly from the free market distribution, bearing very little relation to the productive contributions made by the member of society. It is the effect of the socialisation of rent in bringing actual distributions of privately created property back into line with the free market distribution that makes this institutional feature so progressive, and at the same time so much more conducive to efficient positive-sum economic exchanges than other ‘progressive’ institutions. (Kerr, 2019:13).

The contemporary Economist Mariana Mazzucato refers to this interpretation of a free market in many of her talks, attributing the concept to Adam Smith: ‘many Englishmen understood what Smith meant when he said that a free market was one free of rent’ (2018:39), in the sense that the rent is no longer available as a super profit to the owner-occupier business or patent holder – it has been socialised.

This reform, to socialise economic rent (in respect of land) is the single most important element in a scheme to restrict the private appropriation of rent. Kerr recognises other reforms may be necessary, particularly in relation to the privilege of private money creation, and the ‘proper legal construction and control of corporations’, intellectual property rights including monopolistic digital platforms, meaning that such a (land) reform is necessary, but not necessarily sufficient to promote greater equity.

The Geo-classical liberal approach finds the social liberal redistributive model too restrictive in respect of personal freedom. The Classical liberal solution offers greater personal freedom, but does not offer sufficient ‘substantive opportunity’ to all levels of society to make a sufficient living given the double burden of paying rent as well as conventional taxes: ‘Thus, the formal right to private property that secures market freedom can, if necessary, be restricted, in order to secure the social freedom that consists in the maximisation of the substantive opportunities of the least advantaged
members of society’ (Kerr, 2019:189). Therefore, what Kerr calls ‘quasi-private’ property is an essential feature of the property state, which in Singapore is achieved through a leasehold system of ownership. Most Georgists would recognise this in the benefit principle: exclusive use of land confers special benefits, which should be paid for (the restriction) see, for example (Andelson, 2004:559-561) for a full discussion.

This Geo-classical approach is hinted at by an earlier political philosopher, C B Macpherson, whose book: ‘Property’, reproduces chronologically, the most important contributions to the justification of private property in the western tradition, with an introduction and conclusion by Macpherson himself. On the opening page, he makes clear its inherently political nature:

> Since the institution is man made, it is assumed to have been made, and to be kept up for some purpose: either (or both) to serve some supposed essentially human needs, which would determine (at least the limits of) what the institution is; or to meet the wants of the classes which from time to time have set up the institution or have reshaped it, that is, have made it what it is. In either case, those who see the purpose differently will see the thing differently (Macpherson, 1978:1).

In all cases, the state creates the rights around use of property, and individuals, corporate persons (including the state itself) have those rights, so the concept of property was always about rights, not the ‘thing’ itself, an understanding which changed at some point in the 17th century:

> ...the change in common usage, to treating property as the things themselves, came with the spread of the full capitalist market economy... the replacement of the old limited rights in land and other valuable things by virtually unlimited rights (Macpherson, 1978:7).

Haila contributed to this question in a paper discussing the transition of the Chinese economy to a ‘market’ economy after 1979 making a distinction between Common Law (the idea of property as a bundle of rights) and Roman Law (the idea of property in the thing itself) arguing that there was no single path to an understanding of property. She concludes that China, following its own history of property relations has an understanding of property more akin to the Common, rather than Roman law (Haila, 2007:8-9), adopting the leasehold system to hold property.
In the final chapter, Macpherson argues that during the course of the 20th century, the rights to the thing itself instead became a right to the income, stream of revenue or rent from ownership or control of property, whether it was capital, land or labour. This presented a problem for liberal democracy:

The central problem of liberal-democratic theory may be stated as the difficulty of reconciling the liberal property right with that equal effective right of all individuals to use and develop their capacities which is the essential ethical principle of liberal democracy. The difficulty is great. For when the liberal property right is written into law as an individual right to the exclusive use and disposal of parcels of the resources provided by nature and of parcels of the capital created by past work on them, and when it is combined with the liberal system of market incentives and rights of free contract, it leads to and supports a concentration of ownership and a system of power relations between individuals and classes which negates the ethical goal of free and independent individual development (Macpherson, 1978:199-200).

He suggested therefore, the need for a less narrow conception of the right to property:

As I have already shown, property, although it must always be an individual right, need not be confined, as liberal theory has confined it, to a right to exclude others from the use or benefit of some thing, but may equally be an individual right not to be excluded by others from the use or benefit of some thing.

The right to exclude others, must be supplemented by the right not to be excluded by others:

the right not to be excluded by others may provisionally be stated as the individual right to equal access to the means of labour and/or the means of life (Macpherson, 1978:201).

What are the chances of changing the narrow paradigm of exclusive rights? Now that the free market of individual agents has proved inadequate to supply the needs of man, now that government has stepped in to provide so many essential services, and regulate so many activities, it is no longer justifiable to protect this narrow definition of property rights. Exclusive use alone has proved to be an inadequate means to serve
the needs of all, as we continue to experience poverty in the midst of plenty, and an increasingly unequal distribution.

If liberal democratic societies are to be the guarantors of rights essential to the equal possibility of individual members using and developing their human capacities, the individual property right that is needed is not the exclusive right but the right not to be excluded from the use or benefit of those things (including society’s productive powers) which are the achievements of the whole society. (Macpherson, 1978: 205-206).

This is less of an economic problem (to allocate the spoils of the collective process of wealth creation) than a political problem, particularly the closer we get to the stage where the productive process can be automated. To be compatible with liberal democratic theory, the only freedom to be restricted, would be the freedom to appropriate the work of others. The new definition of property rights is not incompatible with the earlier narrow definition:

For it does include an individual exclusive right to consumables (though not an individual exclusive right to accumulated social capital and parcels of natural resources) (Macpherson, 1978:205-206).

This is a remarkably prescient iteration, although Macpherson offers no practical means to achieve the goal he sets. However, the concept of the property state adopting the socialisation of rent does seem to offer a way forward.

4.2 Public revenue in a property state

The question for political economists, in a property state, is whether a residual charge should be made to the users of land in return for the original gift of nature, which in theory belongs to all, given that we are all entirely dependent on its bounty for our survival. Such a charge is different in nature to other conventional taxes: it is not transactional, measured by purchases or sale of other inputs, or income drawn from a business. It is based on ownership or use of a common resource, and varies according to the advantages conferred by social living in different places: the socialisation of rent, in line with the Geo-classical proposal outlined above – the conditional price to be paid for the exclusive enjoyment of property.
In our market economy, private goods can be bought or sold with our monetary income, and are generally used exclusively within a family. Public goods on the other hand are paid for by an external agent, a government, and made available to all, normally without exclusion. The money used to provide public goods is taken from individuals by various means of taxation, either direct or indirect. Who pays the tax, how much, and how it is collected can have a positive or negative effect on both the distribution of wealth, and the level of public services provided.

To what extent should these payments align with the collection of the residual value (rent) provided by nature or location? How should the property state operate to collect this value? In order to fully develop the argument, it is necessary to return to an historic overview of the development of taxation, as well as to identify the logic and operation of conventional systems of taxation.

The classical economists, Smith, Malthus, Ricardo and Mill amongst others argued consistently that an efficient source of public revenue would be the so called ordinary rent of land, ‘ground rent’ or ‘economic rent’: that part of the value of land provided by nature:

Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry. The annual produce of the land and labour of the society, the real wealth of the great body of the people, might be the same after such a tax as before. Ground rents and the ordinary rent of land are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax upon them (Smith, 1776 (1827):356).

Today, the most valuable aspect of land is its location: with the highest values being ascribed to urban land. Central to the theory of rent, is the idea that a rent can be charged by the owner of land which produces more, or has at least the possibility to do so, once improvements (investment in machines or buildings) have been made. Successively better plots of land, or the owners of more centrally located plots of land will be able to charge a rent for this better location. This will create a hierarchy of rents on plots in successively more remote locations. Assuming always that there is
more land available somewhere, the worst piece of land in use (in terms of its location) will attract no-one willing to pay a rent, given that there is a choice to use other land. Land attracting no rent, would by this definition be free land – free of rent, and free of any imposition by the public authority. There would be no particular incentive to own such land, unless there is a desire to use it in some way. No rent would accrue to such land, and as soon as it did, the owner is obliged to give it (the rent) up to the public authority.

The level of rent which can be charged for the use of all other pieces of land, has nothing to do with the work taking place on the particular piece of land, but everything to do with its location: one could characterise it as a natural surplus collected by the owner of the land. People will therefore compete to possess the sites which benefit from this natural advantage, which, so long as it is not collected for public revenue, will remain in the hands of the private owner: this is the private appropriation of rent.

But few countries take advantage of this natural surplus as a significant source for public revenue, and instead rely on ever more numerous and complex taxes on employment and consumption. This failure has contributed to ever rising inequality. The accumulation of appropriated rent derived from this natural advantage, will, over time, put the owners of such sites above their peers, other things being equal, in financial terms, so long as all land is enclosed:

> To claim ownership of what is produced is one thing: to claim ownership of the free gifts of nature is another. In principle what is produced can be re-produced, so that monopoly of produced things can only be temporary, whereas monopoly of natural resources can be permanent. (Hodgkinson, 2007:55).

This fact is central to Piketty’s assertion that the return on capital, will, over time exceed the return on work (which he defines as ‘the rate of growth of the economy, that is, the annual increase in income or output) (2017:34). In other words, owners of capital (including land, as he defines capital) will be wealthier than those who can only work for their income, and do not have the advantages of deriving income from assets such as land. Excessive returns to work will be competed away. Over time,
without a public collection of rent, therefore, an unequal distribution of wealth will develop in society. Others, including Wilkinson and Pickett (2010) have described how such inequality again over time, will have profound impacts on people stuck in the bottom deciles of wealth distribution, as well as to the general health and wellbeing of society as a whole, including such measures as trust between people, obesity or rates of addiction.

Piketty proposed a global wealth tax to resolve the growing inequality he documents. However it is always more difficult to take something away from somebody once acquired, than it is to prevent the appropriation. Perhaps a wholesale re-appraisal of the principles underlying our systems of public revenue, as well as our economic theories are necessary. As Paul Johnson, Economist and Director of the Institute for Fiscal Studies, points out:

> There are very substantial economic and social welfare costs associated with a poorly designed tax system and, conversely, big benefits to be had from a well designed one. (Johnson, 2014:24).

In order to design a better system of taxation, it is important to start with a full understanding of the way an economy, and the process of wealth creation works. A number of economists are now turning to the task:

> ...to help develop a more coherent analysis for the role of ‘economic rent’ in modern economies: that is, the excess returns derived from the ownership of a natural (usually scarce) resource. Land, we believe, is the most important source of such rents in advanced economies and also the most neglected (Ryan-Collins et al., 2017:2).

Sharing the same analysis Posner and Weyl propose harnessing the market (auction) mechanism to secure these rents for the public purse: ‘perpetual auctioning’ of land ‘would undo the tremendous misuse of lands and other resources’ (2018: xviii), and share the views of others such as Joseph Stiglitz who see the potential of a tax on land value not only to reduce inequality but also to raise incomes and productivity:

> Thus, as Henry George (1879) argued long ago, land taxes can be an important instrument for increasing equality. He explained how such a tax was non-distortionary. But in many of the models presented here,
we obtain a stronger result: a land tax actually leads to higher wages and a higher level of national output. (Stiglitz, 2015:19).

Implicit within his argument is the idea that a tax shift is necessary – a change in the incidence of taxation from income (PAYE & NI) and consumption (VAT, and Excise duties) to land values directly. For every pound removed from the collection of income tax, a pound would be added to the tax on land values, until the revenue from income tax would be zero. There may be practical limits to this shift: it may be more convenient to tax the very high incomes of, for example football stars, than to calculate the rent arising from the organisation and sale of the television rights of popular football league and cup competitions.

Some mainstream economists have endorsed this view, using standard calculation methods. Although I cannot pretend to understand their method, their conclusions are clear: ‘the result has a remarkable implication for open economies: taxing land can increase total GDP due to higher industrial output’ (Kalkuhl and Edenhofer, 2017). Another paper goes further, addressing the question of inequality by predicating land tax revenues, with a universal distribution to citizens: ‘We show that taxing rent income and giving it to the poor young generations actually enhances output and welfare by reducing inequality’ (Siegmeier et al., 2015).

Their rationale is that any failure to tax land rent leads to over investment in pre-existing assets, and under investment in new productive capital – leading to lower wealth creation, and a fall in levels of productivity. Giving more to those without rent generating assets (the young and the poor), leads to more effective demand, consumption, and possible investment in productive enterprise. The authors call this ‘Hypergeorgism’ in the paper’s title. Another paper suggests the first best solution to both inequality of wealth and sluggish economic performance would be a pure land tax, accompanied by eliminating taxes on capital: ‘The importance of land taxes goes beyond the microeconomics of cities and naturally embraces the issue of redistribution at the macro level with implications on long term growth’ (Bonnet et al., 2021: 20).
There is another aspect to the creation of value: often, when public investment in infrastructure, particularly of transport is made, the value of land in the vicinity of those new facilities goes up. The private owners benefit directly from this investment, without having made an equal contribution. A key principle of the property state would ensure that this uplift in value is instead collected by the state.

There is a natural phenomenon in the distillation and ageing of whisky which provides a useful analogy. As whisky is generally matured in oak barrels, some of the liquid is absorbed into the wood, and eventually evaporates through it; as the rate is about 2% per year, in ageing a barrel for 12 years, the loss of the product could be 21.53% overall - however, the loss also improves the content of what remains, either by increasing the alcohol concentration (proof), or mellowing the flavour. Distillers celebrate this loss of product, by calling it the ‘Angel’s Share’ – a loss or contribution which increases the value of the remaining whisky! Perhaps the landowners who benefit from public investment should acknowledge a ‘public share’ by offering a rent to the community every year, to help pay for the infrastructure from which they benefit.

The magnitude of the change in thinking necessary to switch the burden of taxation from incomes and consumption onto land values should not be underestimated.

First, the concept needs to be understood – that the value to be assessed for tax applies to the land only, meaning that the value of any improvements, buildings or facilities placed on the land would be exempt, on the basis that these products are privately produced. This should have two consequences, one, that owners would be encouraged to make the maximum investment, and best use of any particular piece of land, which would in turn benefit the whole community, especially if it brought vacant plots or properties into use. Two, that owners would retain the full value of their earned income from improvements, or return on work.

Second, it would need to be demonstrated that the majority of owners would be better off after the shift in the incidence of taxation. For example, a report suggesting a similar reform to the business rates regime in the UK calculated that ‘In England, the Commercial Landowner Levy would cut business taxes in the vast majority (92%)
of local authorities – particularly outside the South East – helping to rebalance Britain’s divided economy’ (Corlett et al., 2018).

Third, any such shift would have to be signalled well in advance, and introduced gradually, so as to allow time for adjustment and avoid unintended consequences.

Fourth, special arrangements may have to apply to homeowners who might be asset rich/income poor – for example, non-earning pensioners could roll up their liability to be paid out of their Estate. Or those who may have recently taken out large mortgages could be offered mechanisms by tax authorities to ‘buy’ their land in return for a perpetual lease to stay in the home. Such leaseholds would carry a land value covenant with an annual levy, in place of the new tax; they would continue to pay the (smaller) mortgage for their building.

To assist in explaining the logic to the proposed shift in the incidence of taxation, international examples would need to be framed to establish not only the theoretical advantages, but also the practical measures necessary, and highlight any shortcomings in design. While there are many countries with long established systems of land value taxation, for example Denmark, Australia and New Zealand, the amounts collected remain relatively low compared to other sources of public revenue. In the absence of a fully working or ‘ideal’ model of land value taxation, other examples would need to be given where various proxies for land rents can be seen: in particular, the methods used in Singapore. Other countries such as Hong Kong have demonstrated the efficacy of the transport + property model to directly finance railway construction and operation. These models show how land value rises with infrastructure investment, which can be a key tool for the property state (Cervero and Murakami, 2008), and how the uplift in value can be captured for public benefit, thus reducing the need for general taxation.

As before, adopting this method of raising public revenue might offer a return to a more equitable state described by Adam Smith:

In that original state of things which precedes both the appropriation of land and the accumulation of stock, the whole produce of the labourer
belongs to the labourer. He has neither landlord nor master to share with him. (Smith, 1776:27).

A precondition of such a state would be free land at the margin – some place that would be free of rent, and therefore free of tax.

4.3 Conventional sources of taxation, sources and trends

In order to distinguish the property state from others (private states) a significant departure can be seen in the system of taxation applied. I am primarily interested in comparing developed economies in this analysis, and will rely on statistics prepared by the Organisation for Economic Cooperation and Development (OECD), not only because they publish comparative tables for different countries, but also because they commission and publish research addressing many questions about taxation.

There are some general common denominators and trends. For example whatever governments collect in taxation, they tend to spend; there are very few governments who consistently run a budget surplus. In fact most governments spend more than they collect in taxes. This suggests an inadequacy in the overall system, that it is insufficient to meet the overall need, or that the economy somehow creates distortions that it is unable to compensate for.

The clearest long term trend of the last 150 years has been the increasing rate at which governments spend as a percentage of gross domestic product (GDP), which has increased from 5-15% in 1880, to 18-35% in 1960 and between 33 and 56% by 2012, (Begg, 2014:320) Table 14.1, amongst the major economies. For the UK, the figure was 48.5% in 2012 – which is about average for European countries. Governments are the single most important contributors to the economy. As a result, how public revenue is raised (or spent), can have an equally significant effect on economic activities and behaviour, both of companies and individuals. It also demonstrates that the purpose of taxation has shifted from covering the basic functions of the state, such as defence, and the protection of property to a more extensive provision of public services, not only in the form of services that cannot be
exclusive such as transport infrastructure, but in the form of direct welfare benefits such as healthcare that we can characterise as redistributive.

The main sources of tax in OECD countries today are personal taxes and social security contributions; together, the average in 2016 is 50% of the total, making payroll taxes the single most important element of tax revenue for developed economies. Next come consumption taxes at 20%, excise duties at 12.5%, corporate income taxes at 9%, property taxes at 6%, and others at 2.5% (OECD, 2018) a more detailed analysis of these figures for selected individual countries was given in chapter 2.

It is also useful to understand a little about the longer-term trend in the mix of different taxes contributing to public revenue. In this context, the most striking feature is the emergence of income taxes as the most significant source of revenue, although it is now more accurate to call them payroll taxes. Traditionally, the other main sources were excise and customs duties. To illustrate this trend, I will concentrate on the history of taxation in the UK, given the availability of data, its typical nature, and the familiarity of the author with the jurisdiction.

4.4 History of taxation in the UK

This section may seem out of place in a thesis which concentrates on Singapore, but is included here to demonstrate that the private appropriation of economic rent from land values has not been a constant over time. From this history, it is clear that the rate of public collection has been contested, reflecting the relative strength of social versus individual relations. Also of interest is the mid-twentieth century shift in the level of taxation as a percentage of GDP, as well as the emergence of the contributory principle during the first half of the 20th century.

In the UK, income tax which was originally, and primarily used to raise additional revenue in times of war, was first introduced in 1799, and fell in and out of use over the next forty years according to the need, but became a permanent feature in 1842. However, the income being taxed in these years was very different to the payrolls being taxed today. At the outset, income tax was a tax on property income – the
opportunity to collect a tax from earned income was very low – given the casual or
domestic nature of many occupations at the time. The emergence of payroll taxes in
the twentieth century as the dominant source of taxation is the major trend to emerge from this analysis, so to illustrate this shift it is worth spending some time
looking at Sir Robert Peel’s, (British Prime Minister 1841-46), income tax in detail.

First, the tax was only levied on property owners (and only on those who held
property over a certain value). It consisted of a number of Schedules: Schedule A was
assessed on the value of their income from land, including imputed rent (this element
of income tax was only abolished in the UK in 1963). At the time, this income came
mainly from agricultural land and buildings; Schedule B on occupation of commercial
land; C on income from public securities; D on trading income from professions and
vocations, overseas and casual income; and E on employment income. Schedule F,
on overseas dividends was introduced much later.

Second, until the second half of the twentieth century it was not a mass tax; even in
1938, only 3.8m households paid any direct taxes, of which income tax is the main
variant. By 1948, this figure had increased to 14.5m, 17.7m in 1958, 20.7m in 1968,
21.5m in 1988, by which time it had become the payroll tax (Schedule E) as we know
it today, (quoted in (Clark and Dilnot, 2002) sourced from Inland Revenue Statistics).

As a result, until the twentieth century, the proportion of revenue coming from land
values (mainly from the tax on property income) was fairly consistent and higher than
it is today at between 20 and 30% of the total on average in most years (author’s
analysis from (Dowell, 1884) and (Mitchell, 1988)), see Appendix 3. By the twentieth
century, we can observe, in most western developed economies, the proportion of
public revenue coming from land values had fallen below 10%. This represents a shift
to the incidence of taxation from unearned incomes to earned incomes. In passing, it
can be noted that the introduction of the income tax in 1799, was a response to the
decline in revenue from the Land Tax negotiated with landowners in 1698 over the
course of the next hundred years (Daunton, 1995:chapter 19). As a result of the
failure to revalue land on a regular basis, it seems that periodically, a reset in the mix
of revenue generation is necessary. Also in passing, a recent international study of
the effect of democratisation and urbanisation on the proportion of revenue raised from different taxes since 1800 in Western Democracies (Andersson, 2018) fails to differentiate the type of income being taxed (land rents vs. other employment). At best the conclusions drawn in this history are inaccurate, at worst misleading.

It is worth noting in this context, in the UK, that the percentage of income tax collected in 1881 under Schedule E (employment or payroll), was only £541,000, or less than 1% of total revenue, a remarkable contrast to today’s 46% in the UK reflecting the much larger proportion of the population now working in the formal sector, including women, and the preponderance of employment by companies. Following General von Clausewitz (1832) that with the arrival of the democratic age, war would impact more on the population as a whole, so taxation began to permeate the lives of more and more people as the twentieth century progressed.

Turning to the question of efficiency, to help judge the merits of a particular tax, Adam Smith articulated four principles, often referred to as the maxims of taxation against which to test any potential answer. In brief, he suggested that all taxes should be proportionate to the ability to pay. Certain, or transparent to all, as to the amount or time at which they are due. Any tax should be easy to pay and administer – a principle which could apply to the payer as well as to the collector. Finally, it should not be too costly to collect, or in modern parlance avoid any deadweight loss to the economy.

We can assert that the predominant system of (payroll) taxation today only satisfies the first (proportionality) partially, and with some interpretation of the idea of proportional: while the personal allowance relieves the PAYE on low incomes, it does not apply to national insurance contributions. Estate and Stamp Duties where the marginal rate rises with the value of properties being inherited or bought are also proportional. These conditions satisfy the concept of progressive taxation, where those making larger purchases, or with greater wealth to pass on, pay more in tax. The opposite concept is regressive taxation, which creates the circumstance where those on lower incomes pay more in particular taxes as a proportion of their income,
than those on higher incomes. Most sales taxes, such as VAT fall into this category, and are not proportional.

The second maxim – certainty, as to when taxes need to be paid, and how much is due is largely satisfied. The rates at least are published widely, and many taxes are collected on transactions. However, how much tax is being paid at the time of a transaction is not always transparent, given that in many countries, the price quoted for goods and services includes VAT, and only closer examination of the receipt indicates how much has been paid in tax. The same applies to taxes on specific goods – excise duties – for example petrol, alcohol or tobacco.

The third maxim is easily satisfied - ease of collection, given that the government relies on third parties, usually companies or other professionals to calculate and collect the revenue, and pass it on at periodic intervals, usually monthly (PAYE/NI/VAT), or on the sale of property (Stamp Duties) or death (Estate Duties).

The fourth maxim, that taxes should not be too costly to collect, I interpret to be those taxes that have the least distortionary effect – but it could also refer to the extra burden placed on businesses to calculate and administer the collection of taxes, and the associated cost of government bureaucracy.

More can be said on the shift to payroll taxes, and the broadening of the tax base in the first half of the twentieth century - to explain why it occurred, and to confirm the shift to a redistributive function for taxation. There was a new social awareness, and willingness to address poverty in urban areas, not least in response to the threat posed by Marxist ideas and violent revolution in many European countries. It was generally acknowledged that the response of the Allies to victory in the First World War had been inadequate, the imposition of reparations on Germany, and the beggar thy neighbour trade policies adopted after the Wall St crash of 1929 had led directly to the emergence of populist dictatorships which threatened the prosperity and freedom of all.

In the UK, however, attempts, both before 1914, and after 1918 to improve social conditions through pension and insurance schemes were ad hoc, and uneven in their
application, often arranged in part through voluntary contributions to Approved Societies, or Trades Unions. The intention after the second world war, therefore, was to introduce a more comprehensive scheme. The most notable committee to explore the options was chaired by Sir William Beveridge: its final report was called Social Insurance and Allied Services. It began by conducting a comprehensive survey of prevailing conditions, and attempted to provide a similarly universal solution:

A revolutionary moment in the world’s history is a time for revolutions, not for patching.... Organisation of social insurance should be treated as one part only of a comprehensive policy of social progress...it is an attack upon Want. But Want is one only of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness (Beveridge, 1942:6).

The concept of social progress, to which the report refers, is one where living together in Society, in peace and co-operation to balance inequality through redistribution of wealth becomes the objective. The means will be progressive taxation, but also a system to which everyone contributes: ‘the State should offer security for service and contribution’ (Beveridge, 1942:6), but ‘not stifle incentive, opportunity, responsibility’ (1942:7). The post war settlement would ensure a minimum level of subsistence, combined with services such as housing, health, education, but it was built on a principle of insurance – there to provide assistance in times of need, whether as a result of illness, injury, unemployment or old age. In return, people were expected to work, and pay for this insurance through their taxes.

In order to ensure that all political parties, classes and sections of society supported the proposals set out in the report, Beveridge was careful to limit the scope of this redistribution. Yes, there needed to be a redistribution of wealth, but there were limits; redistribution would be not just:

merely by increasing production...but correct distribution does not mean what it has often been taken to mean in the past – distribution between the different agents in production, between land, capital, management and labour (Beveridge, 1942:167).

This redistribution was not going to disrupt the established social order or class relations as advocated by revolutionary movements.
He acknowledged that ‘growing general prosperity and rising wages diminished want, but did not reduce want to insignificance. The moral is that new measures to spread prosperity are needed’ he also believed ‘that the total resources of the community were sufficient to make want needless’, and cited evidence from the surveys conducted as part of the report. Instead, the new distribution could be achieved:

- among wage earners themselves, as between times of earning and not earning, and between times of heavy family responsibilities and light or no family responsibilities. Both social insurance and children’s allowances are primarily methods of re-distributing wealth.

Here is the origin of the method – to bring more and more members of the working population into the orbit of taxation. The aim:

- is not one for giving to everybody something for nothing and without trouble, or something that will free the recipients for ever thereafter from personal responsibilities, (but) leaves room and encouragement to all individuals to win for themselves something above the national minimum (Beveridge, 1942:165-170).

Given the emphasis on the contributory principle, the system of taxation that emerged to pay for it, has built in two major defects: first, a lack of proportionality as it relates to the benefits of ownership of assets, primarily land, across the whole population; second, efficiency, or the distortionary effect of taxation by other means. A failure to tax economic rent, and create a market free of rent has led to an economy constantly struggling to compensate for this inefficiency, more on which, below.

An alternative experiment was conducted in the Soviet Union and its satellite states as well as China during different spans of the twentieth century, which involved collectivisation and wholesale confiscation of property. Competition between these two systems played out during the Cold War, but with China embracing the market economy in 1979, and the collapse of the Soviet empire ten years later, the western neoliberal economic model was adopted globally, gradually eroding the social liberalism established after the second world war.

By concentrating on a broad base, the contributory principle from earnings, and neglecting taxes on incomes from land or land values, eventually privileging home
ownership and exempting capital gains from taxation, the ‘structuration of class’ (Saunders, 2016) was preserved along the old distinction between owners and the landless. While for a time, the proportion of owners grew, particularly as a result of the ‘right to buy’ scheme spanning both labour and conservative administrations from 1980 to the present day, eventually, the ratio went into reverse, as the effect of inter-generational wealth transfer through property inheritance widened the gap between those reliant on earnings alone, and those who had managed to climb the housing ladder.

4.5 The economic case for public collection of rent - efficiency

There is general agreement among tax theorists, on which taxes are most efficient, for example, Tax Economist Stephen Smith asserts: ‘Two possible tax instruments, however, involve no distortionary cost in raising revenues: a poll tax and a tax on land values’ (2015:58). Lump sum (poll) taxes work, given that everyone pays the same amount, and people are left with the same choice (of spending behaviour) after paying the tax, as before, assuming everyone has sufficient resources to pay the tax – this assumption may not apply if the lump sum is very large, as taxpayers with insufficient income would be unable to pay. However, exemptions could be made for anyone in that category, or ‘a large and negative tax free allowance’ (Smith, 2015:68) could apply. Poll taxes have always been universally unpopular.

Turning to land values, he refers to the difficulty of implementing land value taxes due to the political influence and resistance from landowners, and expresses caution around introducing such taxes ‘without harm’, going on to say:

    governments need to be wary of the turmoil in asset values that they could cause by changing asset taxation, and by the substantial capital losses that could be incurred by those who happen to be the current owners (Smith, 2015:62)

inferring that all participants in the economic sphere can exercise the same investment choices. This defence of the status quo in relation to asset ownership illustrates the fundamental problem which holds the current wealth distribution where it is, and seems to ignore the resets which took place in the UK in 1698, 1799,
1842 (the re-introduction of Income Tax, which had been abolished in 1815) and 1918 (heavy taxation of Estates). Piketty has analysed the capital/labour income share and wealth distribution in Britain in the long term in some detail, and shows a drop in capital income after 1850, but more significantly between 1910 and 1920 (Piketty and Goldhammer, 2017:251).

Why are land value taxes not distortionary? Once again, when discussing land value taxes, improvements are excluded from any assessment; in practice, most property taxes fail to disaggregate land value from improvements. The difficulty of separating land value from the value of improvements, is often cited as a reason why it is impractical to raise revenue from land values, however, some countries are able to separate land value from improvement value for tax purposes, including Denmark, New Zealand, Estonia and many State or City jurisdictions in the United States and Canada. And why are they not used to raise more revenue?

To preface this section, different valuation techniques are acknowledged, see for example (Obeng-Odoom, 2018) but it is not the purpose of this thesis to describe the alternative methods in any detail. These can be found in the Red Book published by the UK based Royal Institution of Chartered Surveyors (RICS, 2021), to which all Surveyors in Singapore are affiliated.

There has been an argument made that the yield from a tax on land values would be very low, given the low value of land, and therefore not worth collecting. However, Economist Mason Gaffney in a comprehensive paper (2009) demonstrates how multiple devices have been utilised to minimise the scale of land rent, including, for example, misleading valuation techniques, accounting mechanisms for multiple depreciation, and taking other experts word for it from old studies, rather than undertaking original research on land values. Gaffney also identifies alternative forms of rent, including mortgage interest, user charges and resource rents left out of conventional definitions of land value. A more recent paper finds the potential tax base to be very large, with OECD data showing that land values account for between 40-60% of total nonfinancial assets for member countries (Kumhof et al., 2021:6).
Considering the question of distortion, first, while land value (rent) is not being collected for public revenue, it is either being collected by landlords (as commercial rents) or accumulated in future capital values where land is vacant, or it is being retained by owner occupiers (sometimes in the form of super profits). Any potential tenant will know in advance what the rent payable will be before agreeing a lease. The company or individual taking a tenancy will not agree a lease unless they feel that the entity can afford to pay the rent, as well as generate a profit for the business. All other costs are paid once the rent has been paid as rent is paid quarterly in advance. Beyond maintenance of the basic structure of the building, the landowner has very few expenses. A large percentage of his income, therefore, could be collected as public revenue without disrupting the businesses occupying his building, and is therefore non-distortionary. A tax on land values cannot be passed on to the tenant in the form of a higher rent, on the assumption that he is already paying the most he can afford to occupy that particular site – see discussion by Hodgkinson (2007:178-180). Any substantial increase in the rent payable, will render the site vacant through bankruptcy, given that he will be unable to pay more without further investment or a reduction in other costs. We have already acknowledged the price inelasticity in the supply of land: due to the fact that every piece of land is, by definition monopolistic in supply – no two locations are exactly the same. This means, that if a particular piece of land is perfect for a particular use, the potential purchaser will have to compete for exclusive ownership, and pay a fair value for that piece of land. In the normal course of events, he cannot pay more.

Second, so long as land value is assessed regularly (say every two years), and a sufficient proportion of the annual value is charged to the owner (Henry George advocated a 100% rate), vacant sites would cease to be obstacles to growth, or speculative assets to be held out of use, thus forcing up the price of adjacent sites. Potential owners would only be interested in acquiring land if they had a viable development plan for that site: any attempt to influence the wider market or forestall other users would prove to be a very expensive exercise. Every site would get the development it deserved – no more, no less. Potential tenants for existing buildings on the site, meanwhile, would pay the rent as described above. If a particular site
acquires a higher value than before over time, due to changes in population or investment on adjacent sites, the landowner would be encouraged (by a higher land value tax) to redevelop the particular site to its highest possible use, which would be beneficial to the economy as a whole (Hodgkinson, 2007:180-181).

Third, keeping the same assumptions above, the price of land in exchange (except perhaps in the extreme cases of trophy assets) would tend to fall to zero. As Hodgkinson confirms: ‘Rent enters into land prices, not as a cost – for land has no cost – but as what is capitalised in the land price’ (2007:161). As a result, the occupation: ‘landlord’ as the passive collector of unearned income would cease to be attractive or viable. This unearned income from land value would henceforth accrue to the state. The role of developer, to spot potential, and re-develop buildings to their highest potential value would become a more active occupation.

Fourth, a failure to tax land values creates incentives for distortionary activities which can affect many different people and occupations – taxing land value would mitigate some of these distortionary effects. Leaving land values untaxed in a growing economy creates ever higher asset values, given the competition for remaining sites. These assets become more and more desirable, especially to those with high incomes or financial literacy who can leverage funds to invest in such assets. With higher asset values, come the higher rents that tenants are forced to pay – making unwelcome incursions on their disposable income, and reducing effective demand for other goods. The longer asset values continue to rise, the more people are convinced that they will go on rising, thus attracting speculative money for asset purchase. Conversely, ‘a land value tax (LVT) would be reflected one-for-one in a lower price for land’ (Mirrlees, 2011:371). Gaffney also makes the case for the role of this speculative activity being the root cause of financial instability, boom and bust cycles and recession or depression (Gaffney, 2015). He demonstrates that the 1929 Wall Street Crash, as well as the Global Financial Crisis of 2008 were preceded by rapid growth in property values, followed by dramatic falls, contrary to the received wisdom that the 1929 event was caused by a collapse in stock or equity values alone.
Fifth, a significant advantage of a land value tax is its geographic variability in contrast to taxes on payrolls or consumption, which apply equally to all employees whatever their location. Taxes on land value when applied nationally, rather than locally (at the level of the city, state or local authority) take account of regional differences in economic potential. These advantages are not just about distance from the market (von Thunen, 1826) but the concentration of population, the benefit brought by agglomeration of different industries or services in a particular place, as well as the corresponding investment in public goods to support that population and economic activity (Burgess, 1993). Businesses will chase effective demand, and population will follow, where public services can support them both. Theorists of public finance recognise this phenomenon, and follow Ricardo’s law of rent, for example:

Any public good that makes a community more desirable to live in drives up the rents and hence increase the value of property in the community. In the short run, some of the benefits may be enjoyed by owners of buildings, but the increased rent on their buildings leads to increased investment in housing (new apartment buildings replacing small, old apartment buildings…) and this drives down their return. Ultimately the value of the public good is reflected in the price of land...The ultimate beneficiaries of the provision of better public goods are not the residents in the city, but the landowners. (Stiglitz and Rosengard, 2015:842).

Finally, the same incentive would apply to locations without these advantages – sites with little or no value - would become more attractive for investment due to the lower cost of simple occupation. All these advantages can be captured by a well-functioning property state.

4.6 Less efficient taxes

Payroll and ordinary consumption taxes are the most inefficient: if a tax is imposed on the wages that a firm pays its employees, the incidence of the tax will fall, in theory, on both the employer and the employee. All else being equal, the firm will have to raise the cost of goods to pay the tax, while the employee may choose to work less, because of the loss of wages brought about by the tax, causing a deadweight loss to production (Mirrlees, 2011:29). Equally, a tax imposed on final consumption (such as VAT) will increase prices (Andoh and Nkrumah, 2022). Higher
prices for goods in either case, will reduce demand (unless there is a corresponding increase in wages).

This applies even when the supply for goods is elastic - more goods can be produced, but not necessarily sufficient to reduce the price through economies of scale. There are exceptions to the normal effect of taxing consumption goods: when the supply is inelastic, there will be no deadweight loss, as the consumer will have to pay the higher price to consume the same quantity as before. There is no possibility to increase supply. Equally, if, given the nature of the product, demand would remain the same despite an increase in price, there would be no deadweight loss, which may apply in the production of luxury goods. A variation on this phenomenon illustrates what are called Pigouvian taxes, named after the economist Arthur Cecil Pigou, 1877-1959, who argued that taxing the use of products that have a negative impact on individual health, or the environment would discourage their use, and help pay for the negative externalities of their production or consumption. Such taxes can no doubt raise revenue, but there may be a limit to how high they can go while remaining effective from a common sense perspective. In the UK, alcohol, fuel and tobacco are the most heavily taxed individual products in this category, generating 7% of the total revenue in 2016/17.  

4.7 Modern Monetary Theory

There is another way to resolve the equity/efficiency/welfare conundrum, which gives taxation an entirely different purpose - within the framework of Functional Finance. Keynes introduced us to a world where Governments have the responsibility to ensure full employment, and use monetary policy and deficit spending to restore the economy to a pattern of growth when recession hit (Keynes, 1936). He urged governments to concentrate on maintaining aggregate demand and emphasised the importance of macroeconomic indicators. In his essay Functional Finance and Federal Debt, originally published in 1943, Economist Abba Lerner (1903-1982) describes how an economy can be maintained at its full productive capacity, by implementing public

works. Only if the investment programme threatens to demand more than the combination of labour and capital can produce, thus risking inflation, should the government step in to remove effective demand from the economy by raising taxes. In this way, the population can enjoy more than mere subsistence:

The first financial responsibility of the government (since nobody else can undertake that responsibility) is to keep the total rate of spending in the country on goods and services neither greater nor less than the rate which at the current prices would buy all the goods that it is possible to produce. If total spending is allowed to go above this there will be inflation, and if it is allowed to go below this there will be unemployment (Lerner and Colander, 1983:39).

Implementation of this goal implies that a good standard of living could be enjoyed by all. This does not mean the elimination of inequality; differences of capacity and endowment will persist, but where a stable economy is guaranteed, private investors will be more confident of the potential of a return. This might eventually obviate the need for government to control for effective demand by means of deficit spending and taxation: once the wheel is turning, and speculative bubbles are eliminated, private investors alone would have the confidence to ensure full employment.

This idea (of Functional Finance) is now defined as Modern Monetary Theory, (MMT). In the wake of the great financial crisis of 2007/8, at a time when the government’s share of the economy was much higher than in 1929, we can observe how this mechanism was automatic, as described by Economist Stephanie Kelton (Jacobs and Mazzucato, 2016: chapter two). A sharp reduction in spending by the private sector, and a drive to pay down record levels of private debt prompted a surge in public debt to rebalance sector finances, at least until governments decided to react from a political perspective to the rising public debt, and impose austerity measures. She argues that, ‘policymakers should never target a particular budget outcome, for the budget is not an end in itself. Instead, the budget should be used as an ongoing means of achieving mission-oriented goals aimed at raising living standards and promoting a more equitable distribution of income’ (Jacobs and Mazzucato, 2016:15).

The response to the pandemic of 2020 appears to have given a further boost to the credibility of MMT, while a forensic analysis (Berkeley et al., 2022) of how money is
actually spent into the economy by government in the UK – without the need for pre-funding by means of taxation – demonstrates that the purpose of taxation and borrowing in a country with a sovereign currency is widely misunderstood. In this view, taxation can be managed to promote full employment, or restrain inflation. Taxation, freed from the need to balance income with expenditure could even be targeted more effectively to raise productivity by investing in infrastructure, repress speculative lending for property and leveraged corporate buyouts, or redistribute real resources to address inequality.

If we are to embrace Functional Finance, perhaps we also need to lay out a new system of Functional Taxation, whereby inevitable increases in land value (as a result of population and/or economic growth, and agglomeration effects), can be collected to finance public investment:

optimal development implies that infrastructure, such as public transit, be provided only if it generates at least as much site rent as the annualised costs. The implication is that the public goods will at least be self-financing, as the rent generated pays the cost (Foldvary and Minola, 2017:337).

If we accept that the monetary system is a part of the commons, MMT might be included in the toolkit of the property state. Indeed, Kelton also suggests that the mechanics of MMT should be utilized to provide a jobs guarantee (full employment) whenever the private sector fails to offer the opportunity to work (Kelton, 2020). George did not pre-empt this debate, but was clear on who should be responsible for the issue of money (government) in order to avoid the potential corrupting influence from the need to regulate private creators of money (George, 1981 Book V, chapter II). I do not propose, therefore to speculate further on this topic, which could be the subject for a new thesis in itself.

4.8 Conclusion

This chapter has introduced the subject of taxation, its history and contemporary debates on the relationship between the state and private citizens in terms of the rights to property – in the case of land – whether these rights are to land itself or the
use rights conferred by the state. I also discuss different sources of revenue, and how these sources have changed over time according to historical circumstances and sentiment. I have explained the relative efficiencies of different taxes, a topic to which I return in the next chapter, together with the topic of optimal tax theory. This in turn will lead to consideration of the impact of taxation on equity.
Chapter 5  Tax systems and their impact on inequality

In the last chapter, I related the recent history of taxation, and the emergence of a consensus for redistribution, an attempt at the equalisation of income in society by the creation of welfare programmes, largely administered through the tax system. This revolution in the role and size of the State came about after two World Wars, when entire populations were required to make a sacrifice to support the war effort. Meanwhile a growing franchise turned many European countries into constitutional monarchies, or republics adhering to the principles of social liberalism. This transition was also an attempt to prevent more violent or disruptive reactions to extreme wealth inequality such as had been witnessed in Russia in 1917, or China between 1911 and 1949. At the same time an effort to improve international governance was mounted, by the creation of multinational institutions such as the United Nations, the World Bank and International Monetary Fund to promote economic growth, development and geo-political stability – the international liberal order (Ikenberry, 2019). The chapter reviewed the justification for using the tax system to redistribute wealth in this way, suggesting that a standard conventional tax system with similar instruments and weight for each instrument, has emerged in most western economies.

This chapter will use six themes to examine how successful the welfare system created has been in redistributing wealth. It will also describe how ineffective optimal tax theory has been in supporting the drive for equity, given its poor record informing policy reform. The aim is to identify a possible alternative approach to achieving equity based around the principles of the property state, in relation to taxation.

5.1  The impact of growth and development on inequality

During the twentieth century, theories of development and its effect on inequality continued to emerge. Many economists would have been aware of Pareto’s Law, after Vilfredo Pareto (1848-1923) an Economist, which claimed that 80% of the wealth would always be owned by 20% of the population, a pattern which seemed to have applied for centuries. For some corroboration of this claim, see (Lindert,
on the distribution of land ownership in England and Wales, which ranged from 68% to 86% held by the top 10% of households between 1688 and 1873. Although land ownership is not the only form of wealth, it is a good proxy for the wealth distribution in this period.

Meanwhile, the economist Simon Kuznets proposed a relationship between development and inequality whereby inequality would initially increase while industrialisation and development began, but would then reduce over time (Kuznets, 1955), as illustrated by the Kuznets Curve, an inverted U shape. This pattern appeared to be accurate, as living standards for all increased rapidly from 1950 to 1970 in many developed countries, leading to the predicted reduction in inequality. In fact, Lindert (1987:38, Table 1) estimates that by 1973, the top 10% of households held only 41% of the land in England and Wales, a large fall in concentration of land ownership since 1873. But from 1980, statistics began to show a return to rising inequality in some countries, perhaps as a result of financial innovation, rising asset prices, particularly housing, but also the creation and expansion of new asset classes such as private pensions. In addition, there were persistent patterns of inequality, between nations, as well as within nations. Within nations, these patterns persisted between existing socio-economic groups, while new patterns of inter-generational inequality also emerged.

Branko Milanovic developed the Kuznets curve into a wave pattern (Milanović, 2018) to reflect the new reality, as well as a theory suggesting a series of changes to inequality over time. He referred to positive influences (growth) or negative influences (war, pandemic for example). According to the balance of positive or negative influences in individual countries, so the pattern of inequality would be different, and might change over time, rather than following a predictable path. He also observed that 60% of a person’s life chances were determined by geography – where they were born – and a further 20% by whom they were born to – wealthy, well-educated parents, for example – the so called endowment. Many theorists of growth gave importance to the strength of economic and political institutions in different countries, whether they were inclusive or extractive, such as Acemoglu and Robinson (2013). This had implications for inequality of both income and wealth,
often embedded in particular countries for many generations. While Fukuyama (2012) emphasised a subscription to what he calls liberal democratic ideas as an essential pre-cursor to ensure long term growth, in contrast to totalitarian regimes where growth would eventually falter. Other growth models, for example Solow’s (1956) suggested that in the long run, the level of economic development in different countries would converge to an equilibrium.

Piketty’s charts for France, Britain and the US, show a pattern of inequality over time representing an elephant’s trunk\(^\text{11}\): an initial inverted U shape, but eventually the right-hand arm begins to turn up (Figure 1.1, (2017:31)). From the evidence, it appears that growth alone is not enough to preserve or enhance equity in the long run.

5.2 Optimal tax theory and the implications for inequality

Moving beyond theories of growth, it was recognised that the design of tax systems would also determine patterns of inequality. Reflecting the scientific nature of Economics as it developed in the early twentieth century, as opposed to the earlier emphasis on Political Economy, theories emerged based on the assumption of ‘infinitely lived agents’ for example Milton Friedman’s permanent income hypothesis (1957). Against this background of mathematical modelling, a scientific literature on optimal tax initiated by Economist Frank Ramsey (1927) developed, although, having set a direction at the outset, there is little evidence of new theorisation informing practice.

The imperative for disruptive intervention by the State to equalise wealth, such as by the introduction of a land value tax in England (for a history see (Tichelar, 2019)) or heavy Estate Duties, was replaced by the idea of building a broad contributory scheme described earlier. New universal taxes were introduced, while equalisation

\[^{11}\] The original graph showing this ‘reclining S curve’ was presented by Lakner and Milanovic in a working paper: Global Income Distribuion, 2013, World Bank Development and Research Group, page 31, Figure 1(a) Global Growth Incidence Curve 1988-2008. It was later described as resembling an elephant’s trunk.
would come from the provision of universal welfare benefits or transfers operating with an assumption of economic growth.

Ramsay aimed to answer, with certain assumptions, how, if a certain amount is to be raised from multiple sources at different rates ‘how should these rates be adjusted in order that the decrement of utility may be a minimum’ (1927:47). He concluded that if one raises an infinitesimal amount of tax from all commodities in the same proportion, it will reduce the production of those commodities in the same proportion. In the third section of the paper, he introduces a discussion on some commodities which are inelastic, either for supply or demand, demonstrating that ‘taxing such a commodity does not diminish utility at all’ therefore ‘the whole revenue should be collected off them, it does not matter in what proportions’ (1927:57).

From his conclusions, it appears that taxing commodities in an indiscriminate way will reduce production, and by extension, or in fact causally, consumption will also fall. In his discussion on products with inelastic supply he seems to be pointing to luxury goods, or land, without identifying this commodity by name, but Putland goes so far as to label Ramsay a ‘crypto Georgist’. It remains a mystery as to why he was not more explicit in promoting this source of revenue over all others.

More attention was given to the question of redistributive justice by Peter Diamond and James Mirrlees, who suggest that assuming all commodities are taxed in line with Ramsay’s scheme, although there is a loss of production efficiency, a poll subsidy, or direct payments to poorer citizens will ensure equity. They also raise the possibility of higher taxes in some regions to even up economic potential (Diamond and Mirrlees, 1971a:25), although such a system was considered impractical at the time due to technical limitations.

12 In a blog on the Land Value Research Group website, Gavin Putland offers an explanation, by analyzing the different proofs offered by Ramsay and Pigou: http://blog.lvrg.org.au/2013/09/ramsey-and-pigou-crypto-georgists.html viewed 15/10/19
In the second half of the paper, published a few months later, the role of the government as producer of goods and services for private consumption is considered as an alternative means to maximise social welfare. In a debate about the relative merits of income tax over commodity taxes they conclude that if it were possible to apply an individual tax rate to every consumer, it would eliminate the equity problem created by lump sum taxation referred to earlier. The reader is then ‘warned that the discussion is highly technical’ (Diamond and Mirrlees, 1971b:272), in their attempt to arrive at an Optimal Taxation Theorem, and that technical and political constraints:

limit the direct applicability of the implications of this theory to policy problems, although great insight into these problems has certainly been acquired (Diamond and Mirrlees, 1971b:276).

One significant result of the Diamond & Mirrlees calculations and theorising, is that a linear taxation system (with only one marginal rate, assuming tax allowances can be increased) is likely to deliver the most revenue while at the same time reducing inequality and increasing social welfare, with an adequate degree of progressivity. This conclusion is ignored by most governments, who impose different marginal rates of tax according to the level of income, presumably to promote the idea that higher earners should pay more. Despite some initial consensus over optimal taxes in western economies (high marginal rates on large incomes) the UK and USA diverged from the European model from 1980, having been persuaded by theorists promoting the Laffer\textsuperscript{13} curve concept. Recent research, (Hope and Limberg, 2020) however, has debunked the idea that lower marginal rates increase investment, and both Piketty and Atkinson (2015) are now advocating more progressivity.

Economists Atkinson and Stiglitz attempted to broaden the debate from consideration of optimal rates of particular taxes, ‘to consider the interaction between different kinds of taxation’ (Atkinson and Stiglitz, 1976:55), especially the relative advantages of direct versus indirect taxes; once again, equitable distribution

\footnote{Although the concept has a long history – taxes which are too high will reduce the total revenue – it was popularized by economists and policy makers in America after a meeting with Professor Arthur Laffer in 1974, and used to justify a reduction in marginal rates by successive governments.}
is a central objective. As before, the inability of the theoretical economic model to
identify individual consumer characteristics, preferences and endowments make it
impossible to propose a tailor-made solution, regardless of any technical constraints.
If this were possible, they conclude, an individual poll tax (or subsidy) would offer the
first-best solution. A useful summary is given by social scientist Christopher Heady
(1993) analysing to what extent the literature on optimal taxation can inform policy,
and asserts that the subject is inherently academic, mathematic and abstract, and
given the political nature of tax policy, can it ever aspire to be optimal?

Tax optimisation models have concentrated on income taxes and commodity taxes,
largely ignoring corporate, capital gains or inheritance and property taxes. Optimal
tax theory therefore offers little for policymakers looking at the broad spectrum of
taxation, to work with. Policymakers themselves, have taken an incremental
approach, suggesting that wholesale changes are dangerous. Despite these
limitations and narrow focus, researchers have continued to work on optimal tax
design.

In an OECD working paper looking at which taxes might promote growth, the authors
conclude that ‘recurrent taxes on immovable property being the least distortive tax
in terms of reducing long run GDP per capita’ (Johansson, A, 2008:7) are best, but are
both unpopular and most often levied at a local level.

Similarly in a report commissioned by the Institute for Fiscal Studies, published in
2011, whose aim was to suggest opportunities for reform that would not only make
the system more efficient, but also enhance general welfare benefits, concluded that
a shift to alternative sources of revenue would be politically challenging. In the
introduction, the report acknowledges that all taxes impose penalties where the total
costs often exceed the revenue, therefore ‘a key goal for tax design is to reduce the
deadweight loss of the system as a whole as far as possible’ (Mirrlees, 2011:29).

Encouragingly, the report claims that two forms of taxation will not have this
distortionary effect, (once again) lump sum taxes, and the taxation of pure economic
rents:
An economic rent arises when a resource generates a high return relative to its next-best use. When a rent arises, taxing it should not alter behaviour, since only the excess income over the next best use is taxed, however,

neither lump sum taxation nor the taxation of rents is a terribly helpful guide to most policymaking. The fact is that most taxes will alter behaviour and reduce both welfare and economic output (Mirrlees, 2011:31).

This last statement is not substantiated in respect of economic rent, although the Poll Tax\(^{14}\) is referred to in respect of lump sum taxes, which proved politically impossible to sustain. The report then considers the different forms of taxation, commenting and making recommendations on each existing tax in turn. I have been selective, in highlighting the section on taxes on land and property:

‘Land, whether used for business or residential property, can be taxed at an arbitrarily high rate on economic efficiency grounds’ (Mirrlees, 2011:369). Echoing Ramsay’s reflection, here is a good example of the inelasticity of supply and demand for a particular commodity. The report goes on to say: ‘the economic case for a land value tax is simple, and almost undeniable’ (Mirrlees, 2011:373), but politics interferes due to its unpopularity. Perhaps as a result, the report only talks about a reform of the existing property taxes, rather than an opportunity for a tax shift towards greater overall efficiency. For example, business premises (buildings) considered as an input into the production process should not be taxed on efficiency grounds, therefore land values only should be the subject of non-domestic rates. The report acknowledges the potential difficulty of disaggregating the value of land from buildings, but suggests this does not have to be exact for the tax to be efficient, and could in any case be overcome given sufficient time, notwithstanding the fact of disaggregation in

\(^{14}\) Introduced in 1989, by the Conservative Government of Margaret Thatcher, this tax proved so unpopular that riots erupted during mass demonstrations, against it, and was replaced by Council Tax two years later.
many jurisdictions, and detailed analysis of how this can be achieved (see (Gwartney, 1999)).

In a more recent summary, Political Theorist Alan Hamlin suggests that optimal tax theory provides few answers, but nonetheless gives a structure within which to ask relevant questions for useful analysis of the costs and benefits of taxation (O’Neill and Orr, Ed., 2018:26)

This conclusion seems to support the approach taken by the Mirrlees report, which seeks only to reform particular taxes to better meet the politically driven objectives, rather than offer a new design altogether. Exceptions to this rule of non-disruption, include the idea of a uniform rate of tax, or a ‘flat tax’, which continues to resonate with some Classical liberals such as Hall and Rabushka (2007), while Correia (2010) develops a model where replacing both capital and income taxes with a flat consumption tax is both efficient and reduces inequality, contrary to the received wisdom.

Taking a more holistic view of the optimal tax literature, Poitras finds it not surprising that it offers little insight into the realm of distributive justice, suggesting that: ‘optimal tax theory has generated a variety of theoretical results about tax policy that provide ample ammunition for the wealthy’ (Poitras, 2020:115). His own prescription, offered as a pre-requisite in a globalised economy, focuses on international synchronisation and reform of the way in which capital instruments are used to disguise or delay the realisation of capital gains as income. Thereafter, such gains can be subject to the existing rules for taxation of income.

If the politics of tax reform are too difficult beyond incremental adjustments, a different approach to answer the question of which are the best means of raising revenue to promote economic efficiency (by which I mean maximising production/consumption in an equitable way) is necessary. We can approach the problem from the other end, without relying on theoretical assumptions and calculations. That process has resulted in an orthodoxy for systems of taxation, and only minor support for reform.
Having identified a country in chapter 2 with a radically different method of raising revenue, other than taxation, and that uses a mix of different taxes, we can now ask whether the outcome is more efficient and/or equitable. We can then compare this exceptional public revenue regime to the standard model, and at the same time, assess whether this alternative conforms to the principles of the property state. In the meantime, I will distinguish the difference between inequality of wealth and income.

5.3 Inequality of income or wealth; and how do they interact? What are the causes of wealth inequality?

The reduction in higher marginal rates of income tax during the 1980s is often cited as one of the reasons for the return to higher levels of inequality of income and wealth at the turn of the twentieth century. But there are of course many other causes, including the widening gap between salaries at the top of companies compared to those at the bottom, and the shift to payments in kind for top executives, with the allocation of share options, large pension contributions and the arrival of a bonus culture. I will explore these other factors in this section.

At this point, it is useful to distinguish between inequality of income and inequality of wealth. Levels of income can more easily be observed, particularly where employers are responsible for paying the taxes due, and there is a strong evidence base available for research. Wealth on the other hand is more difficult to assess – assets can be held in Trust, or through offshore companies where the beneficial owners remain unidentified. Where a person’s assets are tied up in the ownership of a company, or shares in many companies, the value of these will also be subject to change.

The French economist Thomas Piketty and his associates have done most to bring the question of wealth inequality to the forefront of debate. In his magnum opus providing evidence of the distribution of income and wealth over time in many countries, he asserts that an aspect of the research’s purpose is to raise questions:
‘for the optimal regulation and taxation of capital and property relations’, and to restore the study of ‘distribution, and the long term’... ‘back at the centre of economic thinking’ (Piketty, 2015:449). But rather than tackle accumulation of wealth at its origins, by perhaps focusing on ‘regulation’ and ‘property relations’, Piketty eventually relies on taxation to redress the balance, with his proposal for a global wealth tax. As a result, he has also engaged with the optimal tax literature.

In a paper on optimal taxation of income, the theoretical nature of the work is echoed: ‘Models in optimal tax theory typically posit that the tax system should maximise a social welfare function subject to a government budget constraint, taking into account how individuals respond to taxes and transfers’ (Piketty and Saez, 2013b:392).

Their paper attempts to introduce empirical work, understood in the historical context of actual tax systems, largely absent from more typical work on optimal taxation. Work on theory should ‘cast light on actual tax policy issues and help design better tax systems’ (Piketty and Saez, 2013b:393). After a brief foray into historic patterns of taxation which often arise from the practical means to raise revenue at the disposal of governments at the time, they give this classic utilitarian justification for taxing income: ‘marginal utility of consumption decreases with income so that a more equal distribution generates higher social welfare’ (Piketty and Saez, 2013b:400).

In the existing literature, the framing of optimal tax analysis is described as ‘welfarism’ the aim is to maximise the welfare of the society as a whole. However, the limits of practical application for optimal tax theory are evident when people do not behave in the predicted way: people are often irrational, or lack the training or intellect to understand what is in their best interests over the long term. For example those with the highest incomes seem always to find ways to display their conspicuous consumption (Veblen, 1899): a larger yacht, or another home. When it comes to saving, there is an assumption that the precautionary principle applies (De Nardi, 2015) who suggests that the rich can stop saving, but in practice, the rich appear to save more, or continue to accumulate assets.
Many different principles or models may be sited to justify tax policies, referred to in chapter 3 (welfare, Rawlsian, benefit taxation, individual responsibility, equal opportunity, conditionality around property, etc.) but the limits of mathematical calculation are evident: ‘economists can cast light on those mechanisms [producing optimal outcomes] and hence enlighten public perceptions so as to move the debate back to higher level normative principles’ (Piketty and Saez, 2013b:465). Ultimately, people in society, not their economists should decide on policy.

It is obvious that income inequality can lead to wealth inequality over time, but some broad statistics can help to demonstrate the scale of the problem, suggesting that relative wealth held at the outset is also important. There is some variation in the level of wealth inequality across nations, but in summary:

the top decile wealth share typically falls in the 60 to 90% range, whereas the top decile income share is in the 30 to 50% range. Even more striking, the bottom 50% wealth share is always less than 5%, whereas the bottom 50% income share generally falls in the 20 to 30% range... in sum, the concentration of capital ownership is always extreme (Piketty and Saez, 2014:839).

Broadly, the US displays higher inequality of income, while Europe displays higher inequality of wealth. What other factors have led to this concentration of wealth inequality? And why has it not been studied in depth, until recently? For the US economy, the two main sources for data are relatively recent: the Survey of Consumer Finances 15 (SCF) was launched in 1983, while the Panel Study of Income Dynamics 16 (PSID) began in 1968.

In a comprehensive paper, (Kaymak and Poschke, 2016) three factors are said to be the main causes for rising inequality in the US. First, a higher share of wages going to those with technical skills, (responsible for 50-60%) second, reductions in taxes,

\[\text{15} \text{ Published every three years by the National Opinion Research Centre, University of Chicago, sponsored by the Federal Reserve Board, and US Treasury.}\]

\[\text{16} \text{ A longitudinal panel survey of American families, published by the Survey Research Centre at the University of Michigan}\]
particularly of corporate taxes and estate duties, and third, the system of benefit transfers introduced since the second world war (accounting for 20-25% each). Meanwhile, less attention has been given to the distortionary effect of welfare transfers, which discourage lifetime saving – particularly amongst those in the lower half of the income distribution:

we argue that these programs have discouraged wealth accumulation by low and middle income groups, exacerbating the concentration of wealth.

Referring to the overall marginal rates of tax, they argue that

the main source of the reduction came from lower taxes on corporate income and transfers of estates... up to an 8.5% decline in the average tax rate applied to incomes between 99th and 99.5th percentiles and a 35.5 percent decline for the top 0.01% (Kaymak and Poschke, 2016:6).

This would appear to explain the increasing concentration of wealth in the 0.1% and 0.01% percentiles highlighted by Piketty.

Inheritance, and endowment, particularly inter-generational investment in education leading to higher skills to sell in the workplace, or for entrepreneurship, are important factors for both income and wealth inequality. However, in a time of fewer negative forces (war and inflation) repeated rounds of inheritance would appear to have a disproportionate effect, leading to higher inequality. For example, ‘approximately fifty percent of the wealth...is inherited’ (Repetti, 2001:827), and ‘the evidence shows that a significant fraction of wealth inequalities is explained by the differences in inherited wealth’ (Cremer et al., 2001:783). Such evidence indicates that higher income is less important than inheritance as the key driver of inequality. As Peter Saunders notes: ‘if you want to know about economic inequality today, you need to look not only at the incomes people are earning, but at the housing wealth that is gradually passing through successive generations of their family’ (Saunders, 2016:6).

Property is often inherited, but also offers collateral - lending against property is seen to be safe. The contribution to rising inequality in many western economies can equally be attributed to regulatory and behavioural changes (Bezemer, 2018;
Hudson, 2015; Stephens, 2007). Specific mechanisms relating to property investment include smaller deposit requirements for mortgages, (even 100% or more loan to value ratios), the introduction of buy to let mortgages, the end of defined benefit pension schemes which encouraged individual investment in assets, permanently low interest rates and lower risk weighting for mortgage lending under the Basle banking rules.

Putting aside the potential benefits of inheritance for now, some continue to argue that the main driver in increasing wealth concentration is higher top income (Forster et al., 2014) thereby increasing the rate of saving, which feeds into more capital income for this cohort, creating a ‘snowball’ effect. High wages to attract talent to the new information technology and finance industries is also a key factor. The economist Peter Temin develops a thesis to explain what he calls the ‘vanishing middle class’ (2017) around the finance, technology and electronics (FTE) sector, using the Lewis model of growth (1954), which is predicated on a dual economy. Originally the separation was between the rural and urban sectors, where growth would occur when low wage rural workers were able to jump to the higher wage urban sector. Since the 1980s, the high wage sector is in FTE companies, and education is the barrier that keeps most workers in the low wage sector. Turning the Lewis model around, Temin argues that this has been a deliberate policy to ensure the growth and international competitiveness of the new FTE sector which now relies on a large pool of low wage workers to serve the elite. We can certainly observe the restructuring of the workforce over the last forty years in the so called gig economy to support this thesis; Temin estimates that the income of 80% of the working population in America is not growing.

But there have also been changes to the way new businesses operate and are financed in their early stages, which has led to a greater transfer or accumulation of wealth by employees. Often, in lieu of salary increases, stock was given to the first employees of these firms, such as Microsoft, Oracle or Dell. In addition, rather than seek investment through traditional bank loans or the equity markets, money has been sought by tech firms in repeated ‘rounds’ of investment from venture capital and private equity funds. At each round, new shares are issued by the company,
reflecting a new, higher valuation. The holders of early stock have benefited enormously from the assumed increase in the value of their shares; new employees are also given shares. Some firms in this category delay their initial public offering (IPO) for many years, at which point, some of the early shareholders can cash in a part of their equity for a capital gain of a hundred or a thousand times the original value.

One factor that contributes to the accelerated earnings of this type of firm, is the almost zero marginal cost of production. Once the software or algorithm has been perfected, it can be reproduced and sold, or ‘used’ ad infinitum, at very low, or zero cost reflecting the winner takes all nature of technology advances in a global market. However, not all start-ups are successful – history does not record the failures – but those involved not only lose their own original investment, but probably remain in the low income group of workers for many years, having sacrificed income today, in the hope of wealth tomorrow.

As financial innovation has progressed, even traditional firms have benefited from ever rising numbers of leveraged buyouts by venture capital investors, who saddle the new vehicle with high levels of debt to reduce their own risk. These buyouts can create instant wealth for the founders, for example, Mike Clare, founder of the bed retailer Dreams, which he started in 1992 sold up in 2008 for £200m17 only for the firm to collapse into administration in 2013 under the weight of debt. One could characterise this sort of sudden wealth accumulation as pulling future rents into the present (capitalised profit predictions), while inheritance is pulling rents from the past.

In fact the explosion of Business Schools offering MBA qualifications to young graduates encourage this model: a large part of their business training is to explain

17 Dreams was bought by private equity firm Exponent
https://www.bucksfreepress.co.uk/news/2090215.dreams-couple-set-to-pocket-200m/ viewed 21/4/20, only to go into administration in 2013, before another firm Sun Capital rescued it.
to founders how to develop an ‘exit strategy’, and walk away with a small fortune, rather than target long term ownership and growth.

Another factor leading to higher inequality has been additional income per household, achieved by the trend for both partners to work, often continuing to work after starting a family, perhaps more common in the higher paid professions. So called assortative mating has also contributed to rising inequality as high flying couples come together in households – having met at private schools see (Green and Kynaston, 2019) and top universities, or in the graduate training programmes at large corporations – or the shared spaces of business start-up hubs. These changes to household income are the result of structural and cultural changes in the workplace which became established in the final decades of the twentieth century, contributing to this snowball effect of rising wealth inequality.

At the same time, there has been a corresponding fall in the wealth share for the bottom 90% now with only 23% of all wealth, down from 35% in the mid 1980s (Saez and Zucman, 2016:523), reflecting the stagnant nature of their incomes. While pension wealth has increased, rising consumer debt including mortgage debt, which will become a focus of the review below has offset the effect: the main reason for the decline in wealth share is the decline in middle class saving rates. Saez and Zucman call this de-saving, and confirm that the role of inherited wealth should not be under-emphasised, given that almost half of pension wealth is now bequeathable.

Economists Michael Hudson and Charles Goodhart (2018) speculate whether a progressive tax policy on inheritance could replace the four great levellers: war, pestilence, famine, revolution and state collapse, to restore equity, as described by Walter Scheidel (2017). However, early signs of the effect on the economy of the Covid-19 pandemic suggest that wealth inequality may in fact increase, given that professional jobs have been less disrupted than ‘front line’ and low paid service jobs. At the same time, asset prices have recovered more quickly than the fundamentals might predict, as a result of a global reduction in interest rates, a new round of Quantitative Easing (QE), and stamp duty holidays.
Other work suggests that taxing income alone will be insufficient to redress the concentration of wealth, for example, with a revenue neutral approach, raising estate taxes, while reducing income taxes ‘yields larger welfare gains for most of the population’ (De Nardi and Yang, 2016:131). Bringing estate duties up from the effective rate to the statutory rate, while lowering aggregate capital and output, would reduce inequality – generating a significant welfare gain for the whole population, despite a ‘huge welfare cost for the super-rich’, a conclusion which seems to be supported in (Benhabib et al., 2011). Piketty has also contributed to this debate, suggesting that: ‘for realistic parameters, the optimal inheritance tax rate might be as large as 50%-60% or even higher for top bequests, in line with historical experience’ (Piketty and Saez, 2013a:1853).

But there is strong resistance to the principle of inheritance tax; many countries no longer levy these taxes, including half of all OECD members (Cole, 2015). High levels of inheritance tax correlate with periods during and after mass mobilization for war, more closely than high levels of progressive taxation and the introduction of universal suffrage. There is often more support (Scheve and Stasavage, 2012), for progressive taxation when people feel the burden of effort is unfair – war requires young people to fight, therefore old people should contribute with their wealth.

Given the existence of loopholes, allowances and deductions that reduce the effective rates of inheritance tax, even in those countries that levy them, attention has therefore turned to recurring wealth taxes for example: ‘...with capital market imperfections, lifetime capital income and wealth taxation might be the efficient way to implement optimal inheritance taxes’ (Piketty and Saez, 2013a:1880). The economist Tony Atkinson (2015) agrees. Indeed, Piketty advocates a global wealth tax as an ideal, albeit utopian mechanism to reverse the rising levels of inequality today: ‘It is possible to imagine public institutions and policies that would counter the effects of this implacable logic: for instance, a progressive global tax on capital’ (Piketty and Goldhammer, 2017:35).
5.4 What is the effect on inequality of conflating land with capital?

At this point, it is necessary to examine the nature of capital, to offer some clarity on the design of any tax system that might seek to tax capital income and wealth on an annual basis. The Classical Economists, such as Smith, Ricardo, Mill and George made a clear distinction between land and capital, whereas the Neoclassical Economists, such as Jevons, Marshall and Clark, ‘conflated the concept of land and capital. Or, to put it another way, the neoclassical notion of ‘capital’...incorporated land’ (Ryan-Collins et al., 2017:48). Piketty does the same: ‘his synthesis of capital and wealth and his omission of land means that his analysis overlooks some key dynamics underlying the rise in the wealth to income ratio’ (Ryan-Collins et al., 2017:172). Much of the increase in capital income, is in fact capital gain, driven mainly by an increase in asset values, particularly of land and housing (Rognlie, 2015). Piketty’s analysis is based on what economists would call ‘capital deepening’, but several factors don’t support this argument. Although more has been saved by the top 1%, real investment has not increased, nor has it led to higher wages:

there is a simple resolution to these conundrums. Much of the increase in wealth has little to do with savings in the usual sense. Rather it is the result of capital gains – especially the increased value of land – and an increase in the capitalised value of other rents (Stiglitz, 2015:431), see also (Jones, 2015; Orszag, 2015).

Looking at the French economy alone, Bonnet et al. dispute this (Bonnet et al., 2014), arguing that rental levels relative to income is the measure to take into account - which have reduced since 1950 – rather than capital values. However, they fail to distinguish between private rents and social rents, which distorts the total. They also suggest the increase in land and housing value does not genuinely increase inequality, given that owners cannot increase consumption without selling the asset – this objection is resolved with inheritance.

Stiglitz calls these rents - exploitation rents. Neoclassical economic theory suggests that in a free competitive market with perfect information, profits would reduce to zero in the long term, leaving no rents – see Stratford (2022) for an exposition. The fact that rents have not disappeared, suggests that businesses have ‘sabotaged’ the
market (Nesvetailova and Palan, 2020) by exertion of market power, to harness network externalities, game the regulations, dilute shareholder holdings (buy-backs) etc.. These factors lead Stiglitz to conclude that ‘one cannot understand what is happening to inequality of wealth without taking into account the growth of rents’ (Stiglitz, 2015:437). He therefore recommends higher rates of tax on rents as the means to reduce inequality, which he recognises contradicts his earlier literature on optimal taxation:

The standard argument against differential taxation is based on Atkinson and Stiglitz (1976)... That model entailed special technical assumptions... that limited its applicability... several factors are omitted from this model... no inheritances... no rents... individuals differ in only one respect – their output per hour... but skill mixes are far more heterogeneous... and tax policy... can affect the before-tax distribution of income just as it can affect the after-tax distribution of income. (Stiglitz, 2015:443).

Perhaps it is time to make a clear distinction between land and capital, in the interests of redressing inequality.

5.5 Are political decisions more important than economic theory to determine economic outcomes?

Stiglitz appears to be suggesting that it would be better to avoid these rents accumulating in the first place. More attention should be given to formulating policy to avoid private appropriation and fix a broken economy that fails to follow the Kuznets trajectory for inequality. Acknowledging the need to bolster productive capacity – the need is to rebuild the economy from the middle – he says that this failure has not been the result of economic forces, but ‘the consequence of our policies... Thus, I would argue that the real issue is not capitalism in the 21st century, but politics in the 21st century’ (Stiglitz, 2015:428), ‘a change in those policies could lead to an economy with less inequality, and even stronger growth’ (445).

These arguments echo the sentiment of another economist Irving Fisher, writing at the time of another crisis immediately after the first world war, prior to which the concentration of wealth was also extreme. Passing on property by inheritance is a
custom, not a natural right, it can be tempered by sensible rules to ensure an equity in the public interest: ‘something like two-thirds of our people have no capital…while the major part of our capital is owned by less than two per cent of the population’ (Fisher, 1919:11). He argues that there needed to be a partnership between public and private interests, lest the private capture too much of the profit:

My criticism is not of the players, but of the rules… Our society will always remain an unstable and explosive compound as long as political power is vested in the masses and economic power in the classes. In the end one of these powers will rule. Either the plutocracy will buy up the democracy or the democracy will vote away the plutocracy. (Fisher, 1919:16).

It was possible to tackle inequality and economic depression in the inter-war period with policies such as the New Deal in the US, and the creation of the welfare state in the UK after the second world war, albeit with setbacks along the way. There is no reason to suppose that a new reset cannot be brought about by new policies.

In a recent report for the Resolution Foundation, the authors bemoan the fact that wealth taxes (on property, financial transactions, inheritance and capital gains) have remained stubbornly low in the UK averaging only 3% since 1965 relative to GDP (Bangham and Leslie, 2019:8) (Figure 9). While incomes have risen by 6% in real terms, wealth has risen by 18% from 2006/08 to 2016/18. In the 1970s wealth in the UK was 3 times GDP, but it is now 7 times. All political parties are reticent about raising wealth taxes, despite warnings that taxes will have to rise. In the UK, in the face of rising public debt, a report by the Wealth Tax Commission could only recommend a temporary tax, given that permanent wealth taxes would risk future investment and impact behaviour (Advani et al., 2020).

Seeking ways to pay for the higher costs in the health service and social care during 2020/21, the UK Chancellor chose to introduce a new Health and Social Care Levy on earnings, as well as raising the rates of National Insurance, rather than increase or reform inheritance and capital gains taxes; the opposition response was somewhat muted, and lacked real bite, reflecting an ongoing preference to tax higher incomes rather than wealth.
Finding ways of taxing rents directly might be a better solution, in line with the principles of the property state, rather than continuing to allow rents to accumulate privately. Piketty appears to agree with Stiglitz; he argues that not only is taxation important, but also the regulation of housing policy and intellectual property rights. With hindsight, in view of the disproportionate increase in property values and income ‘one can show that it is optimal to use a combination of inheritance taxation and annual taxation of property values and capital income flows’ (Piketty, 2015:454).

Although these are sometimes difficult to assess and implement and are therefore a complement, not a substitute for progressive taxation, they may form a powerful tool to reduce income from capital; in a steady state economy, the fact that \( r > g \), will naturally lead to greater inequality. In the second half of the twentieth century, the ‘shocks’ to this ratio all contributed to accelerating this effect, and will be more persistent over time, all else being equal. A low growth (mature) economy will make it easier for the rentier to get rich than a high growth economy. Therefore:

> Given the central role played by changing real estate values and rent levels in the aggregate evolution of capital-income ratios and capital share in recent decades, it is clear that land use and housing policies potentially have a critical role to play, in particular to regulate and expand access to property. (Piketty, 2015:457).

5.6 Property owning democracy

Piketty’s solution points to promoting wider private ownership of property, rather than establishing a property state to collect the economic rent. Such policies have been promoted for over a hundred years, but despite increasing the number of property owners in many countries, they have failed to stop what Atkinson refers to as the ‘inequality turn’ that took place during the 1980s, when, for example, Thatcher’s headline ‘Right to Buy’ initiative began. Furthermore, in the Anglo-Saxon economies at least, rates of property ownership are now in decline (Ryan-Collins, 2019a:3).

In chapter 3, I referred to the origin of the idea of a ‘property owning democracy’ and will briefly trace the history of this deceptively attractive term. Coined by Lord Skelton in his series of articles for The Spectator magazine in 1923, he recognized that for too
long, the workers in England had felt insecure economically. They therefore felt no allegiance to the nation, felt alienated from its source of wealth and power. The minds of the workers were being turned by socialist ideas. With the growing franchise, the ability of the Labour party to achieve power was becoming a reality, and the Conservatives needed to respond, to mould the ‘plastic’ nature of the working class towards a new vision of independence. His solution: for industry, ‘co-partnery’ to share the profit of enterprise with the workers, and give them a seat on the board. For agriculture, small-holdings – a redistribution based on the Wyndham Land Act in Ireland, as well as co-operative processing and distribution of their output: to make men ‘masters’ of their own lives. With these tools, the working classes would begin accumulating property, and be more willing to defend it from the confiscatory nature of socialist redistribution. He could see how over the previous forty years, mutual building societies and co-operative insurance schemes had given more people a sense of freedom and security, and he advocated the creation of a property owning democracy to deter the rise of socialism. Socialism, he felt would leave people in a state of dependency. In contrast, ‘the wage earner, as industrialist, from a machine becomes a man’ (Skelton, 1923:838). In the event, the conservatives supported the establishment of the Welfare State on the principles outlined by Beveridge, and did not attempt to subvert it on their return to power in 1951.

Economist James Meade (1964) also wrote of the danger of the concentration of wealth arising from unearned income. Many of these ideas are echoed through New Labour policies such as the expansion of university education, or the Child Trust Fund, and Atkinson’s recent proposals to reduce inequality (Atkinson, 2015). But Skelton and Meade’s idea of a property owning democracy was given a further boost by Rawls who legitimises the right of the state to tax citizens of their private property to provide public goods, and prioritise justice as fairness. First, he distinguishes between a private property state, in which the price mechanism is used to determine the use of resources in both an allocative and distributive way, whereas in a socialist state, the common resources are owned by the state:

it is essential to distinguish between the allocative and the distributional functions of prices... It is perfectly consistent for a socialist regime to
establish an interest rate to allocate resources among investment projects and to compute rental charges for the use of capital and scarce natural assets such as land and forests... For even if these assets should fall out of the sky without human effort, they are nevertheless productive in the sense that when combined with other factors a greater output results. It does not follow, however, that there need be private persons who as owners of these assets receive the monetary equivalents of these valuations... the income imputed to natural and collective assets accrues to the state, and therefore their prices have no distributive function (Rawls, 1971:242).

In order to assure distributive justice, he takes a number of things for granted, including opportunity, equitable distribution of property, freedom of conscience and political choice, as well as a ‘social minimum’ standard of living achieved by allowances, insurance schemes or income supplements, which he favours over a minimum wage. Thereafter, the allocative branch of government policy is to ensure ‘reasonably’ full employment, while the distributive branch:

is to preserve an approximate justice in distributive shares by means of taxation and the necessary adjustments in the rights of property... it imposes a number of inheritance and gift taxes... to correct the distribution of wealth and to prevent concentrations of power detrimental to the fair value of political liberty and fair equality of opportunity (Rawls, 1971:245).

All these practical arrangements support Rawls’s arrival at his Principles of Justice, in which the First Priority Rule confirms that ‘a less extensive liberty must strengthen the total system of liberty shared by all’ (Rawls, 1971:266).

This iteration strongly echoes the Geo-Classical conditionality on ownership of property, although it appears to support the redistributive policies of Social Liberalism.

I will not go into the detail of how this idea of a property owning democracy was adopted, (see (Francis, 2012) for this) and used to justify the transfer of public assets in the UK on the cheap to its citizens through the Right to Buy and Privatisation programmes, but it seems that the phrase was used as a slogan, without adopting this principle of restricting certain liberties to promote the liberty of all. In other words, the strong conditionality on the ownership and receipts of rent for the natural
resource and capital allocations. Instead, it came to represent the neo-liberal idea of freedom as market choice. Although the origin of the phrase came from a Conservative, its principles of pre-distribution to ensure substantive opportunity align more closely with the social liberal tradition; in fact both sides of the political divide have used the concept in different ways (Gregory, 2016; Saunders, 2016:9) not always successfully. In addition, once home ownership rates accelerated, and in some cases became the majority form of tenure, no large political party could ignore, or defend policies which appeared to attack home or property ownership albeit with some differences, depending on historical specificities. Relying on extending ‘property ownership’ without imposing any conditionality, while reducing income taxes, has in the long run embedded the tendency for private appropriation of rent to concentrate wealth in fewer hands. However, neither iteration of the property owning democracy has much in common with the concept of the property state, although the underlying logic of rent, and how it creates value has a lot to do with the outcomes for society.

Returning to the overall theme of this thesis, the aim is to determine how successfully Singapore has adopted the tools of a property state, and designed its land use and housing policies to reduce inequality during a period of rapid economic growth. In some respects, it appears to conform to the Kuznets hypothesis, with a reduction in inequality over time, but there are clearly nuances and contradictory results and leakages to examine in the remaining chapters. As Haila says in her concluding chapter: ‘Singapore’s blend of state and market has a lot to do with land’ - describing Singapore as a property state, it is a ‘regime of regulating public land’ (Haila, 2016:215) - not necessarily the best possible blend, but a good laboratory to see the effect of state intervention in the land market.

She also emphasises the need to continually renew, and redevelop land for public purpose, meaning that if land rents are left too long in private hands, they accumulate and create inequality. Perhaps we are dealing here with a ‘wicked problem’ that is never solved: ‘at best they are only re-solved – over and over again’ (Rittel and Webber, 1973:160). The land regime has allowed Singapore to eschew the conventional tax system, with beneficial results: their system, with over 50% of public
revenue coming from land values, is almost unique, and in recognizing the special characteristics of land as distinct from capital, the State has been able to capture enough of the economic rent to ameliorate inequality of wealth.

5.7 Conclusion

In this chapter, addressing the questions outlined at the outset, I have shown that if income inequality remains high, a prolonged difference translates into accelerating wealth inequality unless there is either a balancing increase in taxation, (either of recurring capital and property income or inheritance) or the adoption of the principles of the property state.

In this respect it is essential to separate land from capital and understand the difference in each category between capital gain, and the reward to productive investment – illustrating a potential for differential treatment through the tax system. Optimal tax theory appears to offer limited help to policy makers seeking to redress the potential damage to society from inequality. These conclusions are more imperative for societies with low growth, given the historical record of higher returns to capital (properly defined) than income alone. Finally, greater credibility should be given to visionary solutions and policies with a normative perspective to resolve inequality, than relying on theoretical assumptions.

As Piketty himself proposes:

It is long since past the time when we should have put the question of inequality back at the centre of economic analysis and begun asking questions first raised in the nineteenth century. For far too long, economists have neglected the distribution of wealth, partly because of Kuznets’ optimistic conclusions and partly because of the profession’s undue enthusiasm for simplistic mathematical models based on so-called representative agents (Piketty and Goldhammer, 2017:20).

The next chapter will investigate the Singapore case in greater detail, and unpick the history of policy decisions made since independence, which will enable me to investigate the main research question in the following chapters. There is no doubt that Singapore enjoyed a period of rapid growth and development between 1965 and
the present day, or that both income and wealth grew exponentially for their citizens. But by adopting a pragmatic approach to their system of public revenue, and embedding the essential features of a property state in the early years, the worst effects of the private appropriation of rent may have been avoided. Limiting the ownership of property in most cases to a leasehold basis, has reduced the wide distribution of inheritance, although the public acceptance of this feature of the system has yet to be tested in practice. In addition, investing heavily in a world class educational system may have helped in levelling the endowment and opportunity upon entering the work force for most Singaporeans. These claims will be examined in chapter 8, and asks whether a ‘revised’ solution to the problem may still be necessary.
Chapter 6  Political economy of Singapore

In this chapter, I will give a brief outline to the history of Singapore, how it emerged as an independent nation in 1965, the so called 'little red dot'\(^{18}\) a phrase adopted by Lee Kuan Yew to emphasise its fragility, surrounded by larger countries, bereft of a ‘hinterland’ yet as ever, well located at a pinch point of one of the busiest trading routes from east to west, overlooking the Straits of Malacca. I will also describe how Lee, the first Prime Minister of Singapore, side-lined any political opposition, to stamp his unique authority and mixed economic and political outlook – sometimes libertarian, sometimes socialist – on a tiny city-state, that many at the time (apparently, most of all himself) thought would not survive, and yet grew rapidly to become a major manufacturing hub, and now financial centre for the region, with one of the highest GDPs per capita in the world. This journey underpins the Singapore Model of development; the objective will be to identify whether the path was an ideological or simply pragmatic one, as Lee Kuan Yew often insisted, or indeed, whether it is a new model, or a continuation of an older one. The emphasis will be on the unique public revenue system referred to in earlier chapters, and how and why the system evolved as it did, with its particular municipal institutions and key political enactments to control Singapore’s small land area. The mechanics, and cash flows of the system will be the subject of Chapter 7.

The political economy of Singapore is clearly modelled on the contemporary constitutional democratic institutions prevalent in western economies, and functions as a market economy. Its particular form reflects the fact that Singapore was a British Colony from 1819 to 1959, with a brief interlude under Japanese occupation between 1942-45. The newly independent nation in 1965 used this landmark to re-invent itself as an ‘entrepot’ trading port or City State, in that tradition. Singapore therefore adopted the English Common Law system, embraced free trade, and followed the style of elections to a Parliament, with a range of functional Ministries, a professional

\(^{18}\) Originally used by President Habibe of Indonesia to remind the visiting Minister of Defence that Singapore was surrounded by an Islamic ‘sea of green’.
civil service, a Prime Minister – the leader of the winning political party - and Cabinet government. Many of these institutions were established in the period from 1948-1963, as the Governor and Colonial administration introduced limited representative government in a transitional phase, with a Chief Minister and legislative council first elected in 1955, and de facto independence from 1959.

However, during a hectic and politically turbulent period from 1956 to 1963, a brief union with the Federation of Malaysia and eventual independence in 1965, many assumptions about the future sovereignty and operation of the new democracy were overturned. In the immediate post second world war period, very few imagined that Singapore would emerge as an independent nation. Although Singapore was administratively separate from Britain’s Malayan Colonies, economically, it was well integrated with the Malayan state of Johor, and its hinterland as the primary port for the export of tin and rubber. It had been established as a free port by the East India Company in 1819 under an agreement with the brother of the local Sultan; it was at first controlled from Calcutta, and formally brought under British sovereignty by the Treaty of London, 1824 in which the Dutch agreed a division of the spoils in the area for the next hundred and forty years. Even following the disbanding of the Company in 1859, Singapore only achieved direct control from London in 1867, alongside the Straits Settlements of Penang and Malacca. The founding myth of Singapore emerging from a simple fishing village in 1819, ‘discovered’ by the Company man Sir Stamford Raffles served the purpose of its first Prime Minister Lee Kuan Yew to justify its unique status in the region, and promote a special status in the Federation of Malaysia. Singapore in fact had a longer history as the leading trading port amongst the many islands of the Pulau archipelago as Historian Michael Barr (2019) demonstrates. Its fortunes rose and fell with the dynastic clashes of the leading Sultanates, but was always well placed to profit from any trade passing through the Straits of Malacca when political arrangements fell in its favour. Although Lee constantly emphasised the need for Singapore to stand on its own, go its own way, he nonetheless worked hard to keep open trade and good relations with its larger neighbours Malaysia and Indonesia. Even at the point of separation and
independence, he hinted that Singapore should not forget its historical connections and geography:

History is a long process of attrition. It will go on. And one day, it will come back together. You see, this is not like a map and you can take a pair of scissors and cut off Singapore and then take it and paste it in the South Pacific and forget about it. It is not possible. This is part of the mainland of the continent of Asia.19 (Han et al., 2015:312)

When Singapore was placed under the protection of the East India Company and as a consequence the British Navy, thousands of Chinese, Indian and Malay traders, entrepreneurs and workers flooded to the small island, a circumstance which had hitherto been unattractive given the dominant position of the Dutch in the East Indies, whose style was more extractive, and less accommodating to partners in trade. Singapore was better placed to be a centre for trade, and benefited from a natural harbour on its western tip, than either Penang, or Malacca, which had been established much earlier, and therefore soon became the dominant British colony in the region. There the new immigrants thrived, despite the 1841 addition of Hong Kong as the key entry point to the China Trade for the Company; this had been Raffles’ original plan for Singapore, but in the event, there was room for both ports to prosper.

It is this longer tradition of a regional trading post, ‘entrepot’ and at times bolt hole for deposed leaders that explains Singapore’s independence - neither part of Malaysia nor Indonesia, its two large neighbours – rather than Lee Kuan Yew’s exceptionalism, whether religious, political, or cultural.

Again, briefly, as the British faced the probability of having to leave the region after the second world war, it separated Singapore administratively from the Straits Settlements in Malaya in 1945, as well as its other East Indian possessions in Borneo. This was in part to secure the British naval port of Singapore, completed in 1938. Singapore would be easier to hold as an independent entity should Malaya or Borneo

19 Speech given at the Sree Narayana Mission in Sembangwang, 12th September 1965
be lost. In fact, Britain only gave up the naval port in 1971, when it felt it could no longer afford it. In the context of the Japanese occupation of much of the region during the second world war, and the resistance and guerrilla warfare by the Malayan People’s Anti-Japanese Army (MPAJA), which was dominated by the Chinese members of the Malayan Communist Party (MCP), together with the victory of the Communist Party in China in 1949, the region became an ideological battleground for the principles of freedom and democracy, against communism. First during the Malayan Emergency, followed by the Korean War, and subsequently the Vietnam War. The Chinese had been a majority part of the population of Singapore for over a century, but with the defeat of the communists in Malaya, and the rise of Malay Nationalism there, Singapore became a natural haven for many Chinese in the region. Where else could they go? Certainly not back to a communist China.

Throughout the colonial period, the Chinese were the dominant economic players, at first tolerated by the British under a quasi-gangster arrangement of ‘kongsi’ or ‘kapitan’ tax farmers. They would bid for the individual monopolies available: whether land, commodities such as pepper, gambier or opium. From 1890, secret organisers or fixers (Triads) were banned, and in 1910 the government took direct control of the opium trade, which accounted for the bulk of public revenue at the time (from excise duties) just as in Hong Kong. After the First World War, the British took more interest in providing a public infrastructure including schools, hospitals, a university and post office reflecting the mood at home to invest in the capacity of their colonised people. This also led to the realisation that in order to ensure development, the local population would have to be transformed from its ‘special’ nature, with large numbers of single male workers imported from the region, towards a more ‘normal’ settled population with the family as its foundation. A series of initiatives and laws were passed to encourage female immigrants, destined to marry and start families, rather than work as prostitutes, see (Oswin, 2019) for a full description. This ‘special’ history of Singapore remains relevant in the discussion of contemporary foreign workers, to which I will return.

At the same time, Chinese institutions thrived, including banks, a Chinese Chamber of Commerce, Trades Unions and cultural or educational facilities for the Chinese
population. The wealthier Chinese were major landowners in Singapore (primarily agricultural land away from the city) and their trading houses rivalled the British merchants. From 1948, locally appointed ‘un-officials’ representative of all ethnic groups in Singapore, participated in legislative decisions under the Governor. There are several early examples of government involvement in public investment and infrastructure provision, including taking over the port facilities in 1905 to promote efficiency, and the establishment of the Singapore Improvement Trust (SIT) to improve housing conditions during the 1950s. These initiatives heralded some of the policies to come; in addition, 31% of the land was already in government ownership in 1949 (see Table 6-1).

As part of the transition to independence, the first direct elections were held in 1955. At the outset, Lee Kuan Yew had aligned himself with the communists and trade unionists, and helped form the People’s Action Party (PAP) in 1954, eventually winning 3 out of 4 seats the party contested. Lee, a lawyer, had defended several political activists over the years, and gradually became involved in politics himself. He understood that to win elections in Singapore, he would need the support of the majority Chinese population being galvanised by the communists, but hoped to offer a more humane platform to reform. The communists in turn, accepted that they needed the voice of an educated, English speaking figurehead to press their case at the highest level within the colonial administration.

Lee was a third generation Singaporean, his great grandfather had arrived from Southern China penniless, but prospered under the kongsi system. His grandparents on both sides were wealthy, with various business interests. The family fortunes were hit by the Great Depression, but Lee’s mother in particular had enough resources to enrol her children in the Raffles Institute, where Lee was always at the top of the class. This enabled him to continue his education, with several scholarships, and eventually travel to London where he enrolled at the London School of Economics. Soon after he transferred to Cambridge University to read Law, where he achieved a double first. Lee had engaged with politics throughout his time in England, and campaigned on behalf of the Labour candidate for Totnes, whom he knew, in the 1950 election. He was also a leading member of the Malayan Forum in London, a
group of young radicals who debated the post-colonial future for their region. His education had been interrupted by the Japanese invasion of Singapore, which taught him many things, including the fragility of the British Empire, which evaporated in the face of a more committed and better organised adversary. He also experienced the heavy hand of authority, and the danger of too much opposition. He worked for a time as a translator for the Japanese occupying forces, intercepting radio messages. As it became clear that the war was coming to an end, he decided to escape, perhaps to join the resistance in Malaya, but discovered he was being watched by the Japanese, and instead lay low until the danger had passed. Having remained in Singapore, he also witnessed the witch hunt and brutal retribution perpetrated by the communists against collaborators when Japan surrendered, which influenced his later determination to keep what he considered to be an inhumane ideology out of Singapore.

Meanwhile David Marshall, another lawyer, and leader of the Labour Front won most seats in the 1955 election, and became the first Chief Minister. Lee Kuan Yew played the long game after the 1955 election, preferring Marshall to take the fight to the British to wrest complete control, and pave the way for independence. This cast Marshall into the role of collaborator, while Lee could claim to be the true opponent of colonialism. Marshall’s demand for independence for Singapore (which was refused) forced him to resign in 1956, to be replaced by his colleague Lim Yew Hock, who did not follow his example in resigning. Lee remained in opposition, but during these negotiations in London (he was part of the Singaporean delegation) he convinced the British that he was not the radical everyone assumed he was, and his star began to rise. He could carry the Chinese vote, but would neuter their communist tendencies.

There followed an intense period of political rivalry, coalitions, defections and new parties. The PAP emerged as the largest party, and Lee became Singapore’s first Prime Minister after the 1959 election, which the socialist ‘Barisan Socialis’, itself a spin off from the PAP, did not contest, protesting that their leader was in prison at the time. In the context of the Cold War, and determination to keep Singapore free of communist influence, the British colluded with both Lim, and then Lee to detain
potential threats – most notoriously in 1963, when 133 activists including three from the conservative United People’s Party, (at Lee’s insistence) – were arrested during ‘Operation Coldstore’. Many, having prior knowledge of the plan, escaped the clampdown, but were barred from returning to Singapore. The last of the 1963 detainees, none of whom were put on trial, Chia Tye Poh, was only released from prison in 1986 and from all restrictions on his freedom in 1998. This episode marked the beginning of Lee’s institutional control of the political scene, and having first promoted merger with Malaya by means of a referendum, engineered Singapore’s ‘expulsion’ from the Federation of Malaysia in 1965. Lee took advantage of this apparent injustice and humiliation, and held a new election immediately, at which the PAP won a clear majority. The party has been in power ever since, albeit with fluctuating fortunes, and Lee was its controlling influence, as Prime Minister until 1990, Senior Minister until 2004, and then Minister Mentor until 2011, remaining in the Cabinet for the entire period. But the question remains – what were his politics – did he have a social conscience, or were his policies purely pragmatic as he often emphasised?

There is a strong message in Singapore’s founding document as an independent nation signed by Lee Kuan Yew, which concludes that Singapore is: ‘...founded upon the principles of liberty and justice and ever seeking the welfare and happiness of her people in a more just and equal society.’

This seems clear evidence of the social democratic intent of the new nation, reflecting the aspirations Lee absorbed from the academic Harold Laski thirty years earlier while studying at the LSE. The sentiment is enshrined in the PAP constitution, under Article II, Objective e):


21 A committed socialist, and lifelong member of the Fabian Society and Labour Party.
To build a fair and just society, which encourages individual effort and family responsibility, while ensuring community and government support for the vulnerable and less fortunate.\textsuperscript{22}

At the inaugural meeting of the PAP, on 21\textsuperscript{st} November 1954, Lee Kuan Yew was appointed Secretary of the organising committee, and spoke to confirm the objectives of the Party, which were to end colonialism in Malaya and create a democratic government for Malaya. Among the declarations were items:

3. To abolish the unjust inequalities of wealth and opportunity inherent in the present system;

4. To establish an economic order which will give to all citizens the right to work and the full economic returns for their labour and skill;

5. To ensure a decent living and social security to all those who through sickness, infirmity or old age, can no longer work;

6. To infuse into the people of Malaya a spirit of national unity, self-respect and self-reliance, and to inspire them with a sense of endeavour in the creation of a prosperous, stable and just society. Quoted in (Fong Sip Chee, 1979:12).

These latter points are remarkably close to the concepts of Land for Wealth and Land for Living expressed in the general conditions for a property state, (page 44 of this thesis) while item 6 here is consistent with the Singapore Social Compact. Four years later, on 22\textsuperscript{nd} November 1958, a new iteration for the Party’s Tasks and Policy was published.

Item c) condenses these:

To abolish the unjust inequalities of wealth and opportunity inherent in the present system; to establish an economic order which will give to all citizens the right to work and full economic returns for their labour and skill; to ensure a decent living, and social security to all those who through sickness, infirmity or old age can no longer work (Fong Sip Chee, 1979:231).

\textsuperscript{22}https://www.pap.org.sg/party-constitution/ viewed 18/9/20
Lee took the opportunity to spell out his aim and approach in a speech to the Rotary Club of Singapore on 24th February 1960. While acknowledging that not all people are born equal, and will therefore not be rewarded equally, he says:

a socialist believes that society as a whole will benefit, and there will be more happiness for more people if all are given equal opportunities for education and advancement regardless of class and property. (Han et al., 2015:344).

He goes on to talk of a coming social revolution, referring to the PAP as a ‘revolutionary not a reformist movement’ but if it does not demand the hard work and commitment from its people in the spirit of its historical entrepot tradition, the endeavour would fail. The capitalist nature of production would continue with both public and private investment, but the party would work:

to satisfy the revolutionary urge of the mass of the people for a fundamental change in the relationship between social classes...in the long run, it is inevitable that the economic base itself will be transformed (Han et al., 2015:345).

Arriving in Singapore today, you could feel that you were in any of a number of modern Asian cities. But appearances are deceptive. Behind the familiar physical urban environment, there is a legal structure of ownership, and flow of revenue through government departments, as well as conditions for using space quite different from most other cities or nations.

How do these hidden structures and conditions reflect the nature of Singapore’s peculiar political economy, and to what extent do they support the idea that Singapore is a Social Democracy? One of the most fundamental differences concerns the ownership and use of land. Singapore inherited all publicly owned land from the colonial government, but in the early years of independence established a mechanism to enable the government to acquire more, at the expense of private owners.
During the transition period, and brief membership of the Malaysian Federation, Singapore followed British and then Malaysian rules around compulsory purchase of land, but on Independence signalled a change of policy, which emerged in the 1966 Land Acquisition Act, one of the first to be debated and passed. During the first reading on 10/6/1964, in response to a question about the cost of land acquisition, Prime Minister Lew Kuan Yew said:

I stated two broad principles which would guide the Government in amending legislation on the acquisition of land, namely, first, that no private landowner should benefit from development which had taken place at public expense: and, secondly, that the price paid on the acquisition for public purposes should not be higher than what the land would have been worth had the Government not contemplated development generally in the area. I said then that I would introduce legislation which would help to ensure that increases in land values, because of public development, should not benefit the landowner, but should benefit the community at large. Lee Kuan Yew (1964) column 25.

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The said Act was eventually passed on 26/10/1966, with little opposition, and several speakers in support:

In a socialist country, it is fit and proper that every inch of land should be put to the best possible use to yield the best advantage for the benefit of the people and make a very effective contribution to the development of the country. This is a very essential feature of a socialistic system. Lim Guan Hoo (1966), column 416.  

Eleven years earlier, an attempt to fix the level at which compensation would be paid for public purchase of land by an amendment to existing land acquisition legislation faced stiffer opposition:

This is a measure recently tried and discarded in Great Britain. It savours of measures shielded by curtains, Iron, Bamboo or Paper, in that the development of the State is made at the expense of a section of the public, consisting not only of owners of large pieces of land, but small pieces of land as well. It seeks to prevent owners of property from obtaining the benefit of any development under the Master Plan but does not make any provision for owners of land whose property is sterilised. Mr Lim Koon Teck (1955) column 579.  

The speaker is perhaps referring to the 1953 repeal of the betterment levy and land compensation provisions introduced in the UK 1947 Town and Country Planning Act. The amendment was proposed to avoid landowners benefiting from land value uplift after publication of a new Master Plan for Singapore, which would reveal the areas proposed for urban development. Of course much political water had passed under the bridge in the meantime, which might explain the lack of effective opposition to the new Bill. But one cannot doubt the intent of the PAP government to eliminate speculative gains on land development, and to ensure that any future uplift in land value would be available to the government, which is perhaps the most important foundation in the argument to establish Singapore as a Social Democracy.

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The 1966 Act was the culmination of a series of amendments and initiatives over the subsequent decade to establish this principle in practice. Private landowners in Singapore would not benefit disproportionately from the uplift in land value from public investment. The laws made it easier for the government to acquire land at a reasonable price, close to its existing use value, devoid of speculative or hope value in advance of development. Many of the debates were initiated by Lee Kuan Yew, suggesting that he took a personal interest in the issue, and helps explain the rise in public ownership of land in the period up to 1965, which then accelerated after the 1966 Act. Decades later, in a wide-ranging speech, he referred to land acquisition:

Things have to be done which are unpleasant. I changed the acquisition laws and cleared off compensation for sea frontages so that we could reclaim the land, then we’ve got East Coast Parkway. Fire sites – I reclaimed and acquired the right to acquire as of occupied status. It was Robin Hood but I succeeded in giving everybody their own home.26 (Han et al., 2015:341)

In his autobiography, Lee wrote:

I saw no reason why private landowners should profit from an increase in land value brought about by economic development and the infrastructure paid for with public funds (Lee, 2011:97)

demonstrating a clear understanding of the principles behind Henry George’s promotion of a land value tax, albeit with no evidence that he had read any of his work.

I referred earlier to Lee’s attendance at lectures given by Harold Laski at the LSE. Perhaps this was the source of his understanding and determination to eliminate the possibility of speculative gain. While I cannot claim to have read all six volumes of Laski’s writing, an extensive scan of this work does not reveal convincing evidence. However, indications of his thinking on land can be seen in many essays and books, which might have been elaborated ex-tempore in the lectures. For example he bemoans the control of political power in the hands of a small group of property

owners, which will stifle the creative capacity of the majority of the population: ‘Liberty in short, is incompatible with the present system of property; for its result is a concentration of power which makes the political personality of the average citizen ineffective for any serious purpose’ (Laski, 1997:ix) preface to volume III.

In the chapter on Property from A Grammar of Politics, originally published in 1925 in volume IV, many of the features of Lee’s thinking and the property state in Singapore can be discerned: ‘In the absence of other considerations, a political system in which rights are built upon property is one in which the propertyless man will have no rights’ (Laski, 1997:174).

Those with property will use it wastefully, destroy the environment in pursuit of profit, or subjugate other men, races or nations: ‘For the basis of society is envy, and envy is the nurse of faction’ (Laski, 1997:176).

Laski cites all the justifications given for property down the ages, as well as the protests against the institution. He suggests that gradually, a new moral sense emerged of what it meant to be in society, and more rights and provisions were granted under a general umbrella of ‘socialism’: ‘The central issue of the generation was to discover a concept of property which satisfied the moral sense of men’ (Laski, 1997:183), especially after the first war.

The aim for society is to allow people to be their ‘best selves’, not therefore the uniformity of the platonic ideal, or communist concept of equality. Even if the claims to property may be smaller, they should still offer people a choice of what to consume, what pursuits to follow, and have the means to do so: ‘That minimum claim is universal’ (Laski, 1997:184), but it incorporates a duty, to contribute, to earn, to perform. Anyone not earning, or enjoying a living through mere ownership of property is a parasite: ‘If all men are to have equal access to the social heritage, one class cannot, in the nature of things, be specially placed to secure a double share’, owners are ‘not entitled to levy a permanent tax on social effort’ (Laski, 1997:186-7).

People can however legitimately claim property in personal possessions, that are won by personal effort. He rejects the notion of equality in reward for work (some skills
are harder won than others) as well as the operation of supply and demand (there might be effective demand for many socially useless things). The simplicity of from each according to his ability, to each according to his needs turns out to be deceptive, and inadequate to take account of personal preferences for effort or circumstances of need. We therefore need to arrive at a more complex view: ‘We have somehow to reconcile the interest of the individual with that of the community’ (Laski, 1997:195).

He also speaks of the advantage of encouraging production, or hard work, in Lee’s iteration: of high wages. The more contribution a man can make, the more he can purchase: work should be productive, contribute to the general wealth of society: ‘I have spoken of a common civic minimum. But I do not conceive that this civic minimum is the same for all members of the community’ (Laski, 1997:197), suggesting that the control of industrial enterprise be ‘professionalised’, and certain monopolistic industries (such as utilities) should be socialised, freed from profit.

There is nothing inherently wrong in the notion of private prosperity. There is a sense in which it may be held as genuinely to express personality and to contribute to its enrichment. But, so to be held, it must be derived from personal effort organised in such a way as to involve an addition to the common welfare.

It is an appeal to the better nature of man. While we might be materially poorer, we would be socially richer. More value would be afforded to occupations which enhance social value:

...it will be a society of deeper spiritual values, from which the worst tyranny, that of man over man, will have been banished. (Laski, 1997:216-217).

Returning to the potential application of Laski’s ideas in Singapore, aside from public ownership of land, there are several important features of the Singapore Political Economy, which I will now address under five headings. As Anne Haila maintains, state ownership of land ‘is not decisive’ it ‘forms only a condition’ (Haila, 2016:15), albeit an important condition for the nature and performance of Singapore’s Political Economy. These headings are not the same as her seven reasons for considering Singapore as a property state, nor the ten general features I suggested in chapter 2,
to which I will return in Chapter 8, focusing instead on the broader economic, political and social context of life in Singapore. These headings are:

1. **State Capitalism:** Government ownership and control of significant industries and service providers, far beyond the traditional ‘utilities’, giving rise to a pattern of the economy termed ‘state capitalism’. In addition, aggressive individual saving within the CPF provided the state with a ready source of capital to invest in state infrastructure – all employees have up to 20% of their salaries invested in the Fund, with further contributions of up to 17% from employers.

2. **National Endowment Fund:** Alongside public ownership and control of land, the profits derived from these so called Statutory Boards and companies, have endowed Singapore with a special fund, representing its common wealth, which pays an annual ‘dividend’ to the government allowing it to keep conventional taxes low. In the operational budget, these dividends are transferred to specific funds for development or social welfare payments, so I will refer to this as Singapore’s ‘National Endowment Fund’.

3. **Multiracialism:** A culture of tolerance towards all races and religions present in Singapore society, which goes beyond the western aspiration of ‘multiculturalism’ and has been termed ‘multiracialism’ by many writers (Barr, 2019), (Chua, 2017).

4. **Social Compact:** The containment of political opposition, achieved initially by force, but increasingly by consensus, in the form of a ‘social compact’ between the government and the people: economic growth and material wellbeing, in return for quiescence. Much of the early authoritarian instruments have given way to a policy of ‘non enforcement’, yet in theory, the rule by law – a set of rules restricting certain behaviours, as opposed to rule of law – freedom to act unless causing harm to others, remains in place.

5. **Foreign Workers:** A large contingent of ‘foreign workers’ whether daily commuters from Johor, or larger groups of people imported under contract by agencies from China, Pakistan, India and elsewhere. Many of these workers do not enjoy the same rights or benefits as citizens or Permanent Residents (PR), and can be deported for
any minor infringement of the rules, thus forming a cohort of second class inhabitants of Singapore.

Further commentary on the features of the property state will be given in chapter 8, but here, the more political structure of Singapore’s institutions will be described.

6.1 State capitalism.

When the British left Singapore, the new government inherited many state assets, including the commercial port facilities, the SIT, and the General Post Office, including its telephone network. Initially, all these were placed under the control of the Ministry of Finance, but in 1974, the commercial operations were consolidated into the government owned corporation: Temasek Holdings, while other more functional bodies were already established as Statutory Boards with specific objectives and relevant assets.

The two most significant Statutory Boards are the Housing Development Board (HDB), and the Jurong Town Corporation (JTC). The detailed performance and assets held by these (and other) Boards will be set out in the next chapter, but for now their functions can be explained.

As the name implies, the HDB’s purpose is to develop residential property, while the JTC develops industrial and commercial property. The HDB was formed in 1960, and absorbed the colonial SIT. At the time, much of the housing in Singapore was informal – not exactly the slum or shanty style development seen in many places – but semi-permanent wooden structures in an erstwhile rural setting which grew over time, referred to as ‘kampongs’. These were overcrowded, and prone to ad hoc expansion as well as occasional fire or flood. They reflected the informal nature of the economy, with extended families living together and relying on short term employment contracts or uncertain entrepreneurial activities. The HDB was both Planning Authority and developer, tasked with clearing these kampongs and re-housing their former residents, although the Board contracted with private companies to build the flats. The early accommodation was basic, often no more than concrete shells with shared toilet and cooking facilities, and in the first five years 54,000 flats were built.
Initially they were available to rent, but an early innovation was to offer residents fixed term, 99 year leases to purchase, reflecting Lee’s determination to foster self-reliance rather than leave people dependent on the state. Not only did this provide the finance to build more units, but it helped give ordinary Singaporeans what Lee called a stake in the new nation. Today, there are over one million HDB apartments, housing 80% of the population, almost all in private ownership under the non-renewable leasehold system. The government offers subsidies to lower income households to purchase these flats, but also finances much of the up-front infrastructure costs for new developments by an annual grant to the HDB (US $2.9bn in 2019)\(^\text{27}\). The early developments were close to the original central business district, but soon a Master Plan was conceived - now updated every five years – and there are now 23 ‘new towns’ spread around the island, as well as 3 ‘estates’.

In order to survive as a nation, Lee needed to develop the economy, and to develop the economy he needed investment and a reliable workforce hungry for regular wages. The policies and instruments for government fed off each other. If Singapore needed to attract multi-national companies (MNC) to establish factories or regional headquarters, it would need to provide land and buildings on good terms. The JTC was incubated by the Economic Development Board (EDB) from 1961, and became an independent Statutory Board in 1968. Its task was to purchase and clear land in the Jurong Town area near the commercial port on the western part of the island. It would build the roads, factory units or offices in readiness for the incoming corporations, often giving rent free periods or other tax advantages to lure them in. Since inception in 1968, the JTC has developed over 7000 hectares of industrial land and over 4m sq metres of ‘ready built facilities’. Apart from the Jurong Industrial Estate, developments now include facilities at Changi airport, Seletar Aerospace Park, CleanTech Park, Tuas Biomedical Park and one-north, a cluster for knowledge based industries. The JTC owns the land, and leases these facilities to operators, whether overseas or home grown companies. Singapore was following the pattern established

in Hong Kong, Taiwan, Japan and South Korea to implement an export-led growth strategy. The difference being that Singapore relied more heavily on foreign direct investment (FDI) particularly from the USA, rather than fostering their own entrepreneurs, so the actual investment was in physical capital rather than promoting innovation. One of Lee’s most influential advisors was Dr Albert Winsemius, an Economist who first came to Singapore in 1960, leading a United Nations Development Programme (UNDP) mission. Given a reluctance from Malaya and Indonesia to form a common market for the region, he felt that Singapore would have to look further afield for trading partners in Europe and Australia as well as the United States. He was also instrumental in establishing Singapore as the regional centre for refining and distributing oil throughout the region – an industry that still makes up 5% of Singapore’s GDP.

The economist Paul Krugman later critiqued this approach: ‘...all of Singapore’s growth can be explained by increases in measured inputs. There is no sign at all of increased efficiency’ (Krugman, 1994:71). By 2010, the Economic Strategies Committee signalled a ‘shift from factor driven growth to driving growth across the board through productivity improvements, skills and innovation’ (Lee, 2017:12) in line with the shift to a service economy, followed by a further shift to the knowledge economy being promoted today.

Winsemius remained an advisor to Lee and his government for 30 years, independent of that first UN mission. Another expert report conducted under the UNDP was led by the Norwegian Town Planner and Architect, Erik Lorange (1919-2019). Published in 1962, it was perhaps more immediately influential in transforming the built environment of Singapore. Was the impetus to buy land more a technical decision to facilitate development, rather than ideological? Lorange was first employed in the re-building of Alta, in the region Finnmark, on the north Norwegian coast which had been laid waste by the retreating German army in 1945. Professor Karl Ellefsen, who worked with Lorange at the Oslo School of Architecture (AHO) from the 1970s onwards, commented that Lorange was inspired by the ideas of Patrick Geddes and Lewis Mumford. Lorange was a Social Democrat, and advocate of comprehensive planning. At the time, Scandinavian local authorities were buying land for urban
development which was a key strategy for their planned economic growth for a welfare state. The ideas spread through the UN, whose first General Secretary Trygve Lie was also Norwegian, and influenced development practices in many newly-independent nations, particularly in Africa. Ellefsen commented in a private email exchange:

Public land-use policy and strategies for public ownership of land for urban development was, as you probably know, an important part of municipal planning in the years after the war. And Lorange might absolutely have advocated for governmental purchase of land, while working as an expert in Singapore.

The first part of the 1962 report surveyed the existing conditions of the urban fabric of Singapore, in particular the over-crowded central district, which was in very poor condition, and a breeding ground for disease such as TB. He pointed out that very small plot sizes in varying forms of tenure would make comprehensive redevelopment very difficult. Given the projected increase in population and traffic, Lorange recommended a wholesale, island-wide review of zoning and transport corridors. While high land values in the city centre could prove an obstacle to redevelopment, nonetheless:

The happy circumstance that a great portion of land in the central area of Singapore City is in State ownership, should be utilised as the great resource it is, to promote a high standard of planning (and not as an excuse for quick short-term dispositions) (Lorange, 1962:20).

He emphasised the need for the state to take the lead in comprehensive planning, to consider the whole island for development, and shoulder the financial burden of implementation, although ‘all sound and practical ways to help unburdening public finance of some of these heavy charges should be taken up for sober consideration’ (Lorange, 1962:25). However, experience and observation suggested that private development, pursued only for the private interest often resulted in sub-optimal land use, therefore ‘the necessary legislative basis for compulsory acquisition of land for all kinds of planning purpose must therefore be secured’ (Lorange, 1962:27). In paragraph 49, he recommends that land already owned or purchased by the state should not be sold to private developers, but leased for 99 years, with phased
payment of the premium, and an annual ground rent of 0.5% of the freehold value of
the land. The advantage of only selling leases would be better future control of land
use, restriction of speculative activity, and more stable land prices. He also points out
from experience in other cities, particularly in the US that the difference in freehold
price and a 99 year lease is not significant in deterring or encouraging private
investment. Finally, ‘realistic increase of land value, consequent to a general
redevelopment of the area is to the advantage of the whole community, not only a
few land-owners’ (Lorange, 1962:30).

As far as possible some conservation of existing buildings of architectural or cultural
merit should be allowed, and existing occupants of buildings due for demolition
should have the option to return to the area, although these factors should not be
given over-riding preference. Consideration should also be given to facilitate the
proximity of housing to commercial activities for particular groups of workers
essential to the continued functioning of the city, for example provision for dock
workers should be kept close to the port. Care should be taken of the social and
psychological impact of relocation, particularly of residents of areas designated for
change of use.

The existing legislation for Planning and Compulsory Purchase are reviewed in his
report, and considered to be lacking in some respects. New legislation should be
drawn up to widen the scope and power of the Planning authority. In particular:

The Scandinavian principle of exercising the expropriatory powers
regardless of whether such a plan has been approved or not, is
recommended for adoption, because such procedure reduces the risk of
the assessment of compensation to be influenced by the redevelopment
project itself (Lorange, 1962) para. 81 (page number not visible).

Coming to the difficult question of compensation, he opines that:

land ownership in central parts of a city should not only grant the
advantages or privileges derived from a profitable strategic location, but
also impose obligations. A land-owner in these areas, I think, is only
fulfilling his duties to his city, as long as his centrally situated land is in
‘proper use’ or will be properly utilised in the near future, or if his
centrally situated buildings are in a ‘proper state’ (Lorange, 1962) para. 82.

Failure to adhere to these obligations (and he suggests time should be given for the landowner to comply with them) would mean that land can be acquired, even at nil, or significantly reduced value, to cover the cost of demolition. Many of the sentiments expressed in this report are echoed in the arguments later presented by Lee Kuan Yew in introducing legislation, and justifying land acquisition. While Lorange’s approach is also pragmatic, the strength of feeling and sentiment expressed in the passages concerning value and land acquisition suggest some philosophical or theoretical understanding of land rent. This same combination of pragmatism – to develop the nation by any means– and egalitarian conviction appear to have sustained Lee’s approach to land use throughout his political life.

The prospects for Singapore’s economy in the 21st century will be explored further in chapter 8 in the context of China’s emergence and challenge to Singapore’s locational advantage. But to return to the co-dependent nature of industry, wages and housing: the MNCs would provide the employment, the new employees needed regular wages to pay the rents or mortgages on the new housing estates, and were therefore less interested in the radical ideas fostered by the communist backed trades unions of the 1950s, which ensured a stable and energetic workforce which was attractive to the MNCs. The new National Trade Union Congress was more or less co-opted by the PAP and government, and negotiated wage rates across the sectors.

Here were the foundations for economic growth: the state would provide infrastructure and buildings (leasehold) and attract particular strategic sectors to invest in Singapore, thus sharing in their success. Not all companies were successful, for example Rollei, a German optical instrument and camera manufacturer moved their operations to Singapore in 1970, but failed to maintain sufficient market share to keep the factory busy. Rollei was closed after the company filed for bankruptcy in 1981. In addition to the JTC being landlord to the MNCs, many services provided to the Singapore economy (telephone, port facilities, energy for example) were provided by companies in direct government ownership within Temasek.
The more commercial operations at the heart of Temasek include real estate, such as CapitaLand and Mapletree Investments, retail such as A S Watson, telecommunications such as Singtel, financial services, such as DBS (Development Bank of Singapore), transportation and industrials such as Singapore Airlines, Singapore Power and PSA international (ports). Many of these companies originated in Singapore, and were wholly owned by Temasek. But in order to diversify and impose market discipline, some shares in some companies have been sold to private investors over the years, so that Temasek has diluted their holding, and used the proceeds to build stakes in international companies such as Bayer (chemicals), Alibaba (internet sales), Standard Chartered Bank, and AIA (insurance). However, the early control and growth of these companies can be characterised as an essential feature of state capitalism, not only were they government linked companies (GLC), but they had ready access to investment from DBS. Group assets in 2019 were $331bn, with a net profit of $11.8bn (“Temasek Review 2019,” 2019:50-51). Full accounts are not disclosed, as Temasek is identified as a private company, albeit 100% in Government ownership. These profits and rents are a significant source of Singapore’s endowment. While Privatisation of these companies entered the political agenda during the 1980s, progress was cautious (Mauzy and Milne, 2002: chapter 6), and divestment continues to be slow.

Building on the Planning legacy of Lorange in terms of land acquisition and the creation of New Towns and Industrial and Commercial districts, large swathes of the economy remain under state ownership and control.

6.2 National Endowment Fund

The international investment arena is increasingly aware of the power and influence of Sovereign Wealth Funds (SWF), particularly at times of crisis, when they have the scale to absorb large distressed assets, and stave off the threat of liquidation. Most funds have grown from the accumulation of resource rents, particularly oil, and the largest are domiciled in the Middle East, Alaska and Norway. In contrast, Singapore’s national endowment has grown from the accumulation of income from land (lease) sales, and investment returns from companies held within Temasek and elsewhere.
The potential for such an approach is acknowledged in Gary Flomenhoft’s chapter on the use of resource taxes in Vermont (a resource poor state in the US):

The most resource-poor countries in the world are probably Hong Kong and Singapore, ...these countries have fabulously valuable real estate... we wouldn’t be surprised if a tax on Singapore’s land could support something much larger than the Alaska Dividend. (Widerquist and Howard, 2012: 336).

Here I will explain the architecture of the fund, while in the next chapter I will describe the scale and cash flows between the various agencies, reserves, and its interaction with the operating budget. Former Banker, and public policy adviser Dag Detter makes the distinction between a SWF, which manages more liquid assets (securities and bonds), and a National Wealth Fund, which manages a portfolio of operational assets in public ownership (Detter and Fölster, 2015).

In Singapore, we have a hybrid, which I call a National Endowment Fund, (NEF) as it best describes how various assets are managed to benefit the citizens of Singapore, combining the features of Singapore’s state owned companies and investments described in the previous section, together with its wealth funds described below. An endowment fund held by a Charity, for example, is made up of different asset classes held directly (such as investment property or in trading subsidiaries) or indirectly (shares in companies, government bonds, or derivative instruments) to produce an income, which can then be distributed to beneficiaries by grant or bursary to promote the Objects of the Charity.

In Singapore, there are several agencies involved in managing this NEF. The Monetary Authority of Singapore (MAS) is Singapore’s equivalent of a central bank, with responsibility for issuing the currency, a variety of government bonds (many purchased by the CPF), and holds foreign currency reserves to facilitate trade and stabilise exchange rates. The Government Investment Corporation (GIC) manages overseas investments on behalf of the government among other things.

Temasek is a holding company, with varying levels of investment in companies listed on the Singapore Stock Exchange. Land sales come under the control of the Singapore
Land Authority (SLA), which in turn sits within the Ministry of Law, but the actual sales are conducted by either the HDB, the JTC or the Urban Redevelopment Authority (URA).

The Ministry of Finance (MOF) publishes detailed Revenue and Expenditure tables ‘by class object’, including Investment and Interest Income, (including dividends from GIC and Temasek) and Capital Receipts (including Land Sales), on an annual basis as well as dividends from statutory boards. These categories of revenue go to reserves, and are then recycled as the National Investment Return Contribution, (NIRC) income for the Operating Revenue account announced in the annual Budget speech. Again, the annual amounts and estimates for total reserves will be analysed in the next chapter. For now, we can note that there is a fixed formula to calculate the amount that can be drawn from the reserves as NIRC, which is up to 50% of the annual income from investments and land sales within each parliament. If it is not drawn within the parliament, it is lost to reserves, unless released by special request to the President in exceptional circumstances. In broad terms, this income can be characterised as Economic Rent, or property income, as it is derived from land value (through repeated rounds of development, or payment of annual rent) and investment income from ownership of other asset classes. I will explore this topic in more detail in the next chapter, but given the stipulation that only 50% of the income can be drawn in any parliament, the amount of the endowment fund held in reserves is set to grow, and therefore provide a larger NIRC to the government over time. In fact, in his 2015 speculative essay, Ravi Menon, Managing Director of the MAS predicts that government revenue from investment returns will increase from 14% to 20% of the total, and that the percentage that can be spent in any one parliament will move from 50% to 75% (Quah, 2016:177). This enormous annual endowment substantially reduces the amount the Singapore government needs to raise in taxation through normal means, to pay for public services.

In a speech delivered on 13/3/19 to the National Asset-Liability Management, Europe Conference, Menon confirmed that NIRC was now contributing 20% of operating revenue; however, he stopped short of predicting a higher drawdown from reserves, only saying that ‘the role of the reserves as an endowment from which to draw a
steady stream of income to finance the government budget will become even more important in the years ahead’, but did not explain why. Perhaps there is an implicit acknowledgement that too high a proportion of the wealth being produced is being locked up in the endowment; if other taxes are to remain low, more of the endowment will have to be spent on an annual basis.

In searching for a precedent to this endowment fund and its dividends, inspiration could be taken from political activist Thomas Paine, who proposed that every citizen of a nation, on reaching their majority would receive a sum of money (£15) that might be used ‘to enable him, or her to begin the world’ and a sum of (£10 per annum) to everyone upon reaching the age of 50 ‘to enable them to live in old age without Wretchedness, and go decently out of the world’ (Paine, 1797:titlepage). The fund to make these payments would come from inheritance taxes, thus recycling the wealth held by individuals, particularly - at the time - those with land assets. The idea of a national pension was first adopted in Germany in 1889, as proposed by Bismarck, then in England after 1906. Universal old age pensions are now a central feature of most western economies. Some countries also offer child support payments, but I know of no other country with a regular system of support for all citizens.28 The payments in Singapore arrive in a roundabout way, but the principle is the same as that proposed by Paine, who called the source of such payments a ‘ground rent’ owed to the community by owners of land. Today, there is much talk of introducing a Universal Basic Income for all citizens, and the concept has been trailed in Finland, but not so far implemented universally.

6.3 Multiracialism

I referred earlier to the influx of different ethnic groups to Singapore after it became a British colony in 1819. While some of the people were transported as indentured workers, the majority went of their own free will, albeit sometimes to escape harsh economic conditions or political repression in their own countries. The Chinese soon

28 The Alaska Permanent Fund pays a dividend, but only to residents of the State, as described later in the thesis.
became the majority ethnic group, and since independence have declined from 77% to 74% of the total number of residents. The Malays, originally the indigenous population were soon outnumbered, and in recent years have further declined from 15% to 13%. While the Indian (including Sri Lankan) group have grown from 7% to 9% of the total. Others (including Eurasians) have grown from 1% to 3%, indicating a remarkably stable mix. While the total population of Singapore is 5.7m, these figures relating to ethnicity only apply to residents (citizens and PR) – foreign workers will be referred to below.29

Instead of attempting to forge a uniform nation based on shared values and a single language, and hope for assimilation and acceptance over time, Singapore instead embraced the differences, but ensured equal treatment for each group. English was chosen as the official language for both education and government, that all three main ethnic groups could engage with. Sociologist Chua Beng Huat argues that Singapore has embraced multiracialism in order to distinguish itself from the more common multicultural approach:

Faced with a multiracial population, the PAP government has disavowed liberal multiculturalism and managed the political pragmatics of governing race through a conceptual framework which places group rights at the centre of official multiracialism; the term ‘race’ has been officially retained intentionally to better emphasise the differences between the three visible groups – ethnic Chinese, Malays and Indians. (Chua, 2017:128).

Under this framework, there is no need to erase the race origin to be a citizen. People are not expected to understand or embrace the different customs and religions of each group, only to be tolerant. All major religious festivals are national holidays Muslim, Christian, Buddhist, Hindu and Huaren (Chinese). People can identify with something beyond race:

29 Taken from https://www.singstat.gov.sg viewed 17/8/20
With state multiracialism, the PAP government has simultaneously strengthened the race group identity while reducing the likelihood of race being mobilised as a political resource. (Chua, 2017:137).

The PAP remains fearful of the potential political power of the majority Muslim Malay community, and has not shrunk from adopting racially divisive policies. For example, Malays can only serve in the Police Force to fulfil their national service obligation, not the Army. In this context, the government is especially concerned at any spill over of violence from Indonesia or Malaysia, both majority Muslim countries with small groups of violent extremists operating, particularly in Indonesia. Equally, given the negligence of the colonial administration, different ethnic groups, but especially the Chinese business community established schools, chambers of commerce and other institutions to foster cultural identity, which gave them the strongest potential political base at independence, but the PAP, in taking over many of these responsibilities diffused this potential racial power base.

At the same time, the government supports other, race based civil society organisations, such as Mendaki (Council on Education for Muslim Children) to assist disadvantaged communities (Malays have underperformed economically for many years) and take a hand in appointing the supreme Mufti, which would be considered a purely religious appointment elsewhere.

A particular means to ensure parliamentary representation for the different ethnic groups was the introduction in 1988 of some Group Representation Constituencies (GRC), where a group of five or six constituencies is formed, with at least one non-Chinese candidate. The group with the highest number of votes wins all the seats, thus ensuring a mix of ethnic MPs. However, the system is also open to abuse, as it is perhaps more difficult/expensive to contest a group of seats than a single seat, thus disadvantaging smaller (opposition) parties. The number of GRCs compared to single seat constituencies has therefore fluctuated over the years.

Chua (2017) reflects that most of the multiracial policies have had a positive outcome: the current younger generation identify as Singaporean first, ethnic group second, but it has also created a collective antipathy for ‘foreigners’ who, although
they might be ethnically the same, are not citizens, or residents, and can therefore be seen as inferior.

The emphasis has been on equality of ethnic groups, rather than the equality of individuals, as in the liberal tradition, which feeds into the idea of the collective consciousness and cohesion of the nation being more important than that of the individual.

6.4 Social Compact

The social compact comprises three pillars: first, the government provides a minimum level of services, particularly housing and education. Second, self-reliance is promoted as a way of life, people are expected to work, and incentives to return to work later in life, or stay in work for longer exist. In addition retraining is offered to encourage redundant workers to learn new skills. Third, community support is encouraged, first through the extended family network, second through Associations created in the different ethnic groups (all of which receive government support), and finally by charitable giving to these Associations and smaller groups looking after particular needs. Specifically: ‘Fiscal incentives are provided to encourage charitable giving in the form of deductions of up to 2.5 times the amounts donated against taxable incomes’ (Lee, 2017:21), and volunteering at both the corporate and individual level is encouraged.

Inherent in Singapore’s political economy is the idea of a tacit agreement between the government and the people: that the government will be allowed to rule, and make decisions without too much interference, so long as they deliver material prosperity and stability, perhaps reflecting the Confucian principle of harmony. The PAP appears to have offered this bargain from the outset, and as time has passed, the people appear to have accepted it. Fear of failure, and the idea that the new nation was permanently under threat from larger neighbours was utilised to justify this one party, authoritarian approach. Since the PAP has been in power, policies have been adapted to ensure popular support. Their share of the vote has fluctuated, although never below 60%, and opposition MPs have been elected, but the PAP grip on power has never been in doubt.
The PAP won every seat in the 1968 election, but as opposition parties regrouped and began winning seats in the 1980s, the government tried to subvert this potential threat by introducing ‘non-constituency’ MPs (the best losers in the election) and in 1990 by ‘nominated’ MPs, leaders of civic institutions, NGOs or academics to give a platform to alternative points of view.

Garry Rodan, the Political Scientist, describes the outcome as a ‘consultative authoritarian regime’ in (cited in Robinson, 2012:121).

The party maintains various consultative operations at a local level and appears responsive to public unrest. During the 2011 election, for example, there was an awareness that the electorate was not happy. The Prime Minister Lee Hsien Loong, Lee Kuan Yew’s son, famously apologised in advance of the vote, and promised to do better, with the result that many new initiatives aimed at reducing poverty were enacted in the following months. These included: Work Fare salary top ups, and help for the Pioneer Generation, as well as changes to the restrictive rules around the allocation of HDB apartments to allow single occupants over the age of 35, rather than only married couples.

The PAP share of the vote in 2015 recovered, although it has suffered a (smaller) setback in August 2020, and it remains to be seen what the response from government will be. One of the key fears leading up to the election was that Singaporeans were facing more competition for highly paid positions in the financial service sector: professionals currently working in Hong Kong are moving to Singapore in order to escape potential restrictions on their freedom. One response, to increase the minimum salary level required to secure an Employment Pass by 15%, was reported by the Financial Times on August 31st.30

30  https://www.ft.com/content/e11a1805-54f6-4b86-9054-5367a35f6d39?desktop=true&segmentId=fe4987a4-0d36-0eb5-d88f-99ac7b30c569#myft:notification:weekly-email:content viewed 18/9/20
Chua goes so far as to suggest that it is likely that the system of governance will not only outlast the current generation of PAP leaders, but the PAP itself – it has become institutionally entrenched.

We should not forget that many post-colonial newly independent nations became one party states for decades, where political repression was the norm. Very few have successfully transformed themselves into stable democracies, apart from South Korea and Taiwan. But in Singapore, overcoming obstacles to survival was the *raison d’etre* for all policies, and opposition was seen as a luxury the new nation could not afford. Singapore avoided corruption, or a kleptocracy as Russia and other nations that emerged from the collapse of the Soviet empire have suffered. Other Asian economies have prospered with political control maintained by one party, most notably Japan, where the Liberal Democratic Party have been in power since 1955, except for two short periods in 1993/94, and 2009/12. Vietnam shows no sign of adopting a multi-party system, while China is entrenching more control by the Communist Party under the charismatic leadership of Xi-Jinping. The Singaporean academic and diplomat Kishore Mahbubani suggests that this is a popular outcome for many Chinese in his new book ‘Has China Won’ (Mahbubani, 2020). Is this single, or dominant party model more suited to Asian countries, or does it achieve more in terms of poverty reduction than is possible in a liberal democracy which appeared to have triumphed in 1990 (Fukuyama, 2012). As Chua says: ‘An authoritarian state with popular support that works is a distressing idea in a world defined by liberal democracy!’ (Chua, 2017:1).

Although a free-market capitalist model (albeit with state participation) was adopted for the economy, had it been adopted for the polity, the egalitarian basis for many of its policies could have been abandoned in the face of corporate control of the party, and a privileging of the wealthy. Lee himself speculated in a speech in 1962 that were he free of political pressure, and the need to hold periodic elections, he could do a better job, and deliver better outcomes for his people: ‘I have not the slightest doubt
that I could govern much more effectively in their own interests\textsuperscript{31} (Han et al., 2015:367).

The neoliberal revolution which occurred in the UK from 1979 onwards did not take hold in Singapore – there has been little wholesale privatisation – in fact, the partial privatisation of the MRT was later reversed. Instead, state owned entities with technocratic managers hold sway in many sectors of the economy. State Capitalism remains the prevailing economic paradigm, rather than faith in the power of the market to supply all human needs. The near sacred liberal right to private property was abandoned, and only returned in the guise of ‘open market value’ for land acquisition when almost all land was already in public ownership, reflected in the series of amendments to the Land Acquisition Act. Encompassing various measures to curb speculation, the 1973 amendment fixed the valuation date for compulsory purchase to 30\textsuperscript{th} November of that year; the 1988 amendment moved the valuation date to 1\textsuperscript{st} January 1986, the logic being that land acquisition for public purposes should not be a burden on the public purse; the 1993 amendment moved the valuation date to 1\textsuperscript{st} January 1993, but a number of speakers in the debate were voicing opposition. Two years later, the date was 1\textsuperscript{st} January 1995, and the upper limit of ex-gratia payments to owners of single-family dwellings was increased to $1.8m from $600,000; the Asian Financial Crisis of 1997/8 caused a period of falling prices, but finally the 2007 amendment accepted that valuations in future would be at open market value, with some allowance for ‘best use’ rather than simply ‘existing use’. However, with 90\% of land by now in public ownership, this amendment would have limited impact.

For the compact to hold, the PAP relied on its performance for its legitimacy, and was forever extolling the electorate with facts and figures of how many houses had been built, how many jobs created, its urban planning successes, and international awards for its schemes. A property-owning democracy was an essential element in this

\textsuperscript{31} Address to the Royal Society of International Affairs, London, May 1962 Q&A.
scheme – the phrase featured in speeches at openings of HDB developments, and
Lee wrote later:

After independence in 1965, I was troubled by Singapore’s completely urban electorate. I had seen how voters in capital cities always tended to vote against the government of the day and was determined that our householders should become home owners, otherwise we would not have political stability. (Lee, 2011:117).

The PAP ideologue George Yeo sought to distinguish Singapore’s ‘supply side socialism’ where the investment was in human capital, education housing and health, from the all-encompassing (failed) communist regimes, and Scandinavian welfare models, which were seen as ‘demand side’ universal benefit models which according to Lee would foster dependency. Supply side socialism could enhance the capitalist project to accumulate wealth; Singaporeans were expected to work, in return for their social platform. This contrasted with the neoliberal alternative of withdrawing from social responsibilities in the face of its rising cost, which was bound to fail, as it denied the people their dignity. ‘The PAP’s social democratic origin, not authoritarianism, explains the party’s vociferous disavowal of liberalism as the basis of politics and government’ (Chua, 2017:5).

Renewed support for the PAP in the 2015 election illustrates the nature of this compact, and explains the support for its social programmes, particularly for housing, and education. But it also reflects the broad support for state ownership of land, and the growing use of the national endowment fund to begin to equalise income by means of welfare payments to particular groups. Urban Planner Gavin Shatkin recognises the particular aspects of the Singapore model (2014), which go beyond creating a functional urban form, and weave together the economic, political and social elements of the polity in a way that will need to continue to deliver this social compact into the future. If one element fails, the entire model may lose its appeal.

6.5 Foreign Workers

The ethnic mix of Singapore’s population was well established before independence, but a distinction has always been made between citizens, permanent residents,
foreign talent (usually the better paid executives and professionals recruited by MNCs) and foreign workers (taking low skilled manufacturing and service jobs). An independent Singapore in 1965 faced high unemployment, and the government was familiar with labour unrest following a series of strikes in the 50s and 60s. By the 1970s however, unemployment was under control, and the opposite problem, labour shortage was resolved by extensive recruitment of foreign labour. In the mid 70s there were 200,000 foreign workers in Singapore, by 2004 there were 621,000, in 2008 almost 1m, and in 2017 1,368,000, (Barr, 2019:161). In any given year, the split between foreign talent and foreign workers is 15:85. Recruitment of foreign talent (highly qualified professionals) was encouraged in the early years of independence, as it was felt they were essential to the establishment of MNCs in Singapore, and that their skills would be transferred in time to the local population. This category of foreigner, should they choose to stay in Singapore, can become permanent residents, (with options to buy property after a qualifying period), bring their families, and eventually apply for citizenship. The drive to attract foreign talent accelerated in the twenty first century, to promote the shift to a knowledge economy, and to offset the migration of young Singaporeans to more tolerant cultures elsewhere.

Critically, foreign workers do not have the same rights as foreign talent, citizens or permanent residents, and their employers have to pay a foreign worker levy to the government, calibrated to the demand for the type of work they will do. This levy either increases the cost of employment, or reduces the amount of the wage, depending on one’s point of view. They are forced to live in employer sponsored dormitories; the employers have to provide a security bond in case of misdemeanours causing damage, and can be deported for any transgression. Foreign workers are generally granted a two-year work visa, which can be extended for another two years; in many respects, the conditions of the foreign workers are akin to the imported indentured labourers of colonial times (kongsii); they cannot bring their families to live in Singapore. The focus in this section is on foreign workers (rather than foreign talent), who remain marginalised, with no opportunity to integrate (Yeoh, 2006).
Resentment against both foreign talent, who are seen to be crowding out educated Singaporeans from the higher paid professional positions, and foreign workers, who are seen to be putting additional demands on space in Singapore, as well as services such as public transport, is growing (Rubdy and McKay, 2013). The focus in this section is on the status of the foreign worker, rather than the foreign talent.

Such large numbers are required in the construction sector, and labour intensive services, which by now highly educated Singaporeans refuse to enter – the so called 3 Ds (dirty, difficult and dangerous), and 5 Cs (caring, carrying, catering, cleaning and construction) (Shaw and Ismail, 2010). Immigration was a key factor in the 2011 election – although the people were doing essential work, they did not share the cultural values of most Singaporeans, often they did not have the English language skills to fulfil some jobs, and their behaviour was often feared, considered too loud or unclean.

There is a wider issue that tarnishes Singapore’s image as a successful, cosmopolitan city, whereby the living conditions of the foreign workers are at odds with the image promoted by the HDB. Their dormitories, often located in segregated compounds away from the normal social amenities such as shops and recreational areas, are overcrowded, insanitary and dangerous. It is ironic that for a nation where the indigenous Malay population are in a minority, there is a growing resentment of the immigrant. And at the same time: ‘...the good life enjoyed by Singaporeans is premised to a large degree on the unequal treatment of the foreign worker community’ (Chin, 2008:2).

Singapore’s degree of reliance on foreign workers is in the second tier of countries, comprising 25% of the population. This compares to the oil rich Middle Eastern countries, whose population comprises of up to 80% foreign workers (United Nations, 2019). As a percentage of the population in employment, the percentage rises to 37.94% (Wang et al., 2018), although the conditions of entry vary within the group, according to the needs of the economy. While this reliance of the economy on a second-class group of workers many of whom have lower pay, fewer rights and benefits and worse conditions than Singapore citizens cannot be termed slavery, to
characterise it in this way comes close to the reality. This is especially the case for domestic workers, who are tied to a specific employer, and cannot choose to work for someone else. Living with their employer renders them invisible to wider society: they are often ‘on call’ 24 hours a day. In many host countries, whenever there is a downturn in the economy, the unemployed foreign workers cannot afford to travel home, and often lose their accommodation – they rely on charity to survive or to repatriate. The plight of foreign workers is particularly acute at times of crisis. In Singapore during the 2020 pandemic, not only did the foreign workers carry the highest rates of infection, and suffered the largest number of deaths, but as the economy re-opened, the citizens were exposed to higher risk of infection, which prompted the government to step in and promise some reform, in terms of improved living conditions.\textsuperscript{32} Singapore is not alone in relying on foreign workers, and many western economies adopt specific schemes to import agricultural workers during the harvest for example. An argument often deployed to defend the practice of foreign workers receiving lower wages and fewer benefits than citizens, is that they are better off in the host country than they would be in their own country and are able to send money to their families at home. This assumes that the foreign worker is choosing to work overseas, and the argument is perhaps deployed to assuage guilt, rather than offer a rational explanation.

The rising number of foreign workers is in part driven by the rising proportion of older people in Singapore, causing a reduction in the working population of citizens, while at the same time increasing the need for care workers. However, the changing nature of the workforce could in the long term have an impact on effective demand in the economy, as the overall level of wages falls, and more of the money is sent abroad. The related issue of impact on effective demand from households whose main asset is their home, who on retirement rely on a lower income also exists, to which I will return in the next chapter. Conversely, some countries, such as Indonesia are seeking to restrict the number of workers going overseas given the impact on home grown

growth and development, having launched a ‘zero maid’ policy in 2016 (Wang et al., 2018).

6.6 The Polity of Singapore, a summary

Singapore appears to have created an enduring polity, with special characteristics: the nation privileges collective over individual interests - it has adopted a ‘trustee’ or stewardship role, rather than representation for its style of polity. Material success is considered adequate reward for any lack of freedom of expression or political choice. While there is no doubt a business lobby, it is diffuse, with blocks representing different interests, whether state capitalist, overseas investor or local entrepreneur. It has restricted private property rights and built a national endowment through the collection of property income, and there is an active role for the state in business. The potential for ethnic differences has been minimised by managing different races equally: ethnic polarity is not an issue given the peculiar identity of the Singaporean. At the same time, given the mixed nature of the economy, the potential ‘base’ on which to organise an effective opposition is less obvious. The vast majority of the population are homeowners, and the PAP are sensitive to improving the welfare of the poorest, with the notable exception of foreign workers. All these methods of effective management of potential conflict, has created a unique style of government for Singapore. In a prescient book published in 1973, Historian Thomas Bellows observed the method of the PAP:

The directed and manipulative participatory-involvement devices of government regulate and drain off hostility and dissatisfaction...
Whether any government can continue to be responsive, and thus successful, without the benefit of a critical and viable opposition is, however a question that has yet to be answered

speculating that perhaps such an opposition would:

become an integral part of the system. (Bellows, 1973:125).

The opposition in Parliament, such as it is, includes nominated members as well as a few elected representatives, but without the prospect of forming a government, their contributions seem to be respected, and they are respectful of their seat at the table.
There are currently 13 political parties registered in Singapore, 6 of whom were formed after 2015; many of them are small, and have no MPs – only three parties are currently represented in Parliament (2020).

Does all this amount to a meaningful revolution in social relations, as Lee aspired to bring about? How deep does the revolution go?

While Singapore has been a success on many levels, inequality has nonetheless become embedded for various reasons; greater equality of wealth in housing has not reduced inequality of income. From the mid 1990s, while income for the top 1% and top 10% rose as a percentage of the total, for the bottom 50% of earners, the percentage of the total fell from 20% to 17% and has only been ameliorated by increasing transfers in recent years, which I will describe below.

The predominance of international companies, as opposed to home grown innovators, has left the economy exposed to capital flight to lower cost business environments, for example in Vietnam. Singapore has so far failed to foster national champions, in the way that South Korea, Taiwan and now China have done with companies such as Samsung, Taiwan Semiconductor or Huawei:

it has imported the social and political problems of neo-liberalism into Singapore by encouraging the government to focus more on the needs of foreign capital and its hunger for foreign workers than it has about the needs, comfort and aspirations of Singaporeans (Barr, 2019:169).

In attempting to promote social democracy, combined with growth and full employment not all outcomes have been a success: ‘The problem it faces is that most of these elements are not so much the unintended consequences of policy decisions: they are the policy decisions.’ (Barr, 2019:201).

While the ruling elite have done a good job, they are now institutionalised in the fabric of the economy and society, to the extent that very few new voices can break in. Lee Kuan Yew was a great believer in meritocracy, and modelled the education

33 [https://wid.world/country/singapore/](https://wid.world/country/singapore/) viewed 11/1/22
system, with opportunities for subsidised study overseas for the best students on his own experience. He took a personal interest in the selection of the next generation of leaders, fast tracking them into the civil service or parliament (Chua, 2017). In a celebratory book (Quah, 2016) commemorating the country’s fiftieth anniversary, two things stand out: the predominance of government ministers amongst the contributors, and the echo of Lee Kuan Yew’s ideas in their essays.

We are talking about an entire ecosystem of elite reproduction and elite formation that stretches through a handful of powerful families, through a substantial clutch of elite schools, and through the officer corps of the military and the upper levels of the civil service....The Lee family has become a brand...For better or worse, brand Lee now equals brand Singapore (Barr, 2019:203).

In a new book, Philosopher Michael Sandel (2020) has dissected the aspiration of the meritocratic system, and found that far from delivering universal benefits, it has marginalised the idea of the common good, and polarised the population in many countries. Those who have succeeded, ‘deserve’ their positions, while anyone who has ‘failed’ has only themselves to blame. Singapore has so far corralled the ‘failures’ into the foreign worker category, but there are signs that resentment is building to challenge the social compact which has been in place for so long.

Geographer Natalie Oswin offers an analysis of Singapore’s many contradictions, bringing together a critique of policies which appear to discriminate on the basis of sex, race, gender, and immigrant status. Using a queer perspective of otherness for her analysis of Singaporean political culture, she describes it as one of ‘heteronormativity’ where:

to fulfil desires for modernity, development and progress, not just LGBT people have been ‘queered’ in the post-colonial city-state – so have the single, the uneducated, the ‘unskilled’ migrant worker, and many others... (Oswin, 2019:82).

Sociologist Teo You Yen has echoed this theme in the treatment of the citizens in poverty to which I will return, while journalist/academic Cherian George, has both experienced and theorised the precarity of anyone who becomes too critical: ‘anyone
who stands up to the government must expect not only punishment by the state but also social condemnation and isolation’ (George, 2017:107).

6.7 Conclusion

In this chapter, I have demonstrated that while Lee Kuan Yew and his political party the PAP began life with a strong ideological motive to create a radical social democracy, he was ready to abandon, even exile and silence his communist supporters, as well as any opposition voices in the interest of effective progress towards growth and development. He quickly adopted some aspects of neo-liberal economic practice, but only in so far as they served his pragmatic purposes to develop Singapore as a first world economy. Many levers of control were kept in state institutions.

In the next chapter I will examine how these institutions operate, and how the revenues flow through the system, to deliver the potential for a more equitable distribution of wealth, and his vision of a new social democracy.
Chapter 7  The institutions of Government in Singapore

In this chapter, I set out how Singapore engineered its property state framework.

I set out first, an overview of the public accounts and system of taxation for Singapore. Second, how the most significant government departments and agencies (in terms of land management) operate and are either funded, or contribute to government revenue. However, these two aspects - operational and asset management - are kept apart, with the revenue being managed in the institutions created to manage Singapore’s public wealth and will therefore be tackled in sequence: Ministries and Statutory Bodies first, followed by the various asset managers.

Third, I set out the socio-economic outcomes for the citizens of Singapore in a series of tables to compare both the standards of living and levels of inequality against the average for selected countries. These outcomes pivot from the public realm to the private through the CPF, whose functions, interconnections and operation will also be explored in detail.

7.1 Overview of Public Accounts

I introduced the subject of the public accounts in chapter 5, when the exceptional nature of Singapore’s revenue system was established. Here I provide a more comprehensive analysis: as indicated in the methodology, greater weight has been given in the research to document review, than primary research through interviews.

There are 16 Ministries operating in the Singapore Government, including a Prime Minister’s Office, which encompass typical areas of responsibility such as Finance, Education, Defence, Health, Transport and Law. There are 10 Organs of State, including Parliament, the Cabinet, and different Courts comprising the Judiciary. In addition, there are 64 Statutory Boards which sit under their respective Ministries, with responsibilities as varied as Health Promotion, Economic Development, National Parks, Casinos, the Arts, Tourism and Urban Redevelopment. Although the Statutory Boards are publicly accountable to the Ministries, they are operationally
independent, with outside Directors, as well as a management team. They vary
eormously in size and scope of their responsibility, or importance to the future
development of Singapore. While employees of the Statutory Boards are in public
service, they are not civil servants as we might normally understand the term; they
are employed directly by the Statutory Board, often staying with a particular Board
for their entire career. Many of the Boards charge fees for their services, or collect
other forms of income such as rental income or commissions – those that make a
profit from these operations make Statutory Board Contributions to the Operating
Revenue, set at the same rate as Corporate Taxes – and/or pay dividends to the
government, something that would perhaps be rare for a government department
elsewhere. Those which don’t make a profit receive an annual grant from their
Ministry.

I will focus on the Ministries and their connected Statutory Boards that are relevant
to this study, and contribute significantly to Singapore’s public revenue, but before
doing so, a brief overview of taxes in Singapore is provided.

Personal income tax rates are low by OECD standards, with a maximum rate of 22%,
and allowances are generous. The median annual household income is $54,756\textsuperscript{34}; the
first $20,000 of earned income (per person) is tax free, and the next $10,000 is taxed
at 2%; the highest rate of personal tax is 22%, for income over $320,000. In 2020, the
top 20% of Singaporean households by income paid 56% of the taxes and received
11% of the benefits. Whereas the bottom 20% paid 9% of the taxes and received 27%
of the benefits. For the broad middle 60% of households, they paid 35% of taxes,
while receiving 62% of the benefits, meaning that the overall system of taxes and
transfers is a progressive one (breakdown of taxes and benefits provided by the MOF,
WA1).

Corporate taxes are paid at 17% of chargeable income, which bears international
comparison. General Sales Tax (GST), which operates as a value added tax at all stages

\textsuperscript{34} Ministry of Manpower, calculated from Gross Monthly income from Work, summary table
https://stats.mom.gov.sg/Pages/Income-Summary-Table.aspx viewed 1/10/20
of the production process and is borne in full by the final consumer is charged at 7%, again, low by OECD standards. The regressive nature of GST, in common with all value added taxes is uniquely ameliorated in Singapore by offering owners (and renters) of HDB flats rebates on their rent, utilities, or service charges at rates adjusted in every budget according to their individual level of income.

Property taxes are assessed for all property, based on an Annual Value (AV) which is an estimate of the annual rental value, unfurnished; owner occupiers are charged at 4% of the AV, rising to 16% for higher value properties in stages; non owner occupiers are charged at higher rates – 10% rising to 20%; commercial and industrial property is charged at 10%, while vacant land, and properties in development are charged at 5%. Stamp duties on transactions apply to all property starting at 3% for non-residential property; higher rates apply to second and third properties, while foreign purchasers pay 20% on all transactions. All sellers are charged a duty if they sell within three years at varying rates. Rental income on non-owner-occupied properties is separately charged under the personal income tax assessment.

Development Charges (DC) apply at the rate of 70% of the value uplift on redevelopment of property when planning permission is given, while a calibrated land premium is also paid if a lease extension is granted on the property. More detail on the circumstances of DCs will be given in the next chapter, including a worked example – appendix 4.

Motor vehicles are taxed in various ways; the most lucrative is the Certificate of Entitlement (COE), which must be bought before you can purchase a vehicle. Valid for ten years, they are put up for auction to the highest bidder twice a month, raising $5.8bn in 2017 (almost 8% of the government’s Operational Revenue). In addition, there is Road Tax, Excise Duty, and a Registration Fee – the highest rate is 180% of the price of the vehicle – for vehicles priced over $50,000. Road use charges (Electronic Road Pricing, or ERP) are collected on major routes, which vary according to the degree of congestion, and time of day, collected by pre-paid, in-car electronic tags. The vehicle quota premium prices paid for the COE are decided according to demand and are limited in number. Owning a COE is clearly necessary to own a
vehicle, as well as for the use of land - the vehicle is charged for its occupation of a space on the public highway through ERP while it is moving, and in a fixed location by payment for a parking permit. All of this (land use) has a value in Singapore and demonstrates their policy to charge for it.

Other taxes include all manner of fees and charges for services and permits, while there are Customs and Excise duties on alcohol, tobacco and petrol. Betting taxes are calculated at 30% of the amount wagered, net of GST. In 2018, a carbon tax was introduced, to come into operation in 2019; it will apply to all sectors without exemption and is estimated to cover 80% of Singapore’s total emissions. However, it is not listed here, as 2017 is being used as the base year for all illustrations in this thesis. I mention it only as evidence of Singapore’s approach to protect the environment in my property state framework.

In Chapter 2, Table 2-6, reproduced here, I calculated that 52% of public revenue is derived from land rent; here I will explain the rationale for this classification, which is based on the fact of ownership. Ownership of physical property is clearly conditional on ownership of land. In the case of housing for example, the property owned is defined by a strata title, such as an apartment, which is a three-dimensional space above the land on which the building sits. Property taxes apply to these titles, as well as transactions involving property (stamp duties) which also apply to purchases of financial assets such as shares and other financial instruments. Changes of use (of property) and densification of particular sites are also taxed through DC, included in Other Taxes, however, the MOF were unable to confirm the percentage of DC in the total of $6.02bn in this category.
Table 7-1: Public revenue from land value and other property income, putting together the figures from Table 2-4 and 2-5 chapter 2.

<table>
<thead>
<tr>
<th>Revenue from land rent, or other property income $bn</th>
<th>Actual 2017</th>
<th>Percentage of total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets tax - Property tax and Estates duty</td>
<td>4.44</td>
<td></td>
</tr>
<tr>
<td>Stamp Duty - on documents and sales of property</td>
<td>4.91</td>
<td></td>
</tr>
<tr>
<td>Other - foreign worker levy, development charge (DC), water conservation, annual tonnage</td>
<td>6.02</td>
<td></td>
</tr>
<tr>
<td>Vehicle quota premium (COE)</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>Investment income and interest</td>
<td>16.14</td>
<td></td>
</tr>
<tr>
<td>Capital receipts including land sales</td>
<td>15.87</td>
<td></td>
</tr>
<tr>
<td>Fees and charges, including road use charges</td>
<td>3.28</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>56.46</strong></td>
<td><strong>52.36%</strong></td>
</tr>
</tbody>
</table>

The largest two categories of revenue shown in Table 7-1, are Investment income and interest obtained by the MAS, the GIC and Temasek, whose functions will be explained below, and Capital Receipts. How does this income relate to land? The overwhelming majority (up to 99% in any given year) of Capital Receipts come from government land (lease) sales (GLS) premiums, while Investment income and interest is derived from ownership of assets – in turn derived from the operations of companies using land. The process for lease sales will be described below. Over the last twenty years, the amount of revenue generated from Investments and Capital Receipts has varied from 22% in 2009 to 39% in 2007 of total government receipts, (neatly falling either side of the great financial crisis (GFC)), while it was 30% in 2017, the illustrative year shown above. The full breakdown, including conventional tax revenue is attached as appendix 2. It should be noted that the Capital Receipts reported each year from land sales are net of any land purchases (in 2017, Capital Receipts from land sales were $8.2bn, while land related expenditure (purchases and
investment) was $3bn). Equally, investment income is reported net of any unrealised capital gain in investments (this policy changed in 2009, see below).

It should be noted that the MOF, who are responsible for tax policy in Singapore, do not classify Investment Income or Capital Receipts as part of the tax system (confirmed in WA1 emphasised several times). Instead, they become past reserves, and are formally managed through Singapore’s policy on reserves – the Past Reserves Protection Framework.

I also explained in Chapter 5, how the NIRC is used to bolster revenue for Budget purposes, in addition to revenue from taxes and fees. Each year, the government decides how much NIRC to draw from reserves – up to 50% of the Investment Income in any given Parliament. The investments and Capital Receipts themselves are treated as past reserves. The NIRC allows the government in turn, to transfer money to various Development and Endowment Funds with different purposes, whilst maintaining a balanced operational budget over the long term. Between 2011 and 2017, the overall budget surplus has varied from $4bn to $10.8bn, with only 2015 showing a deficit of $4bn in this period (Singstat, 2019:242). Within each parliament any surplus goes to current reserves, which can be used to balance any deficit on the operational budget. At the end of the parliament, any balance in current reserves is transferred to past reserves, which are then subject to the past reserves rules. Capital Receipts from land sales pass straight to past reserves, as the ‘sale of land converts a land asset into a financial asset, with both comprising... past reserves’ as explained by the MOF in their online frequently asked questions (FAQ). I will return to this explanation in chapter 8. Since 2009, however, capital gains from investments managed by GIC and MAS could be included in the NIRC calculation, hitherto, only dividend income was included (the real rate of return is calculated net of inflation). From 2016, the capital gain from investments managed by Temasek could also be included in the NIRC calculations. These changes have led to a large increase in the NIRC contribution to the operating budget, from $4.3bn in 2008 to $14.1bn in 2017.

It is acknowledged that this surge in income has allowed the MOF to minimise any increase in taxes and charges (Lee, 2017:16). The idea of retaining 50% of investment returns in the reserves is to ensure that reserves grow at the same rate as GDP growth, anticipated to be above 2% per annum.

Since 2001, changes to the NIRC calculations have been used explicitly to reduce the impact of taxation on the wider economy, by keeping taxes low. As a result, the rate of surplus cash accruing to the government (akin to free cash flow on a set of company accounts) has reduced from 9% of GDP per annum to 4%. However, surpluses built up by Statutory Boards (other than the JTC, HDB, MAS or CPF) could be called upon to fill any shortfall in cash required to maintain the surplus.

In short, past reserves form the National Endowment Fund. The NIRC is the principal conduit of value capture to the operating revenue.

In the last chapter, I introduced the topic of land ownership in Singapore, and the process of acquisition since independence. I will now expand on the role of the state agencies involved in the management of land: the Singapore Land Authority (SLA), the Urban Redevelopment Authority (URA), as well as the HDB and JTC. These agencies are all involved in the generation of Capital Receipts from land, referred to above.

7.2 Singapore Land Authority

The SLA is a Statutory Board under the Ministry of Law. Formed by Act of Parliament in June 2001, to combine the Land Office, Land Registry, Survey Department, Land Systems Support Unit and Computer Information Systems Department. In the context of a limited land mass, its role is to: ‘optimise land resources for the economic and social development of Singapore. This is important as land is used for a wide range of activities in Singapore’, and also to ‘create and help extract greater value for our state properties and assets’.

SLA website https://www.sla.gov.sg/about-sla/overview viewed 5/10/20
This role is active, given that economic and social conditions are constantly evolving. To achieve these objectives, the SLA maintains a complete geospatial digital record of use and ownership of land in Singapore. With the assistance of the URA, it decides how land is going to be used in future, and organises the compulsory acquisition of land as necessary to ensure optimal development.

The Authority derives some revenue from the sale of information to interested parties through the interactive online map ‘Onemap’ which identifies individual plots, giving high level ownership information, e.g. HDB, or private. The SLA decides how land is to be used or repurposed, and then delegates to one of three agencies to manage the lease sale process: HDB, URA or JTC. In most cases, the HDB will retain ownership and develop, while the JTC will either develop or lease land to a third party to develop; the URA will usually lease land to a third party for development. In addition the SLA manages the rental and (lease) sale of land and/or buildings owned by the Government – in particular the historic ‘black and white’ colonial villas set in exclusive residential areas, which command high rents or premiums.

A summary of selected Statutory Board and Corporatised entity performance, contributions, grants and dividends are given in Table 7-2 at the end of section 7.5.

7.3 Urban Redevelopment Authority

The URA is supervised by the Ministry of National Development. It is the Planning authority in Singapore, and formulates a Concept Plan (updated in 2011 (and every ten years) to guide development and take account of population growth up to 2030) and a more detailed Master Plan to guide more immediate development. This is reviewed every five years, translating the broad long-term strategies into detailed land uses at a District level. The URA manages the processes of development control, urban design, and conservation.

Government Land Sales are organised on a six monthly rolling programme, and plots are either on the confirmed list or a reserve list of sites. Plots are transferred from the reserve to the confirmed list when a developer offers a bid. When a plot is put up for sale, all details are posted online, such as site area, lease length, allowable use,
maximum gross floor area, building height, and the allowed period for completion of the build, as well as the rules for the submission of the tender. This is the case whether the sale is to replace an existing building, or develop a new site, for example on reclaimed land. A closing date for tenders is listed, and the winning bid is then published.

Private owners of ‘landed’ (freehold) property wishing to extend or redevelop, must also apply to the URA for planning permission; comprehensive tables for the development charge are listed online, according to location and type of use, updated every six months.

A spreadsheet is maintained online to show details of successful tenders for past sales, by date, amount paid, new owner etc. The list extends back to February 1993, during which period (to March 2020), $83.8bn has been successfully tendered for sites. This historic record ensures transparency and provides an indication of past values for bidders. The Figure 7-1 here shows capital receipts from GLS for 2010-2019:
The authority only earns ‘agency fees’ on the land sales, the premiums accrue to the reserves. Other income is derived from planning permissions, development control, consultancy, rental and parking fees.

In addition to the funds flowing to reserves from profits and dividends generated from the Statutory Boards and GLCs described in this chapter, land sales are the primary source of Capital Receipts. This land is mainly used for commercial rather than industrial development, including hotels, offices and retail or mixed-use development, sometimes on reclaimed land. While the URA might earn a fee for the sale process, the premiums paid pass directly to reserves. Up to the end of 2019, 1,746 land parcels have been sold, comprising 40% of private housing units, 31% of the total retail space, 36% of office space by gross floor area developed, and 36% of all hotel rooms. Considerable effort went into the design of the tendering process, with constant variation in the payment schedule, penalty charges for late or non-delivery, tax concessions, timing of sales, release or withdrawal of land parcels, inclusion of design criteria in the award process, rather than simply maximising revenue in the short term by accepting the highest premium. While the total receipts
given in Figure 7-1 are substantial, it does not relay the stakes involved; in some cases, such as the Marina Bay development, a single site could be valued at over $1bn, involving a considerable risk for the successful bidder; all figures and statistics here are from (Lee, 2021), which describes the history of the Government Land Sales Programme, and how both local and overseas developers were attracted to the opportunities.

7.4 Housing Development Board

The HDB is a statutory board under the Ministry of National Development. Its mission is to provide affordable, quality housing and ‘endearing’ communities for all. Since its foundation in 1959, it has built over a million flats. It is now the main port of call for anyone wishing to purchase a new flat in Singapore. Forthcoming schemes (not yet built) are advertised which people can apply for, particularly if it is a first purchase; together with flats still on the market from recently completed schemes; resale flats and executive condominiums (EC) built by private developers on HDB owned land.

The size of flat is determined by the number of bedrooms plus one living space – a 2 room flat, therefore has 1 bedroom, with ancillary space determined accordingly; given the low birth rate, a 4 or 5 room flat might accommodate more than one generation. The agency will process your application, assess your income for affordability if you decide to purchase rather than rent a flat, (less than 6% of HDB flats are rented). It will also decide your eligibility for any housing grants according to income and personal circumstances such as disability or age. Special (more restrictive) schemes apply to single applicants, or older people. For example, if your household’s average monthly income is less than $1,500, you would receive the (maximum) grant of $80,000 towards the purchase of a flat. Prices for new flats range from $99,000 for a 2 room flat (about 37sqm) to $423,000 for a 5 room flat – prices are higher in mature communities, where social amenities are well established. All new flats are sold on a fixed term 99 year lease.

Resale flats sell for higher prices on the open market, in part because there is no waiting list (up to 4 years for a new flat), but mainly because the new flats are sold at below market value. Grants of up to $110,000 are available for these (Resale flats);
grants are also available to second time purchasers looking for a larger (new) flat. Prices for some resale flats can be lower than for new flats depending on age, condition and location – as well as flats with fewer years remaining on the lease. Every Singapore citizen can purchase two new (or one new, one larger resale with grants) HDB flats in their lifetimes, although when purchasing the second subsidised flat, the first must be sold. The grants available for people on low incomes or with special needs come on top of the subsidised price for new flats. Further analysis of subsidies, either in the form of below market price (for new flats) or grants for new and resale flats will be given below, including how prices are manipulated either to collect a ‘land value tax’ as described by (Phang, 2018) or distribute a windfall on the sale of the first purchase.

The agency is also able to give housing loans; alternatively, since 2003, purchasers are free to borrow from independent banks and lending institutions. It will also take account of how much money can be drawn from an individual’s CPF account to use as a deposit for the purchase (and ongoing mortgage payments). The agency had advanced loans for the purchase of apartments with an outstanding balance of over $40bn, in 18/19 at an interest rate of 2.6- 3.16% for terms of up to 30 years. The board borrows from the government at slightly lower rates (2.5-3.06%) in order to finance and cover the administration of the mortgages.

While the HDB is sometimes charged with selling land by the SLA, in most cases it is buying land from the SLA for the development of public housing, spending $2.9bn on land in 2019 against $4.2bn in 2018. The HDB is expected to make a loss on the sale of flats after land purchase and construction costs, and the agency therefore receives an annual government grant of c. $2bn. In these circumstances, the grant received by the HDB, is returned to the SLA by way of land purchases. The cumulative government grants to the HDB since 1960 total $33.5bn (reported in the 2019 accounts). However, given that the revenue from purchase of land from the SLA goes towards Capital Receipts, one could argue that there is merely a circulation of funds from one government agency to another: government gives grant to HDB, HDB purchase land from SLA, SLA delivers capital receipts to reserves.
The HDB insist ‘there is no-left-to right pocket’ on the basis that ‘the land does not belong to the government’... the ‘SLA is the custodian of State Land’ and is sold:

with the President’s approval at the price determined by the chief valuer, and the money paid for the land goes to the reserves. This principle of paying a fair market price is adopted to ensure that the government is responsible and does not draw down the value of assets without regard for the needs of future generations (WA2).

Despite protestations, as I see it, an operational cost is being incurred, with an equal addition to the national balance sheet in the form of past reserves; if Singapore were a company, a reduction of cash in the bank, would be offset by an increase in fixed assets.

However, it is an important part of the Government narrative, that housing has been subsidised as part of the Social Compact referred to above, which in turn justifies the eligibility conditions placed on the purchase of HDB flats (WA2). Perhaps this is the reason to maintain the illusion.

For the first five years of its existence, the HDB offered homes only for rent, but in 1964, the Home Ownership Scheme was launched allowing citizens to buy their flats. From 1968, potential purchasers were also able to use their CPF savings to assist in the purchase of a home both for their initial deposit, and monthly repayments. In a sense, this transformed the CPF into a Housing Provident Fund. Instead of the deductions from salaries being used to make investments through the GIC, the deductions were in effect financing the rapid expansion of the HDB estates. There is some logic to the process, in that wealth was created (housing assets) which were sold to the members of the CPF.

But there are two forces at work: first, the additional funding (from the sale of flats) accelerated the rate of development, but at the same time, the additional funding may have enhanced the rate of asset price inflation.

Until 1981, CPF withdrawals were only allowed to be used for HDB purchases, and the withdrawals were packaged with HDB loans for the balance of the purchase price. Thereafter, withdrawals could also be used to purchase private apartments. The
availability of higher deposits from CPF accounts, and the diversion of CPF contributions to mortgage repayment, could either inflate prices for existing property in the resale or private market, or encourage buyers to increase their budgets, and trade up to more expensive properties. Disposable incomes after housing costs were unaffected.

A second reform in 2003 allowed private banks and finance companies to compete with the HDB to provide mortgages for HDB purchases. Between 2003 and 2015, the share of outstanding home loans held by the HDB fell from 59% to 17% (S. Phang, 2018:57). The 1981 reform gave a boost to both the HDB, and private development market, while the 2003 reform gave a further boost to the HDB market, both for new and resale flats.

Prices for new HDB flats were initially set in relation to earnings, later in line with construction costs, apart from a period from the mid-1990s when they were set at 20% below resale prices which had the effect of ‘pulling’ prices for new flats up in tandem with rising resale prices; this practice was abandoned soon after the 2011 election. Price setting for new flats appears to have reverted to the principle of ability to pay, significantly below the resale market price, but above the construction cost, at different scales, depending on the size and location of the flat.

The HDB confirmed:

...pricing:

takes into consideration the location of the projects, design features, individual attributes of the flats (such as its height, orientation, location and accessibility to MRT stations and key amenities), and the prevailing market conditions. While HDB uses a market based pricing approach, the new HDB flats are priced at significant discounts to market, so that eligible flat buyers enjoy a generous subsidy... These significant subsidies kept HDB flats affordable. First-timer buyers of new HDB flats in non-mature estates will typically use about a quarter of their income on mortgage payments, well below the international benchmark for affordable housing of 30% to 35%. (WA2).
The HDB also claimed ‘HDB incurs substantial development loss on our flats sold, as HDB flats are sold below their development costs’; the claimed loss appears to be accounted for by including the land cost, as well as the grants made available according to income.

In contrast, Professor Phang has calculated an average construction cost of $2000 per sqm, for new HDB flats, including provision of common areas and professional fees, and uses this base to compare resale and new prices relative to the construction cost. Selling prices for new flats, are between 1.4 and 1.6 times the construction cost, depending on the size of flat, but this falls to 0.8 (20% below construction cost) for 3 room flats, 1.3 for 4 room, but remains at 1.6 times construction cost for 5 room flats after the maximum grant. Equivalent prices for resale flats are calculated at 2.6, 2.3 and 2 times construction cost respectively. She characterises the difference, or land premium between construction cost and selling price as a land value tax – negative for 3 room (and smaller) flats, 25% for 4 room flats and 39% for 5 room flats, albeit a one off, transactional tax (after grants), which incidentally recoups some of the annual government grant given to the HDB.

An equivalent calculation, taking into account the government’s capital receipt from land sale, and a higher per sqm construction cost for private developments puts the average land value tax at 57% relative to the final sale price of private apartments (S. Phang, 2018:83-86) built on public land.

In 2018/19, HDB properties under development were valued at $5.5bn against $7.7bn in 17/18, while properties for sale were valued at $5.4bn, against $9.5bn the previous year. The Ministry of Finance is the lender of last resort to the HDB, however the agency has also issued Bonds worth over $23bn to finance development. As of March 2019, on the balance sheet, freehold land was valued at $144.5m, leasehold land at $11.7bn, with buildings at $9.7bn, which including other assets gives total assets of $24.6bn; Net Assets were $15bn. The HDB also hold investment properties valued at $5.9bn, (2019) which produce rental income, and receive income from fees and other charges of over $3bn pa.
From the outset, the HDB put the construction of properties out to tender by private companies, while the design and planning work was handled in house. However, a separate division was created in the 1980s to handle this, which eventually became a company, now wholly owned by Temasek: Surbana Jurong Private Ltd.

However, the HDB remains a Statutory Board. The valuation of its net assets at £15bn, does not seem to take account of the freehold land its property sits on. In their accounts for the year ending March 2020, note 5, page 40, the last valuation took place in 1986; this was ‘for the purpose of creating asset accounts arising from a change in accounting policy’… ‘the previous system did not maintain individual asset accounts and the HDB was unable to identify the historical cost of each asset’; there follows a description of several categories of Capital and Reserves, including a capital gains reserve and revaluation reserve, which is rather opaque, relating to movements of investment properties.

There is a suggestion that the valuations given above for net assets only relate to ‘work in progress’, and investment properties (rental flats) but this is not clear. In note 12, which gives detail of properties under development, a figure of $14.2bn is given for the land only, while no value is ascribed to buildings under development, I assume to allow for the event of non-completion. Note 13 gives a value of $1.3bn for completed flats awaiting sale. In order to ascertain a full value for the land, we could look to the national balance sheet, however, despite Singapore signing up to the UN system of national accounts (SNA), their National Accounts are not published. The closest one can get to valuation of the housing stock, including land is from the 2020 figures given for Capital Stock, Residential Buildings at $666.9bn; (Singstat online table builder). Meanwhile, the Household Sector Balance Sheet ascribes a value of $1092.9bn to Residential Property, Public and Private. The difference of $426bn could be the value of all residential land in Singapore; however, in an email exchange with the Department of Statistics, the officer referred to differences in methodology and data sources rendering the two sets of statistics incompatible. Nonetheless she did confirm that the Capital Stock figure excluded land value, while the Household Sector included “various attributes such as land value”.

213
It is more difficult to be precise about what percentage of that land is owned by the HDB, or its total value. There is a further complication in that the Capital Stock figure includes ownership by corporations and non-residents, who are not included in the Household data. Arguments about land value, particularly of HDB estates have continued over the last 35 years, not least in Parliament. The latest refusal to engage in this debate was in 2018, when the Minister for National Development indicated that the only consideration was to keep housing affordable, thus rendering land values irrelevant. However, in a debate on 13th February 2019, Wong confirmed that the ‘market value’ average between 2015 and 2018 paid for land by HDB was $2,000 psm, while private developers paid on average $7,000 psm for housing land. Without knowing the number of square meters used for each category of housing, it is impossible to calculate a total value for HDB land using these estimates.

At the very least, I am confident that the reversionary interest in over one million flats is not being taken into account. Perhaps a full valuation would be too complicated given the varying lengths of lease and uncertainty over whether buildings would be demolished or refurbished towards the end of their lease term in order to preserve their useful life. The point to note is the scale of Singapore’s reserve, and the potential for value capture long into the future.

To be clear about the Singapore government’s intentions around expiring leases, the Geylang Lorong 3 story is illustrative. Comprising 2 hectares, divided into sections by 3 short roads, the site was leased for a term of 60 years in 1960. Small two storey terrace houses were built, 191 in total, and sold for $4,850 each ($18,000 adjusted for inflation). In 2017, the government confirmed that no lease extension or compensation would be offered, and appointed officers from the HDB to help existing tenants to find alternative accommodation. As the 2020 deadline approached, 39 houses were owner occupied, 21 had been converted into places of worship, with the

balance arranged as dormitories for foreign workers. The employers of the foreign workers were responsible for finding alternative accommodation; some of the places of worship were relocated with the help of the national religious associations. Some of the residents were able to buy new or resale HDB apartments, while others moved in with relatives, or were offered HDB rental properties. The whole exercise appears to have been conducted peacefully, with TV news channels showing footage of removal vans helping residents vacate, with interviewees accepting their new circumstances with pragmatism despite a loss of space and outdoor amenities (including gardens in some cases). The site is now listed on onemap as being owned by the HDB, and will be redeveloped over the next two to three years, with a dramatic change to intensity of use. The uplift in land value over the 60 years is taken entirely by the state, less some minor removal costs and the time spent by HDB officers with the existing tenants to help them relocate.

The prospect of decanting thousands of leaseholders from an HDB Estate in the future, all of whose leases expire at the same time might provoke more media interest and public scrutiny, if not opposition. The challenge will be to find a mechanism to refurbish or redevelop existing housing estates, without the advantage of a significant uplift in land value from intensification and densification which was enjoyed in the era of SERS and CS (to be explained below). At least the HDB would not have to ‘buy’ the land again, so the government could stop its annual grant to the HDB. The cost will need to be shared between leaseholders and the state. If rejection at the ballot box is to be avoided, the respective share might have to bear least on the private owner. Lease extension, or sales of freehold land would be tempting, offering as it does the chance of either temporary or permanent accumulation of rent, but it would signal an end to the property state experiment.

7.5 Jurong Town Corporation

In chapter 6, I outlined the origin and purpose of the JTC, to develop land, construct and operate commercial and industrial buildings to attract investors to Singapore. Its income and surplus in 2019 are indicated in Table 7-2, but as with the HDB, some further notes on asset valuation is instructive.
On the balance sheet, total assets are $29.2bn, including investment properties valued at $18.6bn; however, the fair value of investment properties was $44.6bn, based on an internal valuation determined by highest and best use; the accumulated surplus is $22.7bn, with total equity stated as $22.9bn. Of the total revenue of $3.6bn, land rental income was $1.3bn, building rental $791m, while gains on disposal of investment properties was $484m. As indicated by the revenue classification, interested parties can either lease land, and then invest in the building they need for their operation, or rent space in a completed building.

In effect, the JTC could be seen as a property company, albeit state owned; conventional economic and business school thinking would recommend that the Corporation be privatised, on the basis that market forces would render the operation more efficient. However, in practice, those forces have been internalised by a model of governance which is independent and transparent, and a modus operandi that ensures competition. Available land or space in buildings are advertised on the JTC website, through an interactive map; prospective tenants can choose whether to pay an annual rent for land (which is likely to adjust with land value) or an upfront premium for a 30 year lease. For example, in 2020, the land rent is $31.25 per square meter per annum, while the multiple for the premium is 17.6 times the annual rent for land in CleanTech Park\(^\text{39}\) whereas ready built space can be leased for $20.83 psm per month, plus a service charge of $7.47 psm\(^\text{40}\) with configurations for office and/or lab space – all details, including pictures of the building, floor plans, local transport links and amenities are shown. The options and tender processes for lease purchase/rental are complex, and I have only provided a high level snapshot here. JTC will not necessarily lease land to the highest bidder, and annual rental values (adjusted each year) vary according to location.


Property professionals are employed by the JTC: architects are commissioned to design, construction companies to build – or prospective tenants are free to do the same having leased the land. Being in control of land, the JTC can plan ahead, reconfigure, or designate land for new industries as times and technology changes. Companies compete to occupy land or buildings in particular locations, but their productive effort is directed to innovation and competing in markets whether local or international. The rent normally collected by private property companies and paid to shareholders, is instead available directly for reinvestment in development, or drawn to finance other public services.

In the previous section, I discussed the potential difficulty of decaying leases on HDB properties. Lease expiry for JTC property is less sensitive. In the case of industrial and commercial land, which are intended to be used as factors of production, it is felt that after 30 or 60 years (industrial land) or 99 years (commercial) any investment would have been recouped from occupational benefits or rents – the leaseholders will not feel the same sense of injustice from losing the lease – instead looking to the next profitable development opportunity. This logic is endorsed in Haila’s commentary on the vibrant development industry in Singapore, which is less reliant on a rentier model for future profits than the property industry in the UK for example. The Singaporean development industry emerged from the process of commercial redevelopment adopted in the late sixties/early seventies for the Central Business District, known as the Golden Shoe. The government was not always in a position to acquire every site and encouraged existing businesses who might own a small plot to come together with others, to develop a larger site, perhaps relocating their own business in the process. At the same time, business owners were encouraged to diversify: one study describes a shipping tycoon, and a glass merchant, each occupying different sites becoming property developers in the process (Lee, 2021: 19).

Commercial leases are unlikely to be extended, but developers will have the opportunity to bid for new leases on land with new designations and plot ratios. They will be ready to re-invest for these new leases, and new capital receipts will accrue to the reserves. The cost of demolition will be factored into the premiums paid.
Here is an entity, like the HDB, described as a functional Statutory Board, with significant assets which might sit more comfortably within Temasek as a Corporation, and yet remains as a public body, a part of the national endowment, but not accounted for as such within either the GIC, MAS, or CPF.

In summary, in this table, are the income, surplus/deficit, dividends and asset values for significant Statutory Boards. Changi Airport Group (CAG), is included for illustration, although it is not a Statutory Board, nor, however does it sit within Temasek, but is nevertheless a provider of monopoly services, and a substantial asset.

Table 7-2: Summary of Income, surplus/deficit, contributions, dividends or grants of significant Statutory Boards 2019. *Changi Airport is wholly owned by the Government of Singapore, under MOF, but was Corporatised from the Civil Aviation Authority of Singapore in 2010, in order that it could invest in airports overseas.

<table>
<thead>
<tr>
<th>Statutory Board</th>
<th>Income</th>
<th>Surplus/deficit</th>
<th>Net Assets</th>
<th>Statutory Board Contribution</th>
<th>Dividend</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>SLA</td>
<td>$151m</td>
<td>$22.3m</td>
<td>$465m</td>
<td>$4.3m</td>
<td>$2.5m</td>
<td>$7.8m</td>
</tr>
<tr>
<td>URA</td>
<td>$249m</td>
<td>$50m</td>
<td>$1.3bn</td>
<td>$10m</td>
<td>$19m</td>
<td>n/a</td>
</tr>
<tr>
<td>HDB</td>
<td>$8bn</td>
<td>-$290m</td>
<td>$15bn</td>
<td>n/a</td>
<td>n/a</td>
<td>$2bn</td>
</tr>
<tr>
<td>JTC</td>
<td>$3.6bn</td>
<td>$1.2bn</td>
<td>$29.2bn</td>
<td>$255m</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>MAS</td>
<td>$9bn</td>
<td>$5.3bn</td>
<td>$55.6bn</td>
<td>$1.1bn</td>
<td>$2.7bn</td>
<td>n/a</td>
</tr>
<tr>
<td>LTA</td>
<td>$1.9bn</td>
<td>-$114m</td>
<td>$5.5bn</td>
<td>n/a</td>
<td>n/a</td>
<td>$2.2bn</td>
</tr>
<tr>
<td>Sentosa DC</td>
<td>$267m</td>
<td>$67m</td>
<td>$2.1bn</td>
<td>$2.4m</td>
<td>n/a</td>
<td>$54m</td>
</tr>
<tr>
<td>Tote Board</td>
<td>$798m</td>
<td>$60m (after donations of $488m)</td>
<td>$5.3bn</td>
<td>$11.4m</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Changi Airport*</td>
<td>$3bn</td>
<td>$330m</td>
<td>$8.4bn</td>
<td>$269m</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

7.6 Asset Management – the National Endowment Fund

Singapore is often used as a model for how best to manage state assets in the public interest, (Detter and Fölster, 2015), (Detter and Fölster, 2017). In another paper, the importance of accrual, as opposed to cash accounting is emphasised (Detter, 2020). Accrual accounting simply stated, takes a Balance Sheet view of the National
Accounts, where a value is attributed to the assets being created in the process of public spending, whether that be roads, schools, or hospitals. Cash accounting takes a Profit & Loss view, where only the income (taxation) and public spending is recorded, resulting in a surplus or deficit in any given accounting period. As I have shown, several institutions have been created by the Singapore Government to manage these assets, all of whom have adopted this accounting method to evaluate and manage public investment alongside the Statutory Boards. These Asset Managers are described in turn below – Temasek, GIC and the MAS. In turn, the CPF is the holder of the personal pension assets of citizens, and takes its place within this network. Between all these institutions, the government and citizens there is a complex flow of funds, which I have attempted to illustrate in Figure 7-2.
The relationships and cashflows between Government, its agents and citizens of Singapore

Temasek Holdings

Government

Spending Departments

Government Investment Corporation (Overseas investment)

Central Provident Fund (purchase SSGS from MAS), and receive payments in return

Government

Issues Singapore Government Securities, managed by GIC

NIRC

Reserves + Budget Surpluses + Dividends, via MAS

Interest and dividend payments

Public Services

Monetary Authority of Singapore

Currency + Banking Services

Tax + Profits

Budget Expenditure

Dividends + capital gains

Spending Departments

Companies, Citizens and Permanent Residents

CPF contributions

Cash

Pensions

Taxes, Fees + Charges

Grants + Subsidies

Statutory Boards (HDB, JTC etc.)

Fee and Purchases

Fees and Purchases

Issues Singapore Government Securities, managed by GIC

Grants + Subsidies

Temasek Holdings

The relationships and cashflows between Government, its agents and citizens of Singapore

Figure 7-2: Connections between Government Agencies, Citizens and Statutory Boards; Flow of Funds, compiled by author.
7.7  **Temasek Holdings, and Government Linked Companies**

As described in the previous chapter, Temasek is either the owner, or substantial shareholder in companies with operations in Singapore. Gradually, Temasek has divested shares in some of these companies, and acquired shares in other independent companies, often with interests and operations outside Singapore, while other GLC remain wholly owned, such as Surbana Jurong, referred to above, which sells property design and planning consultancy services worldwide. Often, when public utility companies are corporatised, and separated from Statutory Bodies, such as Singapore Power, or PSA (ports) they sit within Temasek, which makes it easier to list the company on the Singapore Stock Exchange in the event of an Initial Public Offering (IPO).

From the perspective of land revenue, the two most significant GLCs are Mapletree Investments, with assets of $60bn in the year to March ’20\(^{41}\), wholly owned by Temasek. Mapletree directly owns and operates many types of property asset, including retail, logistics, office and residential developments, however, detailed accounts are not published. Secondly CapitaLand, 40% of which is owned by Temasek, and now has $131bn of real estate assets under management, mainly in Singapore, China, Vietnam and India\(^{42}\).

In the year to March 2019, revenue for Temasek was $114bn, with net a profit of $11.8bn, after paying Corporation tax of $2.8bn to the Government. Shareholder equity was $331bn.

7.8  **Government Investment Corporation**

The GIC manages the reserves and investment funds on behalf of the government, and was established in 1981. Prior to this date, all accumulated surpluses were managed by the MAS, until the reserves grew to a size that were not needed to


\(^{42}\) [https://www.capitaland.com/international/en.html](https://www.capitaland.com/international/en.html) viewed 5/1/21
ensure monetary stability. It was now possible to make longer term investments to generate higher returns. The full value of these reserves is not disclosed, for fear of speculators disrupting the currency, however, the GIC confirms that it is ‘well over US$100bn’; other sources put the value at over US$450bn, for example the Sovereign Wealth Fund Institute.\(^{43}\) The annual report of the GIC states:

> The sources of the government’s assets managed by the GIC, … include proceeds from the issuance of Singapore Government Securities and Special Singapore Government Securities, … budget surpluses and proceeds from the Government’s land sales. The Government does not specify to GIC the proportion of assets from each source (GIC, 2018:37).

However, we know that the CPF is the main purchaser of Special Singapore Government Securities (SSGS) and the value of these securities on the CPF balance sheet is $407bn; therefore, we can assume that the value of assets managed by the GIC is well over $400bn. Another reason for discretion in reporting on assets and performance, may be the difference (either positive, or negative) between the return on investment, and the interest paid to holders of the SSGS in the CPF.

According to the report, the government is able to draw up to 50% of the long term expected real return on the net assets managed by the GIC and MAS and Temasek in any year – which is expressed in slightly different terms here than elsewhere – however, the amount drawn appears in the Operating Budget each year as the NIRC. The GIC then invests the funds received from other public bodies overseas in a range of asset classes, including foreign government bonds, equities, real estate and commodities in the proportion that one would expect for any wealth manager. The 20 year rolling real rate of return is also confirmed as 3.4% on an annualised basis (GIC, 2018:2), which is used to support the coupon payments on securities issued to the CPF Board.

\(^{43}\) [https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund] viewed 28/10/20
7.9 Monetary Authority of Singapore

The MAS issues the Singapore dollar ($47.1bn in circulation, 2018), as well as SGS and SSGS (sold on behalf of the Government to the CPF Board), acts as the Central Bank, and manages the bank accounts, Consolidated Fund and monetary policy for the government. It regulates the Banking sector, imposing fines and taking legal action against breaches, (for example in the case of the Malaysian 1MDB scandal44), promotes Fintech companies, and the trading of financial instruments. It manages the government’s official foreign reserves ($376bn) to ensure a stable exchange rate in support of the local economy. It also promotes Singapore as a regional financial centre by creating markets in government securities and other financial instruments.

In addition to its contribution of $1.1bn (in lieu of Corporation tax), it returned a profit of $2.7bn to the government in FY 17/18, compared to $12.1bn the previous year – in the form of a dividend. Net income (surplus) in 2018 was $5.3bn against $24.2bn in 2017. Gross assets were $414bn in 2018 (mostly foreign financial assets generating investment gains), while most liabilities relate to the bonds issued to the GIC, for sale to CPF, which pay a fixed coupon. Net assets of the fund in 2018 were $55.6bn, against $52.9bn in the previous year. All statistics taken from the annual report of 2017/18 (MAS, 2018).

While its position is central to the flow of funds within, to, and from Singapore, its profits are derived from its trading activities rather than from land values more directly.

7.10 Central Provident Fund

So far, we have examined the institutions that manage land, and Singapore’s public wealth. We have seen how these institutions both collect and generate public receipts, some of which are filtered back through the annual budget and operational

44 1MDB is a Sovereign Wealth Fund set up by the Malaysian government proven to have been a vehicle for the embezzlement of money through a network of international banks. Although many institutions have been fined, the main protagonists remain at large.
expenditure to provide services for Singaporeans by way of a National Endowment. Now it is necessary to pivot to the impact of this system on the personal income and wealth of Citizens and Permanent Residents, both in immediate living conditions and distribution of wealth, but also the long-term impact on saving and investment, whether held as tangible assets or financial assets.

A key component in this jigsaw is the CPF, a comprehensive social security system for citizens and permanent residents of Singapore. It is the primary means by which lower- and middle-income households accumulate savings. It therefore needs some detailed analysis.

Employee and employer contributions are made into three accounts:

Ordinary Account – housing, insurance and investment

Special Account – old age investment

Medisave Account – hospitalisation and approved medical insurance

Current rates of contributions (from salaries) are 20% from the employee, and 17% from the employer (37% of earnings in total), until an individual’s 55th year, when it drops (overall contributions) to 28%, then 18.5% after 60, 14% after 65 and finally 12.5% after 70.

The Medisave account, introduced in 1984 can be used to either pay for medical expenses directly, or to pay the premiums for a basic health insurance scheme, which will pay for hospital, and selected outpatient treatments. In 2014, the Pioneer Generation Package was introduced for people over 65, with enhanced subsidies and help with insurance premiums, indicating a shift from self-reliance to a more universal system of welfare provision.

These contributions are high by UK standards, where the standard national insurance contributions are 12% for the employee, and 14.8% for the employer45. However,

45 https://www.gov.uk/national-insurance-rates-letters viewed 29/10/20
they accrue to personal accounts rather than being absorbed into overall government revenue as in the UK, to be recycled in the ‘pay as you go’ universal pension. When combined with deductions for income tax, the overall cost of employment in Singapore (personal income tax and CPF) for those on a median income are comparable to rates in many OECD countries.

In an interview, the CPF officer emphasised, however, that:

CPF contributions should not be characterised as a form of tax. In fact, CPF members enjoy the Triple E (exemptions) on CPF savings. Contributions to CPF, monies with CPF and monies withdrawn are not taxable. This is rather rare, as half of OECD countries apply a variant of EET (‘Exempt-Exempt-Taxed’) regime, where benefits withdrawn from pension system are treated as taxable income (Int1).

Although CPF contributions do add to the cost of employment, it would be fair to conclude that the income is deferred (until retirement), unless it is used for housing and medical expenses under the rules for withdrawal before retirement for these purposes.

Interest is paid every year into each account, ranging from 2.5% for the Ordinary Account, 4% for the Special Account and Medisave Account, up to a maximum of 6%. In addition to the Workfare Income Supplement was introduced in 2007, to boost saving rates for those on lower incomes.

From the 55th birthday a fourth account is created: a Retirement Account. The balances of your Ordinary Account, and Special Account are transferred to this new account. The aim is to have accumulated what is called a Retirement Sum, which now stays in your Retirement Account. If you own a property outright, you only need to keep the Basic Retirement Sum in this account ($90,500 in 2020). If not, $181,000 is required - the Full Retirement Sum – to be used to provide a monthly pay-out in retirement. Any funds above this amount can be withdrawn as a lump sum. For anyone who has enjoyed a high income over a working life, the potential sum that can be withdrawn could be substantial. Without this element of forced (tax free) saving, such income might have been spent during the working life, not necessarily invested. But on receipt of such a sum later in life, one could argue that these
individuals have preserved significant wealth, which would feed into higher levels of inequality within society than might otherwise have materialised.

 Originally, all funds in personal CPF accounts could be withdrawn by the account holder on retirement. Over time, limits were introduced in order to ensure people kept sufficient funds in their CPF accounts to live on in old age. In initial calculations, it had been expected that most people would live only 20 years after retirement, however, with longer life expectancy, further adjustments were necessary, most significantly, the option to purchase a CPF LIFE scheme (annuity with monthly pay-out until death). This scheme is now compulsory for anyone born after 1958; the level of monthly pay-out will depend on how much has been invested, but is guaranteed for life. This scheme was introduced in 2009, and appears to acknowledge that the CPF system up to that point did not guarantee an income until death. Now, monthly payments continue once the Retirement Sum (or otherwise known as the premium used to purchase CPF LIFE) has been exhausted. Interest continues to be earned on the CPF LIFE premium but is pooled with that of other scheme members. The pooled interest is used to continue paying monthly incomes to people who outlive their retirement sums. By this scheme, the CPF is now operating in a similar way to a universal state pension scheme, rather than an individual pension fund. However, the level of monthly pay-out is dependent on how much you are able to transfer to the CPF Life scheme at the outset. In order to remain sustainable, the government reserves the right to adjust ongoing pay-outs to all members of the CPF Life scheme, but any adjustments are expected to be small and gradual.

 Almost all the CPF investments ($407bn) are held in Special issues of SGS, with the balance ($16bn) held in cash deposits, Statutory Board or Commercial Bonds. In other words, the CPF contributions are used to purchase SSGS issued by the MAS, while the funds are managed by the GIC, rather than the CPF investing the money collected from members directly. The Government pays guaranteed rates of interest to CPF members, thus eliminating any risk from uneven investment return or capital gain/loss: ‘the Government is able to guarantee CPF savings and pay the minimum interest rates on CPF savings regardless of GIC’s returns over any period because the Government balance sheet enables it to absorb risks’ (Int1).
In 2019, there were 3,982,000 members of the CPF, making $39bn of contributions, with withdrawals of $21.4bn in that year. In the early years after independence, interest rates paid into personal accounts were lower (2.5%), even at a time of higher inflation, but were doubled to 5% within seven years, and adjusted periodically since then. However, since 2011, rates have become more generous, at a time when bank rates and inflation have generally been lower.

Withdrawals can be made to fund housing and insurance costs from the ordinary account, or medical expenses from the Medisave account, throughout one’s life. After the age of 55, withdrawals can be made to fund retirement subject to special rules above. However, if you use CPF balances to purchase a flat, the accrued interest you would have earned (during the period of withdrawal) must be paid back to the CPF given that, otherwise, the money in your CPF account would have accrued interest which could have been used to support your retirement income. This accrued interest is often paid from the uplift in value on the sale of your first HDB flat. This ‘repayment’ of accrued interest to the CPF, has made independent mortgage finance more attractive over time.

A further mechanism to enhance the income of older Singaporeans is available via the Silver Housing Bonus and Lease Buyback scheme – by which homeowners can reduce the term of their lease (the difference between 30 years and the remaining lease term, as long as the owner(s) are over 65) and therefore release equity to cover living expenses. The Lease Buyback scheme replaced an earlier Reverse Mortgage, which operated in a similar way to Equity Release loans available in the UK, which did not prove popular. While the take up of the Buyback scheme has been higher, it is clear that many Singaporean families believe that property values will appreciate over time at a faster rate than the benefits conferred by equity withdrawal. Another option is to downsize to a so called 2 room Flexi apartment for those over 55 years of age, which are available on shorter leases, of between 15 and 45 years at 5 yearly intervals, to take the owners up to the age of at least 95 (leaving 5 years to run); these flats/leases are cheaper than the standard 2 room flat on a 99 year lease.
The current Pay-out Eligibility Age (PEA) is 65. The balance in one’s accounts is paid to your CPF nominees on death, or to you if you leave Singapore permanently to live elsewhere, although this must be taken before the age of 55. In the interview with CPF officers, estimates were given for monthly pay-outs under the CPF Life scheme:

There are 3 types of Retirement Sums:

The Basic Retirement Sum is designed to provide members with retirement income of around $770 - $830 to cover basic retirement expenses

The Full Retirement Sum is designed for members who do not own a property and may need to pay rent. They will set aside more to receive about $1,430 - $1,530 in retirement

The Enhanced Retirement Sum is optional and for members who wish to set aside even more to receive about $2,080 - $2,230 in retirement

Note: These monthly pay-outs are estimates based on the CPF LIFE Standard Plan, for members who turn 65 in 2031, computed as of 2021. (Int1).

While these amounts appear to be in line with pension benefits in some western economies, as noted, not all citizens achieve the minimum retirement sums.

7.11 Income and wealth, Inequality

To what extent has the HDB/CPF system fulfilled its objectives of fostering self-reliance – ensuring that all citizens have somewhere to live, and can support themselves in retirement – as well as ‘providing targeted assistance to the needy through subsidies and top-ups’ for those who fail to save enough? Has Lee Kuan Yew’s aspiration to provide everyone with a stake in the Nation been met? And to what extent has the system organised the distribution of wealth over an individual

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46 https://www.cpf.gov.sg/Members/AboutUs/about-us-info/history-of-cpf the bedrock of our social security system, viewed 29/10/20.
lifetime to ensure the ability to continue to enjoy the freedom necessary to lead a fulfilling life, free of want.

To answer this question, and questions around inequality generally, detailed analysis of household wealth will now be undertaken for different age groups, and for different income groups.

A general indication in answer this question can be made at the outset, given repeated interventions to enhance the generosity of the system, and that the government is now more responsive to the needs of the elderly than might have been expected at the outset. As the ‘History of CPF’ section on the CPF website concluded: ‘Nevertheless, the CPF is still not a perfect system and there are areas that can be improved. Moving forward, the CPF will continue to evolve to benefit the lives of its diverse membership’47. (This statement has been removed from the current website, which now says the CPF ‘has evolved to meet the changing needs of Singaporeans’48.)

This indicates that the system is either not delivering for everyone, or has built in several flaws, including the ability to withdraw funds for property purchases, which has resulted in the high proportion of housing wealth in calculations of the net wealth of Singaporeans, particularly at the lower end.

In an interview, it was confirmed that:

over the last decade, the median CPF balances of active CPF members aged 55 have more than doubled. As a result, even as the Basic Retirement Sum has been raised gradually for each cohort, more active CPF members have been able to set it aside at age 55, from about 4 in 10 a decade ago to more than 6 in 10 today. (Int1).

In addition,

For lower-income workers, the Workfare Income Supplement (WIS) Scheme supplements their incomes with cash and CPF top-ups. There are also other Govt. support measures such as providing seniors with

47 https://www.cpf.gov.sg/Members/AboutUs/about-us-info/history-of-cpf viewed 30/10/20

48 https://www.cpf.gov.sg/member/who-we-are/the-cpf-story viewed 11/1/23
low incomes during their working years with Silver Support (SS) pay-outs and ComCare Assistance schemes, providing social assistance for low-income individuals and families (Int1).

In a speech in Parliament, in answer to questions on 8th July 2014, Tharman Shanmugaratnam, Finance Minister, asserted that: ‘based on current policies, a new entrant into the workforce today can expect to draw a retirement income of about two thirds of his last-drawn pay if he is a median income earner. This is around the OECD average’ 49 in the same speech, he confirmed that in 8 of the last 20 years, the investment return on funds managed by the GIC, were lower than what was paid to CPF members. Clearly, adjustments are being made constantly to increase the effectiveness of the CPF in providing for retirement income.

Although the interviewees would not be drawn on the question of whether the ability to use CPF savings for house purchase and mortgage interest payments might have fuelled higher house prices, they were keen to point out that: ‘Home ownership is a key pillar of retirement security as it relieves Singaporeans from having to pay rental fees out of their retirement funds during their senior years,’ (Int1) and spoke about the options retirees have to release equity in later life:

- Senior Singaporeans can also unlock the value of their home and supplement their retirement income via 2 schemes:
  - Silver Housing Bonus which encourages seniors to sell their current flat and buy a 3-room or smaller flat to earn a bonus of up to $30k when the proceeds are topped into CPF and streamed out via CPF LIFE.
  - Lease Buyback Scheme which helps seniors who wish to age in place. They can sell part of the remaining lease back to Govt, to be topped into CPF and streamed out via CPF LIFE and get a cash bonus of up to $30k (Int1).

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Although the particular dynamics of the housing market in Singapore is different to those in the UK, there are some interesting parallels with the idea that rising home ownership has been promoted instead as a means by which to reduce the size of the welfare state (Fox O’mahoney and Overton, 2015; Malpass, 2008; Ronald et al., 2017). Sociologist Jim Kemeny pioneered this work in the 1980s, (see (Kemeny, 1992) for an overview) correlating high levels of homeownership with low provision of welfare - with Australia offering the typical example - suggesting that if homeownership became the predominant tenure type, the population would resist high levels of taxation to support a welfare state, which was corroborated fifteen years later (Castles, 1998). Later research suggested that other forces might drive a rise in home ownership, such as falling levels of welfare provision, a trend he identified in Sweden (Kemeny, 2005). Singapore certainly seems to offer an example of a global trend (Doling and Ronald, 2010) whereby citizens prioritise asset purchase as a protection against falling living standards later in life, but also offers a warning of the difficulty for the government of finding a balance between enhancing asset values whilst maintaining affordability in conditions of near universal homeownership (Chua, 2003), and how it can become an overriding political priority (Chua, 2015) given the potential electoral fallout for failure; the rising cost of housing was a key driver of the PAP’s poor performance in 2011.

The CPF interviewees confirmed that ‘Even for a small country like Singapore, public housing is a complex and challenging issue’ (Int1).

It is clear that Singapore’s attempt to provide a degree of equity remains a work in progress. Growing inequality will often increase inequity of opportunity.

I now turn to the broad statistical structure for household wealth distribution in Singapore. Table 7-3 shows the breakdown of assets and liabilities held by Singaporeans according to the different categories, to arrive at their net worth.
Table 7-3: Household net worth, compiled by author from M700981 Household Sector Balance Sheet, (Citizens and Permanent Residents) available from Singstat.gov.sg

<table>
<thead>
<tr>
<th>Household Sector Balance Sheet $m</th>
<th>2020 1Q</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Assets sub total</strong></td>
<td>1,336,746</td>
</tr>
<tr>
<td>Currency &amp; Deposits</td>
<td>488,074</td>
</tr>
<tr>
<td>Shares &amp; Securities</td>
<td>184,495</td>
</tr>
<tr>
<td>Listed Shares</td>
<td>73,531</td>
</tr>
<tr>
<td>Unlisted Shares</td>
<td>33,860</td>
</tr>
<tr>
<td>Unit Trusts &amp; Investment Funds</td>
<td>77,104</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>211,995</td>
</tr>
<tr>
<td>Central Provident Fund (CPF)</td>
<td>435,353</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>16,828</td>
</tr>
<tr>
<td><strong>Residential Property Assets sub total</strong></td>
<td>978,583</td>
</tr>
<tr>
<td>Public Housing</td>
<td>424,221</td>
</tr>
<tr>
<td>Private Housing</td>
<td>554,362</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2,315,329</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>318,334</td>
</tr>
<tr>
<td>Mortgage Loans</td>
<td>242,211</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>202,017</td>
</tr>
<tr>
<td>Housing &amp; Development Board (HDB)</td>
<td>40,194</td>
</tr>
<tr>
<td>Personal Loans</td>
<td>76,122</td>
</tr>
<tr>
<td>Motor Vehicle</td>
<td>11,222</td>
</tr>
<tr>
<td>Credit/Charge Cards</td>
<td>10,595</td>
</tr>
<tr>
<td>Others *</td>
<td>54,306</td>
</tr>
<tr>
<td><strong>Household Net Worth</strong></td>
<td>1,996,996</td>
</tr>
</tbody>
</table>

We can see that CPF savings (not including housing withdrawals) represent less than a quarter of total household net wealth, while residential property assets are 42% of the total, with 58% being financial assets. These percentages are the reverse of the respective shares in 1995.

We can also see that a larger proportion of household net worth is held in other financial assets outside the CPF, although we cannot allocate the liabilities precisely.
across all categories, and we can only guess how these assets are distributed amongst the population.

The overall homeownership rate among resident households is 91%, with 9% renting (either HDB or Private). This breaks down for resident households by type of dwelling in 2018 as follows:

1. HDB: 79% apartments at varying scales, from 5 to 40 storeys, typically on large estates (92% owned)
2. Private, including EC – a hybrid type of development co-produced by the HDB, who retain ownership of the land - and private apartments (land is either leased from the SLA, or privately owned, in which case leaseholders can also own a share of the freehold), typically sold on 99 year leases: 16% (85% owned)
3. landed properties (usually single houses, semi-detached or terraced), freehold or leased on terms up to 999 years: 5% (93% owned). The SLA has allowed subdivisions of larger plots to increase the number of landed properties in the market, and also sells small plots, where appropriate to replicate this type of low-rise private housing on 99 year leases. All statistics (Singstat, 2019:34-37).

From Table 7-3, the value of HDB apartments is $424bn, while the value of private housing is $554bn, which demonstrates that the value of housing is clearly unevenly distributed towards owners of private and landed properties.

The distribution of all assets amongst age groups is not equal. The CPF annual report includes several Annexes, which break down savings by age group and amounts held. For example, 1.2m members hold less than $20,000 in their accounts; nearly half of these accounts are held by people under the age of 25 as you would expect. But 92,620 are over the age of 80, twice the number in the 75-80 age group, and represent 63% of that cohort. This suggests that a large number of people in this age group have very little in savings and must therefore be reliant on additional support either from the government or family members. In fact 9.4% of those aged 75 and
over are still working (Singstat, 2019:47). Although not broken down by age group, the overall number of households receiving various forms of financial assistance (known as ComCare) is 39,300, or 79,470 individuals (Singstat, 2019:332). This situation is unlikely to persist, however, as for those born between 1970-1979, now in their 40s, the median level of CPF savings is $110,100, while for those in the 20th percentile (P20), the amount is $37,800, and individual home ownership stands at 82% of the cohort, rising to 91% of all resident households. Median monthly income is $5,900 and $3,000 for P20, giving greater opportunities to increase savings up to the retirement age of 65 (MOF, 2019:5) than in the earlier period. New supplements introduced in the last decade will enhance the saving rate for low-income groups. At the other end of the scale, 806,290 members have savings of over $300,000 a significant percentage of whom are still of working age, of which 350,250 members have CPF savings of over $500,000, Annex H, (CPF, 2020:103).

The wealth Gini coefficient is high, at 73.3 although it is trending downwards at a slow rate (-0.6, in the past five years) (WEF, 2018:18); only two of the so called advanced economies in this report have a wealth Gini of under 50 (Iceland and the Slovak Republic), with many showing a coefficient of over 70, as can be seen in Table 7-4. The OECD does not publish a wealth Gini, focusing instead on median figures.

How does this compare to our selection of OECD countries cited in Chapter 5, and what are the corresponding figures for equality of income:
Table 7-4: Measures of wealth and income inequality, compiled by author, various sources.

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>USA</th>
<th>France</th>
<th>Israel</th>
<th>Korea</th>
<th>Singapore</th>
<th>OECD Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealth Gini*</td>
<td>73.5</td>
<td>85.9</td>
<td>70.2</td>
<td>74.2</td>
<td>70.0</td>
<td>73.3</td>
<td>n/a</td>
</tr>
<tr>
<td>Income Gini**</td>
<td>0.37</td>
<td>0.39</td>
<td>0.29</td>
<td>0.35</td>
<td>0.35</td>
<td>0.38</td>
<td>0.32***</td>
</tr>
</tbody>
</table>

*WEF, cited above; **Singapore figure (Singstat, 2019:40) others from https://data.oecd.org/inequality/income-inequality.htm viewed 24/11/20, *** latest figure 2013/14, all OECD modified scale, after taxes and transfers.

It is not surprising that Singapore suffers high levels of wealth inequality, given its policy of attracting Ultra High Net Worth (UHNW) individuals to become residents, with low rates of income tax, no taxes on dividends, offshore income or Estate Duties. Singapore is also one of the five ‘Global Cities’ a category first defined by Urban Sociologist Saskia Sassen (2001), to include cities which attract financiers, lawyers, and the globe-trotting executives who co-ordinate the investment decisions and operations of the multi-national corporations. It suffers the further disadvantage of being both a city and a country; Gini coefficients of cities tend always to be higher than the country in which the city is located. On average, for 11 OECD countries with relevant data, the Gini index for income inequality is 3.3% higher in metropolitan areas, while larger cities show higher levels of inequality than smaller cities in relation to their national levels (Boulant et al., 2016: 14).

The Handbook on inequality, poverty and unmet social needs, (Smith et al., 2015) refers to Singapore’s Gini coefficient of around 0.4, which the UN-Habitat report describes as ‘the international alert line for income inequality’ and go on to say:

Piketty describes four contexts in which the threat of high levels of capital inequality is particularly potent: low demographic growth, slowing of economic growth, capital markets becoming more ‘perfect’,
and the absence of estate tax to break up inherited wealth. All of these contexts pertain to Singapore to some degree, and some have noted that, although the relevant statistics are not available for a thorough study, there are signs that capital inequality may be a bigger problem than income inequality for Singapore (Smith et al., 2015:x).

The number of people in the UHNW category is very small, but the wealth differentials very large (Piketty and Goldhammer, 2017) which shows extreme wealth inequality for the 0.1, and 0.01% of the population as a whole. The World Inequality Database\(^{50}\) shows that income shares in Singapore for the top 10% (from 35% to 45%) and top 1% (from 10% to 14%) have been rising since the mid-1990s, while the share for the bottom 50% has been falling. This database shows no data for wealth inequality in Singapore.

Other indicators can be used to follow trends in net wealth in Singapore. For example, the Quarterly report on the Household Sector Balance Sheet, (Singstat, 2012:4) shows several trends in the period from 1995-2012: growth in household net wealth rose threefold from $426bn to $1,315bn. There was also a reduction in the household debt to GDP ratio from 2002-2010 for Singapore, while in the UK, US and Canada it was rising. There has been a gradual shift away from residential property assets towards various forms of financial asset, the ratio was 60/40, in 2002 moving to 50/50, in 2012, and now stands at 40/60. Unfortunately, the department no longer write reports, only publishing data, which shows that household net worth had risen to $1,996bn by 2020\(^{51}\) shown in Table 7-3.

As indicated earlier, since the 2011 election, efforts have been made to reduce income inequality for selected households after taxes and transfers. The ratio of household income per household member between the 90\(^{th}\) and 10\(^{th}\) percentile of income has been 9, on average between 2012 and 2018, while after transfers and taxes it falls to 6 (Singstat, 2019:39, Table 3,8). Pensioners have received additional

\(^{50}\) https://wid.world/country/singapore/ viewed 5/1/21

\(^{51}\) Title : M700981 - Household Sector Balance Sheet (End Of Period), Quarterly, Singstat.
support, while government funding on education per student at primary level increased from $7,396 in 2012 to $12,020 in 2018. It is $15,518 for secondary schools, and $17,702 for Junior Colleges (sixth forms), while it is $22,192 for Universities, Table 22.17, (Singstat, 2019:318).

Reflecting the high number of the workforce with tertiary qualifications, for citizens and residents at least, salaries are high. In 2017, there were 1,819,153 assessable taxpayers in Singapore, of these, 43% earned between $30,000 and $60,000 per year, and 40% between $60,000 and $300,000 per year.

Table 7-5: Income range for Singapore Taxpayers 2017. Calculated by author from Table 20.7, (Singstat, 2019:251).

<table>
<thead>
<tr>
<th>Income $000</th>
<th>Up to 30</th>
<th>30-60</th>
<th>60 – 100</th>
<th>100-300</th>
<th>300-1m</th>
<th>Over 1m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers, ‘000</td>
<td>241</td>
<td>775</td>
<td>385</td>
<td>351</td>
<td>61</td>
<td>5</td>
</tr>
<tr>
<td>% of total</td>
<td>13</td>
<td>43</td>
<td>21</td>
<td>19</td>
<td>3</td>
<td>0.2</td>
</tr>
</tbody>
</table>

However, given the high cost of living, this may not be enough for citizens and resident workers, let alone foreign workers (excluded from these statistics). There is no accepted ‘line’ to determine absolute poverty in Singapore, but NGOs use a combination of figures and reports from the Ministry of Social and Family Development (MSF), and Department of Statistics (Singstat) such as the Average Household Expenditure on Basic Needs AHEBN, or the Household Expenditure Survey (HES), to help draw conclusions:

Former GIC Chief Economist Yeoh Lam Keong has estimated that there are 110,000- 140,000 households in Singapore who fit the definition of absolute poverty, and that these include the ‘working poor’, ‘unemployed poor’, and ‘poor retiree’ households. (Smith et al., 2015:xii).
And: ‘In Singapore, it has been estimated that around 20 to 35% of households live in relative poverty’ (defined as less than 50/60% of the median wage) (Smith et al., 2015:xii)

They also suggest that Singapore’s policies of high growth, and meritocracy have contributed to higher levels of inequality. The presence of large numbers of foreign workers has held down wage levels, and the skills gap has extended faster than new training has been given, leaving older workers unable to keep pace with higher skill vacancies, and higher earnings.

Given the lack of consistent data on the distribution of wealth, and income notwithstanding the exclusion of data relating to foreign workers, it is not surprising that the economist Sock Yong Phang has turned to using other means to infer measures of wealth inequality (Phang, 2018), primarily the ownership and value of housing, and HDB flats in particular. Using a combination of statistics giving the distribution of the size of flats among citizens and residents, together with the average values of those properties, and the share of housing wealth between HDB and landed ownership (Table 7-3), the data is presented in tabular form (Table 8.9) in her book, she concludes: ‘assuming that the bottom 50% of households live in 4 room or smaller HDB flats, their share of Singapore’s gross housing wealth in 2015 was estimated at 25%’ (Phang, 2018:145); this compares with the USA at 2%, and France less than 4% (from Piketty), and then:

To quote Piketty, ‘To my knowledge, no society has ever existed in which ownership of capital can reasonably be described as ‘mildly’ inegalitarian, by which I mean a distribution in which the poorest half of society would own a significant share (say one fifth to one quarter) of total wealth... Of course, how one might go about establishing such an ‘ideal society’ – assuming that such low inequality of wealth is indeed a desirable goal – remains to be seen’ (Piketty 2014:258) Based on the above estimates, Singapore’s housing policies have resulted in gross housing wealth distribution approximating capital ownership distribution in Piketty’s ideal society (Phang, 2018:145).

This relative success has been achieved by a multi-pronged approach to the housing sector, including appropriation of land, planning and taxation policies, land use
regulation, public development and subsidy. However, this analysis excludes all foreign workers in Singapore, who make up 25% of the population or 37% of the workforce, and does not take account of the fact that wealth accumulated in housing which is lived in, does not provide an income unless equity release instruments (discussed elsewhere) are utilised. These two caveats severely compromise the claim that Singapore has achieved a level of equality, when measured by an overall standard of living and fairness as defined by Rawls (1971). Two other factors have had an influence on poverty amongst some Singapore citizens and residents: changing rates of life expectancy, and fertility. Life expectancy at birth (all residents) has risen from 64.5 in 1965 to 83.6 in 2019\textsuperscript{52}, while the total fertility rate has fallen from 1.82 to 1.14 between 1980 and 2019\textsuperscript{53}.

Moving in opposite directions since independence, the result means fewer children to support parents who are living longer, thus weakening one of the pillars in the social compact; this will likely worsen the level of inequality without further government intervention over time.

Although Phang’s estimate of housing wealth seems impressive, it probably cannot be taken for granted that the 25% of wealth is distributed equitably among the bottom 50% of the population. Former GIC Chief Economist referred to above, also gave a speech in which he elaborated on the degree of absolute poverty in Singapore. He suggests that up to 10% of the population are in absolute poverty, including the working poor, unemployed and elderly, saying that the major cause of this is what he calls a ‘major policy error’ of inviting so many foreign workers to Singapore, which keeps wages low. Although he praised the government for providing more help over the last decade, he claimed that a package of higher benefits would cost $4.5bn per year, or 1% of GDP, and that according to the International Monetary Fund (IMF),

\textsuperscript{52} \url{https://www.tablebuilder.singstat.gov.sg/publicfacing/createDataTable.action?refId=13276} viewed 5/1/21

\textsuperscript{53} \url{https://www.singstat.gov.sg/modules/infographics/total-fertility-rate} viewed 5/1/21

239
Singapore has a structural budget surplus of over $20bn or 5% of GDP.\textsuperscript{54} He concludes that more could and should be done to alleviate poverty in Singapore.

A third conundrum is presented by the policy choice made by the Singapore government in the early phase of development – mass ownership of housing on fixed term leases; while this has contributed to the relative wealth of citizens and residents, much of the earning capacity has been expended in acquiring an asset which begins to lose value (in exchange) as the lease term expires, just at the point where the owner needs to supplement income in retirement. Further changes in policy may be necessary to compensate for this dilemma, which might in turn have an impact on the ability of the government to offer affordable housing to new generations. At best, the outcome for Singapore citizens has been mixed: a high degree of housing wealth and security, but a lack of income for retirement. The specific policy adjustments, and value dynamics which have led to this outcome will be addressed in the next chapter, with reference to the theoretical approach and hypothesis outlined in the Introduction.

7.12 Foreign Workers

The large number of foreign workers has been referred to in earlier chapters – 25% of the population, but 37% of the workforce. This situation cannot be ignored in any rounded assessment of Singapore’s degree of equity. The experience of being a foreign worker clearly depends on your skills and category of permit granted. This section will focus on those given ordinary Work Permits – for those with the lowest skills. There are three categories of permit:

- Employment Pass – managers earning more than $4,500 per month
- S Pass – semiskilled workers earning more than $2,500 per month
- Work Permit – semiskilled workers earning less than $2,500 per month

\textsuperscript{54} \url{https://www.youtube.com/watch?v=3xzPsngJLzM} viewed 10/8/22
The Work Permits have special conditions for selected categories of worker: construction, hospitality, manufacturing, processing etc. There are also special permits for domestic workers. There is no minimum salary for these jobs, and the permits are valid for 2 years but can be extended. Permits are obtained by employers, who must pay for medical insurance; no dependents are allowed to accompany these workers. Different quotas and foreign worker levies apply to different sectors, the worker must be between 18 and 58 years (for Malaysians) or 50 for other nationalities. Employers pay lower levies for Malaysians, and they can work for longer – maximum 14 years also for Indians, Pakistanis, and Bangladeshis; levies are from $300 to $950 per month according to nationality. There is also a complex system of Bonds, training, settling in periods necessary, as well as the vetting of eligible companies. Employers must ensure that workers have accommodation in mandated premises, which could be dormitories (purpose built), temporary buildings on construction sites, facilities within buildings under construction, or within employer owned factories or rented apartments (HDB or private). Minimum standards for sanitation, water etc. must be provided. Companies not providing accommodation meeting minimum standards can be fined and/or banned from employing foreign workers in future.

Foreign worker levies are also raised in industries where more investment could be made in skill development and technology in order to raise productivity and ensure long term competitiveness in the Singapore economy. This in turn will increase opportunities for local workers to re-train, and take those higher skilled, and higher paid jobs. In broad terms the levies are designed to match CPF payments employers must make for local workers, so that there is no gap between the cost of a foreign and local worker. However, the foreign worker does not benefit from the foreign worker levy in the same way that the local worker benefits from their CPF payments. Clearly, the foreign worker is already at a significant disadvantage.

**7.13 Wages for foreign workers**

Median wages for lower paid workers are around $1200 per month, for example, baggage handlers, food service assistants, cleaners, general machine operators, but
go as low as $900 for machine operators (plastic parts)\textsuperscript{55}. But citizens in some sectors benefit from a minimum wage, as well as WIS. For foreign workers deductions can be made for accommodation fees, but not the levies, insurance, bonds etc. and total deductions must be no more than 50\% of the basic salary. Employers and employees do not contribute to the CPF, while other benefits open to citizens, such as to purchase an HDB apartment, are not available to foreign workers. Given the level of control exerted by the Ministry of Manpower (MOM) over the employment of foreign workers in this category, the overall numbers employed can be easily manipulated over the medium term to reflect conditions in the labour market by means of the foreign worker levy: either as a means to control the level of wages, or to respond to economic conditions more generally.

The process of getting a job in Singapore is complex (all the cards are held by the employer) and intermediaries based either in the originating country, or Singapore often negotiate on workers’ behalf, securing up-front fees for their services (up to $12,000 for a first job) and $3,000 for a renewal, or second jobs secured while the worker is still in Singapore. The system is clearly open to abuse, both formal, and illegal, and some of these abuses are reported by civil society organisations such as the Humanitarian Organisation for Migration Economics (HOME), and Transient Workers Count Too, (TWC2), which have been established in Singapore since 2004 to help migrant workers in distress, either through injury, non-payment of wages, or other abuses. The claim/appeal process is legalistic, slow, and always conducted in English; workers must complete forms online, but often have no access to a computer. Although workers are meant to be given sufficient income by their employer to cover living expenses pending the hearing, often this does not happen, or the payments are insufficient to cover reasonable expenses. Often, a worker will elect to go home and abandon their claims (with no opportunity to return), rather than suffer up to a year with no income, and the threat of deportation if any

\textsuperscript{55} Ministry of Manpower, 2019, Labour Market Statistics and Publications, Monthly basic and gross wages of common occupations, Table 4.1. Up to date figures available here: https://stats.mom.gov.sg/Pages/Occupational-Wages-Tables2021.aspx viewed 28/1/22
regulations are breached; alternative employment, for example is not permitted while legal processes continue.

Whilst numerous cases are posted on these web sites, the impression is that only a small number of complaints are filed relative to the large number of foreign workers in Singapore. HOME and TWC2 recently submitted a report identifying shortcomings and lack of progress from the Singapore Government to the UN Commission for Human Rights, as part of their regular review (HOME & TWCT, 2020).

As one working paper commentary indicates: ‘There is very limited data in the public domain on foreign labour in Singapore, as the government regards such data as ‘sensitive’’ (Yue, 2011:2).

For now, we can acknowledge the severe disadvantage and systemic inequality of treatment for this group of workers when compared to both the median, and even the lowest paid citizens of Singapore, especially when considered over their long-term working life see Jakkula (2020) for more detail. In contrast, MOM reports from a survey conducted every three to four years a high level of satisfaction among foreign workers living and working in Singapore: 86% either very satisfied or satisfied; 92% plan to continue, or return to work in Singapore after visiting home; 67% mentioned good pay as a reason to recommend working in Singapore (Ministry of Manpower, 2018). I will return briefly to the topic of foreign workers in the Conclusion.

7.14 Government debt, or National Endowment

Before concluding this chapter, the question of Singapore’s government debt must be clarified. This is pertinent for the coming discussion of the National Endowment Fund. According to the World Bank, in 2016, government debt for Singapore stood at $480bn, (current LCU), equivalent to 109% of GDP56; other agencies and economic commentators report similar figures. However, as the Ministry of Finance explains, 

56 https://data.worldbank.org/indicator/GC.DOD.TOTL.CN?locations=SG viewed 7/1/21
(Accountant-General’s Department, 2019), the Singapore Government issues SGS and SSGS to develop the domestic debt market. The SGS are tradeable instruments used to establish a debt yield curve for the pricing of private bonds, and include a small number of short dated, one year Treasury Bills, T-bills. The SSGS are used to meet the investment needs of the CPF, in other words, the money collected by the CPF is used to buy the Bonds issued by the government. These Bonds are not tradeable, but the money is used to invest overseas, to generate returns for CPF members; the money held in these Bonds is not spent by the Singapore Government.

In addition, the Government issues Special Savings Bonds (SSB), an instrument to provide a guaranteed saving mechanism for citizens wishing to make risk free savings in addition to their CPF or commercial alternatives. As of March 2019, outstanding debt totalled $562bn, of which $428bn were SSGS. This debt now stands at 114% of GDP, according to the MOF, but is exceeded by the Government’s assets. It is the net surplus position, which allows the government to use the NIRC mechanism to draw on past reserves and achieve an annual budget surplus. In other words, despite appearances and as reported by the World Bank, the Singapore Government has no debt.

7.15 Conclusion

I have presented in this chapter an overview of the public accounts and system of taxation for Singapore, concentrating on those Ministries and Statutory Bodies most closely responsible for land management, who, as a result, collect significant revenues from the public which then flows through the departments, asset managers and back to the public in the form of services managed under the government’s operational budget. I have also presented the socio-economic outcomes for citizens in broad terms, but in the process have identified some limitations, either due to the lack of public data, or by the exclusion of large numbers of foreign workers from the distribution mechanisms. Further analysis of these outcomes will be informed by the interviews conducted and will be presented in the next chapter.

Despite these shortcomings, the system I have described demonstrates the ability of the Singapore government to accumulate financial reserves to form a national
endowment. This money in other jurisdictions would accumulate and remain in the private sector. The origin of the past reserves is economic rent, mainly from land. The public collection of rent, not private appropriation is the difference in outcome that qualifies Singapore as a Property State. Whether public collection of rent has led to less inequality is the subject of the next two chapters.
Chapter 8  Outcomes, a closer analysis of policy

Having analysed the evolution of the Singapore Political Economy, together with the operation of its institutions and general features, to what extent does this constitute an extension of Haila’s idea of Singapore as a Property State? Have these features contributed to a reduction in inequality and could the property state conditions be applied to other jurisdictions suffering either from a lack of development, or a high degree of inequality.

In this chapter, I test in detail the achievements and aspiration of Singapore’s Property State, under a sequence of headings. The aim is to assess the alignment of the property state’s general conditions with the socio-economic outcomes for Singaporeans. In addition, I explain how Singapore has responded to the challenges of development, and explore how policies might need to be adapted to satisfy the aspiration of the property state fully. Does a Property State resolve the difficulties arising from growing inequality in the developing, Globalising economies, and ameliorate socio-economic inequalities? Does it provide a framework to collect rent as public revenue, and as a result avoid private appropriation - a key driver of inequality?

While adopting a scorecard may be simplistic, nonetheless, some indication of whether a set of policies has passed the conditions for the property state is useful. I will therefore indicate a pass or fail assessment for each condition. I have identified 10 conditions for the property state, and there is naturally some overlap between conditions, and some issues are so closely dependent on others within the group, it is useful to consider some of them together. To do so, I have adopted, the headings of Land Regulation for conditions 1, 2, 3 and 4; Public Service Provision and Funding for conditions 5 and 6; leaving conditions 7, 8, 9 and 10 under the heading Common Wealth.

Singapore’s approach to governance was defined early in the period after independence, when the nation faced several existential threats. There was a need to be self-reliant, united against potential disruption from within (communism), or
invasion from Indonesia or Malaysia. This predicament justified the need for citizens to work hard to develop the nation, to make personal sacrifices to ensure future national prosperity. In return, everyone would be given a stake in the nation. These problematics of uncertainty, the need to take control of development (and therefore land), to ensure unity, justified the political rationale of the PAP, and the technologies of governance employed. This lens is appropriate to review the governance of Singapore, given the consensual approach in a national discourse that asserts Excellence in policy implementation, and Pragmatism in policy design, without allowing much challenge to these received wisdoms. As a result, there is a constant need to reinvent Singapore, to retain the sense of urgency and danger of failing to meet all new challenges in the global economy, to survive.

Evidence for this narrative of national success, survival and infallibility is reflected in the tone adopted by all communications and publications by Statutory Boards and Ministries in the public domain. Any challenges to the status quo are deflected by outright denial, or refusal to acknowledge alternative facts or prescriptions – the 2019 POFMA (Protection from Online Falsehoods and Manipulation Act) law allows the Pofma Office to issue correction notices and apply other sanctions as necessary. The process of problematising such a threat keeps it fresh for today, rather than a mere historical condition. The PAP remains a crusading organisation, claiming to be always working in the best interests of the people, and delivering the best solutions.

Ironically, by seeking to control outcomes of elections in line with what people constantly profess to want (a PAP government), by means of restricting freedom of information and speech, creating unwieldy constituencies, banning polling during elections etc. there is a constant risk of freak election results (George, 2017:67-72). Voting for opposition candidates is the only protest available – and might inadvertently threaten the status quo: ‘you can either have legitimacy or certainty; you can’t have both’ (George, 2017:18). He cites the poor PAP performance of 2011 as evidence of this propensity and goes on to suggest that the time to offer more freedom of speech, information, and remove the threat of draconian sanctions or defamation suits, is during a period of stability rather than crisis. A new normal would evolve quietly, without being seen as a desperate response to protest and opposition.
While confidence was restored in 2015, special factors contributed, including the death of Lee Kuan Yew in March, and Singapore’s 50th anniversary that year, promoting a degree of nostalgia, the style of government has not changed. Young people in particular are more sceptical, while responses to the pandemic and regional tension has the potential for further political protest. How successful is Singapore? Can the property state conditions be used as a yardstick to highlight areas of weakness?

To recap: here are the Property State conditions under the new headings, which I will address in turn in the following sections:

**Land Regulation**

1. **Absolute government control of land use rights**, while guaranteeing security of tenure for users (often by leasehold, but could be freehold with fiscal measures) subject to meeting all conditions of ownership as well as the ability for the state to purchase private land on reasonable terms, to be repurposed in the public interest.

2. **Freedom to use unused land**, subject to meeting all conditions including payment for public goods, often mediated through a planning system, with an element of discretion.

3. **Capture any uplift in value** from public investment and remove the possibility for speculative gain (rent seeking) from property, particularly when state sanctioned land use changes, without stifling development opportunities.

4. **An open land register** transparent, consistent, comprehensive, showing beneficial land ownership and use rights.

**Public Service Provision and Funding**

5. **Public provision of natural monopoly services**: utilities, transport, communications, ports, at least in respect of the necessary infrastructure.
6. **Adherence to the principles of efficient (optimal) taxation** – emphasising the central place of annual charges on immovable property (land/property value).

**Common Wealth**

7. **Sufficient property rights for all** – not necessarily in equal shares of land – but the freedom to access or enjoy the wealth from work on land, either directly or indirectly.

8. **Treatment of land and property as a national endowment** to guarantee wealth/welfare for all, a common source of wealth.

9. **Land for life**: Ensure minimum levels of housing and essential services such as healthcare, education, recreation and transport to all inhabitants through judicious use of land resources, including a clean and healthy environment.

10. **Land for wealth**: Ensure land resources are used to offer space for commercial activities on reasonable terms to provide a substantive opportunity for work and wealth creation.

8.1 **Land Regulation**

8.1.1 **Absolute government control of land use rights**

There is no doubt that the Singapore government has absolute control of land use rights, not least through ownership of 90% of the land. Any desire by leaseholders or freeholders to change the use of their land is subject to obtaining planning permission, and there is a clear Masterplan updated every five years showing the direction of travel for future development, which is in the public domain. Furthermore, any land can be acquired by the government for any public purpose, and the history of Singapore shows that this facility has been used to good effect, to promote economic growth, to upgrade living conditions for the majority of the population, and to improve water management and soften the impact of growth by ‘greening’ the built environment, *which appears to satisfy condition 1*. 
8.1.2 Freedom to use unused land

The idea of scarcity of land is used to justify state ownership and control of land use and development, especially incorporating social outcomes:

Supporting land policies, while striving for efficiency and effectiveness, must also be equitable, compatible and sustainable. The scarcity of land in Singapore makes any weakness or failure in land management especially acute (Ng and Choy, 2018:80).

Lee Kuan Yew is also quoted ‘There must be a sense of equity, that everybody owns a part of the city’ (Ng and Choy, 2018:80) originally published in (Centre for Liveable Cities, Singapore, 2016).

In other jurisdictions, the same idea - scarcity – or a desire to control development, leads to the imposition of a plan, or planning system, with either case by case discretion, or regulated zoning ordinances over what can be built where. In the UK, the Planning system is described as discretionary because local plans are non-regulatory and permission is given case-by-case with local officers having a degree of prescribed discretion in the decision making process. Scarcity, (or lack of supply due to planning restrictions, for example) is sometimes used to privilege the developer in a market system. For example, in the UK, permitted development rules introduced in 2015, allow certain development to proceed without scrutiny, and the profit motive applies with greater force. In other cases where sites are poorly located, leading to less opportunity to profit, planning obligations are waived or diluted, based on viability. In Singapore, more emphasis is given to the welfare of the community as a whole, while the potential uplift in value is always shared between the government and the developer.

Given the ownership and control of land exercised by the government, the freedom to use unused land in Singapore is less obvious. One could argue that conditions 1 & 2 are contradictory. The published master plan is comprehensive and regulatory, and any government land sale prospectus is offered with precise guidelines as to what can be built on the site. Given that we are used to living in a world where all land is enclosed, this point may appear trivial or anachronistic. However, free land at the
margin is an essential feature of land rent theory, as indicated in section 4.1. It offers labour the alternative to earn an independent living, free of rent, where the full product of labour can be retained.

The Singapore government has expressly retained and encouraged this tradition, particularly in relation to food. Hawkers would traditionally have set up their carts daily on street corners or pavements at particular times of day. Now, certain squares are designated for this activity, often with some basic infrastructure such as water and drainage being available. In 2020 the UN included Singapore’s Hawkers in the list of intangible cultural heritage of humanity.57 Most new HDB developments include a ‘hawker centre’ where different varieties of food are prepared throughout the day, interspersed with sim card or lottery ticket sellers alongside the more formal, branded supermarkets and high street chains. Rents for hawkers are kept low, to encourage participation, and different ethnic specialties migrate to particular locations, such as designated streets in Chinatown or Little India; meals in these centres are good, and surprisingly cheap, with at least one, Hawker Chan awarded a Michelin star.58

Much has been written about the process of gentrification, how marginal areas can often be colonised by artists or small entrepreneurs, only for the neighbourhood to be appropriated by developers spotting a new opportunity for profit, whether exploiting a rent gap (Smith, 1979) or simply accommodating a growing population. From the perspective of land rent theory, this is a natural process; cities will change and adopt new uses over time; the important thing is to allow this to continue – to ensure there is always a new margin, and not allow the private state to enclose these places before time. The imposition of an annual rental charge for the use of such spaces would discourage speculative purchase, or frontrunning, which often leads to

empty sites and restricted use for many years, before the gap observed by Smith and others can be closed by new tenants after development has become feasible or timed for maximum profit. The property state is in a better position to allow this to happen naturally: it is in control of land use and can moderate the marginal users over time. In Singapore, the evidence suggests that some efforts are being made in this respect, and some benefit to the community is being derived, albeit, very much on the terms of the SLA: public institutions, however, are not always best placed to determine the most creative or best meantime use for an area.

For example, Dempsey Hill used to offer stabling and barracks for the garrison in colonial times and was the mustering centre for National Service recruits until 1989, when it fell out of use. It is a short drive from the CBD and surrounded by upmarket residential areas. The SLA decided to offer it to the Singapore Tourist Authority on a 30 year lease, who in turn sought innovative retail and hospitality tenants. In the evenings, it comes alive, and the old buildings have been sympathetically adapted; the entire area is bounded with dense, mature trees with some open spaces and has a magical quality, not often seen in the city itself, but it lacks spontaneity, and all prices are high. Somehow, a more flexible, gradual, but nonetheless transformative approach would allow an organic development process to take place.

In an interview with an officer of the Ministry for National Development, it was emphasised that any scope for creative change was on a ‘meantime’ or interim use basis (Int2). Some plots of land or buildings had been offered on 15 year leases, or 3+3+3 years. For example, with the decline in population, some school buildings were now empty, but might be needed again in future, therefore the Land Authority would only sanction a temporary change of use until there was more certainty for the future. But all this is controlled by the SLA and other government agencies; there is little room for individual creativity.

More freedom to propose change might elicit creative solutions, but the otherwise well ordered, technocratic way of doing things in Singapore may have to give way to some temporary disorder in the process of development in order to fully satisfy condition 2.
8.1.3 Capture any uplift in value

Value capture is the removal of the possibility for speculative gain, or at least to capture that uplift for public benefit, without inhibiting development opportunities, condition 3. Commercial and industrial land has largely been corralled into the property state, where most uplift is captured. Housing is the more contentious field for analysis. As I indicated in Chapter 7, Housing has become a touchstone to evaluate the success of Singapore in the minds of its citizens. For the property state, the ability to offer affordable housing to all qualifying citizens is no doubt a pre-requisite – land for life. Any perceived failure to manage expectations of affordability has punished the PAP in elections; on the other side, investment in HDB upgrading has at times been conditional on returning PAP candidates to Parliament in particular constituencies.

Given the problematic and contentious nature of housing delivery, this section is rather long. Therefore, I offer three headings to guide the reader through the narrative. First, an explanation of the different tenure types; second, the consequences of this differentiation for asset appreciation or decay. Finally, some further analysis of the process of asset appreciation and private appropriation of rent. These issues together form the fulcrum around which the success (or failure) of the Singapore model is determined. As a result, some potential solutions are offered to address perceived failure.

Different tenure types

Looked at from a distance, housing is seen as a success story in Singapore: there are multiple clean, well-managed and well-connected public housing developments with a high rate of ownership; affordability is delivered by subsidies for lower income families. Apparently no homelessness, and low rents for anyone unable to buy. In fact, in 2019, a research project found between 921 and 1050 people sleeping in the open, mostly Chinese men (Ng, 2019). The main difficulty appears to be the small size of HDB rental flats, mostly 2 room, often multi-generational, or with more than one household as tenants. Some occupants might choose to move out, to ease any
tension. While the homeless are small in number, clearly pressures exist at the margin, as described by Teo (2019) for people living on low wages in rental accommodation.

But when observed close up, property ownership is highly segregated in Singapore, with diverse outcomes for each sector. Whilst the high rate of home ownership for citizens and permanent residents is unusual compared with most developed economies, the differences expose the possibility of cementing in inequality for future generations of Singaporeans. Different types of property command markedly different prices, and while this is reflected in significant differences in amenities available to owners, the different tenure types also expose unequal investment potentials.

These are the main categories of property in Singapore: first, HDB; second, private leased apartment or EC on public land; third, private landed house or flat – where the flat owner shares the freehold. Table 8-1 sets out the number in each category, and average prices.
Table 8-1: Property numbers in Singapore, by tenure and average price Compiled by author, sourced from HDB, propertyguru.com.sg marketing review, and Singapore Yearbook 2019.

<table>
<thead>
<tr>
<th>Category</th>
<th>Tenure</th>
<th>Term</th>
<th>Possibility for lease extension</th>
<th>Typical price per square foot, $</th>
<th>Number of properties 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDB (new)</td>
<td>99 year lease</td>
<td>Fixed</td>
<td>Only by SERS (or VERS)</td>
<td>300-400</td>
<td>1,043,300 (all HDB) 79% of total</td>
</tr>
<tr>
<td>HDB (resale)</td>
<td>99 year lease</td>
<td>Fixed</td>
<td>Only by SERS (or VERS)</td>
<td>500-800</td>
<td>Subtotal not known</td>
</tr>
<tr>
<td>HDB EC</td>
<td>99 year lease</td>
<td>Fixed</td>
<td>Only by SERS (or VERS)</td>
<td>800-1000</td>
<td>Subtotal not known</td>
</tr>
<tr>
<td>Private flat on public land</td>
<td>99 year lease</td>
<td>Fixed</td>
<td>Only by Collective Sale</td>
<td>1200-1500</td>
<td>210,300 (all private flats) 16% of total</td>
</tr>
<tr>
<td>Private flat on private land</td>
<td>Lease of varying length</td>
<td>Extendable. Leaseholds may also own share of freehold</td>
<td>By private treaty</td>
<td>1200-1500</td>
<td>Subtotal not known</td>
</tr>
<tr>
<td>Landed house</td>
<td>Freehold</td>
<td>Perpetuity</td>
<td>n/a</td>
<td>1500-3000</td>
<td>67,900 5% of total</td>
</tr>
</tbody>
</table>

There are several significant factors here:

1. The majority of the population (citizens and PR) own HDB apartments (79%), 16% private apartments, and 5% landed houses or apartments
2. 79% of the population own a depreciating asset – not just due to dilapidation, but also the reducing term of the lease, unless the block is selected for
redevelopment (SERS), although this too is only temporary relief; the recently announced VERS scheme has as yet, no defined policies.

3. Leaseholders of private flats on public land, also own depreciating assets, unless there is an opportunity for Collective Sale (CS) and redevelopment

4. Prices escalate significantly between tenure types, with a large gap between HDB and private housing

Clearly, house prices vary significantly according to location and quality of finish, or amenities in all countries. However, owners in most countries hold an appreciating asset (dilapidations notwithstanding), which can be passed to subsequent generations, subject in some jurisdictions to inheritance tax. In Singapore, this is not the case; the majority of homeowners are discriminated against in this respect. One could argue that this disadvantage is reflected in the price of the different categories. But it is clear from the structure of the different categories, that it would be near impossible for all citizens to graduate from the HDB to the private category – without a wholesale demolition of existing HDB apartments in favour of more private apartments – even owning private apartments is no guarantee of an appreciating asset if it has been built on public land. There is a limit to how many times land can be re-zoned to allow for densification under a CS scheme (explained below). Meanwhile owners of private flats with a share of freehold and landed houses hold appreciating assets.

To illustrate the extreme category of landed property, there are less than 3000 so called ‘good class bungalows’ in Singapore, large, detached, usually two-storey houses with extensive gardens. These typically sell for tens of millions of dollars, or even hundreds, while the average price for landed property is $5m, including larger numbers of town houses or terraced units.

This chart from a Singapore property web site tells a similar value story.

59 https://www.99.co/singapore/insider/good-class-bungalows-gcb-singapore/ viewed 13/2/22
Table 8-2: Average and median cost of homes in Singapore


<table>
<thead>
<tr>
<th>Housing Type</th>
<th>Average Price</th>
<th>Median Price</th>
<th>Average Price/sq foot</th>
<th>Average size (sqft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDB Average (new and resale)</td>
<td>532,768</td>
<td>495,000</td>
<td>507</td>
<td>1067</td>
</tr>
<tr>
<td>Condo (private flat) cost overall</td>
<td>1,780,051</td>
<td>1,467,778</td>
<td>1,731</td>
<td>1,053</td>
</tr>
<tr>
<td>Landed</td>
<td>5,063,507</td>
<td>3,850,000</td>
<td>1,462</td>
<td>4,244</td>
</tr>
</tbody>
</table>

The only option to arrest the declining values would be to change the terms of the HDB lease, but such a move would be controversial and difficult to implement without compensating previous leaseholders, some of whom are now dead. Owners of HDB apartments might not always perceive this discrimination; the fact that resale HDB flats sell at a premium of 20-30% over new HDB flats will give the owner a false confidence. An owner might believe that the government will change their policy and offer lease extensions before the majority of leases approach the expiry date. Falling valuations only become evident when the lease term drops below 50 to 55 years, and as a proportion of the total, not many flats have reached this point. Many owners may ignore this eventuality, given that they are still enjoying the use value of the flat. In addition, trying to compare flats of different lease length, size and location is difficult.

Consequences for different tenure owners

The HDB publish a Resale Price Index (RPI) for all HDB resale properties, suggesting this is ‘good news’ for all homeowners, however, the catch-all index hides multiple
distortions. Utilising the research by Kyle Leung for the property agent 99.co, we can see that the headline RPI for Q3, 2020 is reported by the HDB as rising by 1.5%. However, focusing on two residential areas, Clementi and Ang Mo Kio, Leung reported that some 4 room apartments built in 2011-2013, and therefore past the 5 year Minimum Occupancy Period (MOP), have been sold for more than $1m. These flats are at the highest levels: 35th to 40th storey – a hefty premium on their original purchase price, which might have been half that amount. For example, in the Teck Ghee Vista development, a 4 room flat sold for $1.09m, while all resale flats in this development show rising prices. However, older HDB flats (built in the late 1970s, with around 55 years on their lease) in the same road have fallen in price by 19.6% between 2013 and 2020, despite being closer to the MRT station. Furthermore, similar flats in the same area benefiting from proximity to the upcoming Mayflower MRT station have risen in value, while those in Avenue 10, which are not within walking distance of either Ang Mo Kio station or the new Mayflower station have also fallen in value. In concluding, the author suggests that rather than using spectacular sale prices in newer, higher developments to paint a picture of rising prices, the HDB should instead focus on the problems facing owners of older, less well-located flats.

Despite assurances from successive government ministers over several decades, that purchasing a home would lead to asset enhancement, and accumulation of wealth, it is now clear that towards the end of a lease, the value will fall to zero, and tenants will have to move, without compensation.

In 1995, Prime Minister Goh Chock Tong referred in a speech at the completion ceremony of an estate upgrade programme of a transition from emergency housing provision to an ‘Asset Enhancement Programme’. Through the Main Upgrading Programme (MUP), or SERS he described how the value of the flats had doubled to


$160,000 after the upgrade, with 80% of the cost borne by the government: up to $60,000 for each flat. Extrapolating over time, he suggested that the government would need to find $1bn every year to repeat the exercise in all HDB estates, which would have to come from budget surpluses and economic growth, but there was no indication that the money would not be found. Lee Kuan Yew in 2012 commented in a speech at a tree planting ceremony that ‘all boats rise when the tide rises’ in reference to rising property values 62, and that this had been the plan from the beginning.

By March 2017, the narrative had changed: Lawrence Wong, then Minister for National Development warned63 that buyers of resale flats, or existing homeowners could not rely on automatic SERS programmes to preserve asset values.64 The predominant factor in SERS is indicated by the first word: Selective, and in fact, since 1995 only 4% of HDB flats have been selected for redevelopment. The rate is now running at one block every two years65, suggesting that the cost to the government is proving too high. Wong warned buyers of resale flats with dwindling lease length not to assume that the block would benefit from SERS. Even when SERS schemes are announced, not all affected leaseholders are happy, often complaining that the compensation offered will not be enough to purchase a new flat.66 The HDB is often forced into a defensive position to justify their policies or revise their estimates. One very recent policy announcement (July 2022) included the option of purchasing a 50 year lease in the new block at a price close to the compensation package offered for

62 https://www.youtube.com/watch?v=7b4XuKr27NI viewed 11/3/21

63 https://mndsingapore.wordpress.com/2017/03/24/choosing-a-home-for-life/ viewed 11/3/21

64 All quotes, and some detail from https://mothership.sg/2020/11/hdb-lease-or-own/ by Nigel Chua, viewed 10/3/21


the existing lease. Clearly this policy will help the existing leaseholder, but only offers a temporary solution.

To ameliorate the political fallout from the change in emphasis, in 2018, a Voluntary *en bloc* Redevelopment Scheme (VERS) was announced during the National Day Rally speech by the Prime Minister Lee Hsien Loong. The speech is an annual event and reads like a report card on how the government has performed during the year, how regional problems will be addressed, or to explain new policies. In 2018, long sections were devoted to Healthcare and Housing; the housing section began by reflecting on the conflicting demands of house value; when you are buying for the first time, you want the price to be low, but when you are selling later in life, you want the price to be high. How to satisfy all generations? The unique nature of Singapore’s leasehold system is explained and justified (fixed term, 99 year leases) which apply to all HDB, and private apartments on government owned land. The options of ‘right-sizing’ or lease buyback are identified. Lee then explains why longer leases or freeholds were not granted in terms of equity for future generations:

> Those not lucky enough to inherit a property would get nothing. So our society would split into property owners and those who cannot afford a property. I think that would be most unequal, and socially divisive.

All this in the context of a constrained land area. There is a logic to the argument, also relating to the potential lifespan of the building – in practical terms, a tall building 99 years old will likely be obsolete in respect of electrical and mechanical services, if not also from a material point of view, and therefore better to demolish and build afresh. He reassured HDB leaseholders that the Home Improvement Programme (HIP) will be extended to newer flats, and that all HDB properties will receive some subsidised upgrading every 30 - 40 years. He repeated that SERS will only be used where value can be unlocked by redevelopment – perhaps only 5% of the total HDB

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VERS is introduced as a way to regenerate estates gradually. By spreading the regeneration over 20 or 30 years, on a building by building basis, the impact will be less obvious. The full details of VERS have not been published and will emerge over the next 20 years. The scheme is scheduled to begin in 2038. Residents will have to vote to accept a scheme, hence the Voluntary in the title, although it was clear at the time of the announcement that the terms would be less generous than SERS, given that there will be limited financial gain to the government on redevelopment. To benefit from VERS a substantial contribution will be made by leaseholders, perhaps akin to a lease renewal or extension premium, although it is likely to operate in reverse: some compensation for giving up the balance on a lease, to help buy a new flat. The HDB only confirmed that VERS is likely to apply to buildings of more than 70 years maturity saying:

VERS is a complex undertaking that requires significant public resources, and will be implemented in the longer term when our oldest flats reach around 70 years old. We need time to work out the details, and will share more information when ready (WA2).

Perhaps leaseholders agreeing to compensation under VERS will have enough to buy a 2 room Flexi flat on a short lease, referred to above, or the government will decide to offer an additional subsidy to preserve social stability.

The announcement can either be seen as a clever political move to forestall criticism and fear around falling land values, or to postpone an issue which is too difficult to solve - a problem bequeathed to the next generation of leaders. No reference, however was made in the speech to the owners of freehold properties who could pass on their property to the next generation; he might have referred to those lucky enough to inherit a property being left with more than the rest, which in itself is socially divisive. Perhaps his listeners did not need reminding of this, or he was reluctant to draw attention to the anomaly.

In summary, the resale to market policy transformed the HDB flat from a consumption good, to an investment good (Chua, 2003), while setting the State (the near monopoly provider of housing, close to 80%) the difficult task of balancing public
aspirations of asset value appreciation, and affordability. In a later paper, Chua describes ‘the management of these problems (as) a marathon race without end’ (Chua, 2014:531), also detailing the problems arising from the process of financialisation both for the private and public housing sectors, (Chua, 2015) referred to earlier.

Further analysis of outcomes and potential solutions

Soon after the 2018 speech, Christine Li, a property professional in Singapore took up the debate, and proposed an alternative solution to the problem. In an extended Commentary in the Straits Times on 20th January 2019 she acknowledges that ‘Freehold HDB is a no-go, but what about selling a freehold flat with strings attached?’ – proposing instead a ‘Feco’ Freehold with an Embedded Call Option, in effect a buy back clause at the end of 99 years, giving the Government the right, but not the obligation to buy back the freehold at market value. The HDB responded in a written reply on 23rd February, reproducing the original article in full, saying ‘while this is an interesting idea, it will be fiscally challenging to implement’ given that the freehold flats would attract a higher price, making them unaffordable for first time buyers without significant subsidies.69

In respect of HDB properties, as an alternative model, the opposition Social Democratic Party in April 2019 proposed a sales scheme of non-open market (NOM) flats for the HDB sector, whereby land cost would be excluded from the price. Naturally, prices would be significantly lower, but resale in the open market would be prohibited; instead, flats would have to be sold back to the HDB. With lower prices, less money would need to be withdrawn from CPF accounts for deposits, smaller mortgages would be necessary, and repayment of loans achieved in 12-15 years rather than a more normal 30 years. Prices on sale back to the HDB would be the purchase price less depreciation. Existing owners of HDB flats could convert their lease from an Open Market (OM) lease to a NOM, in which case the HDB would repay

the cost of land to the owner; this rebate could be put into CPF accounts in order to boost income in retirement. (Further detail available in the SDP report *Housing a Nation* (SDP, 2109).) Lower housing costs would allow greater accumulation of savings to cover living expenses in later life. The cherries (land values) are retained by the state, but left to whither on the tree, rather than being used for public revenue, so this proposal does not satisfy all conditions for the property state.

As I have said, SERS is used only when there is a clear benefit to the HDB, in terms of creating surplus value from the intensification of a site in a popular location – HDB are acting as any real estate developer might, rather than in the individual financial interests of the homeowner. For the government, the interests of the next generation will be given priority – thus preserving the ability of the property state to provide affordable housing, by limiting private accumulation of rent to owners of property. Towards the end of the speech, Lee talks of Singapore constantly evolving, new districts emerging from the old, but better connected, with more green spaces, work opportunities closer to home, a vision of the HDB becoming the Housing Redevelopment Board.

While a few HDB owners have benefitted from SERS, having been offered new flats on new 99 year leases, in contrast, more owners of private flats built on government land have benefitted from the CS scheme. Two factors allowed owners of such property to capture value uplifts.

During the preparation of the 1998 Masterplan, detailed proposals for 55 new districts were prepared in Development Guide Plans (DGPs). By way of these Plans, many districts were re-zoned for more intensive development – higher buildings or plot ratios. At the same time, the Land Titles (Strata) (Titles Boards) Act was passed in 1999 to enable developers, with the co-operation of the ‘subsidiary proprietor’s’ management committee, to force leaseholders to sell; 90% approval was required for buildings less than 10 years old, while only 80% was required for buildings more than 10 years old. Previously 100% approval was necessary, which often led to a few ‘hold-outs’ blocking redevelopment of under-used sites either for a higher premium, or simply because they did not want to move. This combination of new development
opportunities, and ease of achieving CS enabled developers not only to pay a premium to existing leaseholders, but also to profit from the re-development, where the number of units on each site is often doubled. All parties to these transactions benefit: the leaseholders are paid a premium, usually enough to cover their moving costs with cash to spare; the developer, who expects to make a profit from the sale of the new units; the government, from the combination of the DP and/or DC. CS can be enacted on either leasehold, or freehold land. This opportunity helps explain Haila’s paradox of the vibrant development industry in Singapore despite state ownership of land and a large HDB sector. A worked example of a CS agreement is given in Appendix 4.

Between 1995 and 2017, there were more than 500 CS transactions exceeding $36bn in value (S. Phang, 2018:79); this market driven process offers leaseholders of private developments an opportunity to profit from the increase in land value over time which is denied to HDB leaseholders, even though, for a few leaseholders, the windfall may be involuntary.

Although the messaging about asset enhancement from 1995 until 2015 appears to have been misguided, or confusing, it seems that the new policy direction, only using SERS to ensure that land is developed for its highest and best use; and ensure every new generation affordable housing, is consistent with the objectives of the property state in this respect.

The value leakage or rent accumulation to private owners through CS has, for the time being, been ignored or simply not addressed, while the fear of falling lease values for HDB property has not reached the critical point, and VERS has bought time.

Clear indicators of this policy priority (to provide affordable homes to the majority of the population) can be seen in the subsidy programme for HDB purchases, the CPF withdrawal scheme, and opening to private banks to fund purchases described in section 7.4. All three initiatives will have contributed to rising property prices, although the CPF discount the impact of savings withdrawal (Int1) on rising house prices, referring to the need for CPF funds to be reimbursed towards the end of the
mortgage term, with interest. The link between rising house prices and the availability of credit (higher loan to value ratios, and the entry of Banks into the mortgage market, buy to let mortgages etc.) has been traced in (Stephens, 2007) and (Ryan-Collins, 2019b). However, the direction of causality has been questioned by (Meen and Whitehead, 2020), who also suggest that the cost of credit via interest rates is the main determinant of house price acceleration. The Singapore government has tracked private housing prices from 1975, and the resale sector from 1990 when the market became more active.

Here, I reflect on the impact of these policies on the relative values of HDB and private property over time resulting in uneven outcomes for wealth accumulation according to tenure type. First, some further discussion of the process and valuations for lease extensions in the DC/DP scenario is necessary to clarify the advantage for rent accumulation open to owners of freehold property.

In order to calculate the Differential Premium for properties given planning permission for redevelopment, and intensification of use, the SLA publishes a Table (appendix 1), showing the leasehold value as a percentage of freehold value according to the residual term of the lease, from one year to 99 years. A lease with only one year remaining is 3.8% of the freehold value – you would pay 3.8% of the freehold value to ‘rent’ the property for that year; put another way, the freehold is worth 26 times the annual rental value, as described in Chapter 5 in discussion over valuation. As the number of years remaining on the lease increases, the incremental difference in rental value reduces. For example, with two years remaining, the lease is worth 7.5% of the freehold, just under 2 x 3.8; with ten years, the lease is worth 30%, again, less than 10 x 3.8; until the difference between 98 and 99 years is only 0.1, suggesting that in the 99th year, you would only pay 0.1% of the freehold value to rent the property. The logic of this determination of value is tied to the discount rate of the net present value of money. On a practical level, it is also tied to how much one can borrow to purchase a freehold. Assuming this figure is related to income, and what is a reasonable/sustainable percentage of income to spend on housing consumption, the freehold value will also relate to a multiple of one’s income, which is also often a determinant of how much one can borrow to purchase a property.
However, after 98 years, the rental value of the freehold property for one year, all other things being equal, will actually be 3.8% of the freehold value, (instead of 0.1% of a leasehold) assuming no change in the discount rate, allowing the capital value to remain intact. What this means is, that if one is able to buy the freehold, the actual value of the property is infinite. Or, more accurately, the element of location value is infinite, while the value of the building will be infinite less the annual cost of maintaining the building. The rental value of land can be collected forever, so long as there is a demand for it. In practice, one might also assume that the freehold value in 99 years’ time will be higher than it is today, as will the rental value, if current trends continue; however, history indicates periodic reversals.

In a stable political economy, with no wars, invasions or revolutions to disrupt property ownership, this has profound consequences for freeholders and their descendants, in terms of wealth inequality. The mechanism for embedding inequality from one generation to another is particular to Singapore, but a general trend for property ownership to influence outcomes can be seen in other jurisdictions. In the Australian case, a different path has been followed, and different policies have applied, but the outcome is similar: ‘social mobility is increasingly associated with the asset position of parents’ (Adkins et al., 2021: 559). Real life is of course messier, and there will be misfortune, stupidity, untimely death or infertility to disrupt the flow of assets from one generation to another, quite apart from changes to the political economy of different nations.

In an insightful opinion piece on propertyguru.com.sg,70 (an online estate agency), financial advisor and private investor He Shen Chow explains through a cost benefit analysis the difference between purchasing a leasehold or freehold property. He uses the concept of net present value and discounted cash flow: the two options are the same when seen from the individual’s point of view in terms of lifetime benefit. It is only when the possibility of leaving an asset to the next generation is considered that

viewed 10/3/21
the benefit of the freehold purchase becomes significant. He refers to the teaching of Ricardo and George and characterises the Singapore government as: ‘the benevolent rentier, regenerating residential land in 99 year cycles so that many more generations of young Singaporeans will continue to buy affordable HDB housing’ forgetting to point out that any freeholders fall into the same rentier category, albeit it will be their heirs who benefit from their luck, foresight or generosity. Freeholders benefit most from the private accumulation of rent, with disproportionate price rises, perhaps the most obvious consequence of Singapore’s global city status, and no estate duty to limit the level of inheritance.

That some people are aware of this discrimination is reflected in an article by Bic Cherry in February 2021, in The Online Citizen, a Singapore news platform, suggesting that property tax rates on private leasehold flats on freehold sites should be increased to 22% (current maximum is 16%), with a 30% surcharge for long lease and freehold landed properties, such that the effective rate becomes 28.6%.71 The additional income, it is suggested, would be redistributed to the poorest citizens, for example in the form of rent rebates to those who cannot afford to purchase property, HDB or private. The author advances this policy as a means by which a part of the capital gain available over time to owners of landed property is redistributed to people without the same opportunity. Meanwhile in July 2021, Ravi Menon, CEO of MAS, hinted at the potential of a property gains tax to tackle inequality.72

Singapore, on its foundation as a nation state in 1965 undertook a major land reform, and through its process of development as a property state went some way to disrupt the wider private accumulation of rent from its normal trajectory in other western property owning democracies. However, its development of policy was not determined by an understanding of this land rent logic, which, had it been

71 https://www.theonlinecitizen.com/2021/02/19/to-promote-inclusivity-top-tier-residential-property-tax-should-be-up-to-28-6-of-annual-value/ viewed 10/3/21

understood, and had the founding fathers wanted to ensure the full expression of their aspiration to give all citizens an equal stake in the nation in perpetuity, might have acquired 100% of the land. Thereafter allowing a leaseback to the existing owners where redevelopment was not yet planned, on condition that they met all the criteria of the lease.

What then, according to this logic should be the criteria of the lease? An annual rental charge for the land, or a ground rent. What should be the term of the lease? This is not material, so long as 100% of the land value is collected by the ground rent each year. The land value element of such a lease would be close to zero, and could be extended without a premium. However, the (variable) annual rental value would be determined according to location and proximate amenities on a regular basis, say every two years.

Part of the compensation paid in such a scenario (the purchase of all land by the state) would be a lump sum for the building, which would give all leaseholders an incentive to maintain the building over time, so that should they wish to sell the lease at some point, they could recover the lump sum from the next purchaser. The value of the building element of the lease will vary with the style and size or quality of the building on the site.

In terms of value capture, then, Condition 3 fails partially, due to the leakage of private accumulation to the owners of landed property, and significant opportunities for value capture both to HDB owners who can sell at a profit during the early phase of the lease in the secondary resale market, and private owners who have benefited from rising prices, and windfall premiums on CS. This is not to say that significant amounts of value have not been captured through GLS, DC, and HDB sales, and will continue to be captured, only that better design would have created a watertight system, to prevent ever rising inequality. I will return to this topic in the concluding chapter, when considering the potential of a leasehold system of ownership for other jurisdictions.
8.1.4 An open land register

There is an open land register, with basic information (tenure type, issue date and length of lease, and ownership - public agency or private) available free, for every piece of land in Singapore on the government ‘onemap’ online platform. A new 3D masterplan is in development by the URA to include underground space, which could in future be utilised for particular activities (such as warehousing) to free up more land above ground. More detailed information on individual titles can be purchased on the INLIS platform, with a scale of fees according to the type of information sought. This satisfies the criteria for a transparent, consistent, and comprehensive set of rules around land ownership, condition 4. At the same time, security of tenure is guaranteed for owners under the same set of institutions. Since 2007, any owner of land acquired for public purpose receives compensation at open market value.

In advocating an open land register, it is recognised that a register can be used for good or ill. While it is an essential tool to identify who the beneficial owner of land is, in order to ensure that any land use fees are paid, and any uplift due to change of use granted is collected, a register without such conditions can be used to cement and defend absolute rights to ownership and control of land. However, it is the democratic control of the register that ensures the benefit, rather than the tool itself. Equally, whole community ownership of land (as a Commons) on a local scale can offer an alternative model to a rigid land register, with allocation of land agreed on a collective basis, so long as community ownership is recognised at a national level. Too often, long standing community use can be swept aside for lack of title records, although outcomes are not universal, see (Edelman et al., 2018) for some examples of both success and failure.

8.2 Public service provision and funding

8.2.1 Public provision of natural monopoly services

Condition 5, public provision of natural monopoly services is largely satisfied in Singapore, and I will just review briefly here how they operate within the state capitalist structure. A summary of their financial performance, net assets and
contribution to (or grant from) government is given at the end of this section for reference.

The Singapore Public Utilities Board (PUB) was set up in 1963 as a statutory board to supply electricity gas and water; in 2001, the supply of electricity and gas was moved to a new statutory board, the Energy Market Authority (EMA), while responsibility for sewerage and drainage, previously under the Ministry of the Environment, was brought into the PUB.

The generation and distribution of energy was corporatised by the EMA, and gradually opened to competition. The new company Singapore Power, (SP Group) is wholly owned by Temasek, and continues to generate and supply energy (both electricity and gas) to consumers and businesses in Singapore. Since 2018, the Open Energy Market has offered a choice of energy ‘retailer’ to all consumers, served by a selection of approved companies, (the so called retailers), but supply continues to be generated by SP Group. Consumers can also choose to continue to purchase their energy from the SP Group. Opening the final mile of energy consumption to competition in this way is reminiscent of the schemes in the UK and elsewhere, albeit on a much-reduced scale. It remains to be seen whether Singapore extends this competition to the infrastructure of generation and wholesale distribution of energy. So far, the government has moved only fractionally from the principle that these utilities should be provided by the property state.

Water distribution, and removal of wastewater remains within the PUB, now their primary activity, including the network of reservoirs. Although Private Finance Initiatives (PFI) were used to build and operate the NEWate purification plants and de-salination plants, ownership of the assets remains with the PUB, and their operation will revert to the PUB at the end of the contract periods. As well as increasing water supply, much effort is placed on reducing consumption, with escalating charges for the volume of water a consumer uses. Eligible (low income) HDB households receive automatic credits to their water accounts, and after the recent price review in 2017/18, owners of smaller (1,2 & 3 room flats) assumed to be elderly or low-income families, are paying no more for their water than before.
In the field of transport, all roads are built by the state, while major roads, and all roads in the central area are subject to ERP charges, designed from the outset to reduce congestion, and pollution. These ERP tolls are not hypothecated for road construction costs, but form part of the operational budget income. There is an efficient system of public transport, including buses and increasingly underground and light rail networks. The Land Transport Authority (LTA) have an ambitious programme of construction for new rail lines, both underground, and elevated, their aim being to provide a station within a 10 minute walk for 80% of the population by 2030. Before independence, buses were owned and operated by private companies, but the LTA now owns all vehicles and bus station infrastructure, only putting the operating licences out to tender. All bus and rail routes are now operated by one of two companies: Singapore Mass Rapid Transport (SMRT), or Singapore Bus Service (SBS); all journeys are paid for according to distance with a single pre-loaded smart card, with revenue collected centrally, and redistributed to the operating companies according to the terms of their licence. The same model applies to the rail network; all construction and maintenance costs are borne by the LTA with an annual subsidy from the government, while all rolling stock and buses are owned by the LTA.

SMRT, which was listed on the stock exchange in 2000 was delisted in 2016. Temasek, who were the majority owner after the original listing, bought out the private shareholders; in the confusing language of the stock exchange, a (publicly owned) holding company, will ‘take the company private’! Newspaper reports at the time, and since, gave the reason that maintenance work had been delayed during the period of private ownership, which led to poor service standards – another factor in the PAP’s poor performance in the 2011 election. Writing in The Straits Times, Christopher Tan referred to the move as: ‘ending a 16-year saga which saw a government linked entity trying to balance public and private interests, often with mixed results’73. Such conundrums are not unknown in other countries which have attempted to privatise public transport networks. SBS remains a listed company, a subsidiary of ComfortDelgro, a global public transport company, also listed on the

73 The Straits Times, 1/11/2016.
Singapore Exchange, with operations in the UK, Ireland, China and Vietnam; it remains profitable.

During the period from the late 1980s up to 2010, various attempts were made to push more responsibility onto the private operating companies, in particular to replace rolling stock, and maintain the lines once built, but gradually, it has been accepted that all infrastructure costs must be borne by the government (Chia, 2014:36-51). Although Lee (after a visit to Hong Kong in 1976 to understand how the MTR system was taking shape) understood how land value would rise with the railway investment, the government failed to adopt the same financing model used by the MTR in Hong Kong (Aveline-Dubach and Blandeau, 2019), (Purves, 2019).

Public transport is now effectively provided directly with subsidies by the property state of Singapore, rather than by the value capture mechanisms employed in Hong Kong.

The story of the development of the public transport system demonstrates the pragmatic approach to policy making in Singapore. While the ideological impetus might have existed to keep these services in private hands, when it became clear the system was not working for the public benefit, pragmatic solutions were found. Singapore is one of the few cities in the world where even the taxis are owned by public agencies, while the operators are once again independent.

The provision of telecommunication follows a similar pattern to other monopoly services in Singapore, but has probably gone further towards a privatisation model than others. The Ministry of Communications and Information, have a wide portfolio of responsibility including Cyber Security, Libraries and personal data protection. Telephony, internet services, and publishing (newspapers), broadcasting and digital services generally are devolved to the Infocomm Media Development Authority (IMDA) who regulate and license all operators in this field. In colonial times the telephone and postal service were state monopolies. In 1992, the regulator and Post Office were separated from the telephone service, which was in turn corporatised as Singapore Telecommunications Private Ltd, (Singtel). In 1993, Singtel launched an IPO on the Singapore Stock Exchange, very much in tune with the privatisation of BT in
the UK (to extend share ownership amongst the population, and to share the nation’s wealth) but Temasek retain 52% of the company. Since then, Singtel have acquired stakes in telecommunication companies operating in the Philippines, Indonesia, Thailand, India, Sri Lanka and Australia. It has also expanded to offer mobile, internet, cloud services and 5G infrastructure services at a regional scale, with offices across the region as well as in Germany and the USA. The people of Singapore remain significant beneficiaries of this network, not only from the service provided, but as indirect recipients of the dividends paid to Temasek.

The Port facilities in Singapore were built originally by the East India Company, but became public property of the colonial administration in 1902, and the Port of Singapore Authority (PSA) became a Statutory Board in 1964, which also took over the British Naval facilities on the north coast in 1971. PSA was corporatised in 1997, but remains wholly owned by Temasek. In 2020 the port facility in Singapore was the world’s largest transhipment hub and remains the second largest Container port in the world after Shanghai. The PSA operates in 26 countries, with 60 terminals worldwide.

Singapore’s Airport, Changi was developed from 1981 to replace the existing airport at Paya Lebar (about to be redeveloped as Singapore’s latest New Town: PLAB) by the Civil Aviation Authority of Singapore (CAAS) and corporatised as Changi Airport Group (CAG) in 2001, held by the MOF. The company has invested in airports around the world through its subsidiary, Changi Airport International. Over 60m passengers pass through the 4 terminals every year; about 50% of its revenue is rental income from airport service and retail concessions. So far, CAG remains 100% owned by Temasek.

Singapore Airlines, was established by the government in 1972, when it separated from the existing Malaysian-Singapore Airlines. Originally 100% owned by Temasek, there was an IPO in 1985, and a further sale of shares in 1987, leaving 56% of the equity with Temasek. Profits were hit by the impact of Covid-19 and it will be necessary to raise capital through a rights issue, in which Temasek may participate.
Over the last 40 years, many airlines have been privatised, but depending on the conditions of operation and access to landing slots, a high degree of state involvement remains. The profitability of many airlines has been precarious, and consolidation, failure and/or re-nationalisation has been commonplace (not just as a result of covid). Singapore Airlines itself has been highly successful and profitable, at least under normal conditions. As long as competitors have access to landing slots, there is no reason to retain carriers in national ownership: the real (monopoly) value lies in the landing slots and retail/service facilities on the ground.

In the field of banking the Development Bank of Singapore (DBS) was established in 1968 with the ‘responsibility of financing Singapore’s fledgling industries and growing new ones’\textsuperscript{74}, it was soon taking stakes in regional banks and extending its operations overseas. Anecdotally, one of the reasons DBS was established was to create a Singapore Corporate Bond market, in order to compete with, and draw business from Hong Kong, which remains the preeminent financial centre in the region. Initially wholly government owned, now only 29% of the bank is owned by Temasek.

Table 7-2: Revenue, profit and dividend summary, selected companies described above

<table>
<thead>
<tr>
<th>Entity/Statutory Board</th>
<th>Revenue</th>
<th>Surplus/Deficit</th>
<th>SB Contribution, Dividend or Government Grant</th>
<th>Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>DBS (29% Temasek) 19/20</td>
<td>$14.6bn</td>
<td>$5bn</td>
<td>$2.4bn</td>
<td>$54bn</td>
</tr>
<tr>
<td>SP Group (100% Temasek) 19/20</td>
<td>$3.9bn</td>
<td>$595m</td>
<td>$164m</td>
<td>$20bn</td>
</tr>
<tr>
<td>LTA (inc. SMRT) 19/20</td>
<td>$1.9bn</td>
<td>($79m)</td>
<td>$2.3bn grant, plus $675m fee</td>
<td>$5.5bn</td>
</tr>
</tbody>
</table>

\textsuperscript{74} \url{https://www.dbs.com/about-us/who-we-are/our-heritage?pid=sg-group-pweb-about-cardtiles-our-heritage} viewed 17/3/21
<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Revenue</th>
<th>Profit</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>SingTel (52% Temasek) 19/20</td>
<td></td>
<td>$16.5bn</td>
<td>$1bn</td>
<td>$26.8bn</td>
</tr>
<tr>
<td>PSA (100% Temasek) 18/19</td>
<td></td>
<td>$4bn</td>
<td>$1.2bn</td>
<td>$21.6bn</td>
</tr>
<tr>
<td>CAG (100% MOF) 18/19</td>
<td></td>
<td>$3bn</td>
<td>$330m</td>
<td>$8.4bn</td>
</tr>
<tr>
<td>Singapore Airlines (56% Temasek) 18/19</td>
<td></td>
<td>$16.3bn</td>
<td>$721m</td>
<td>Dividend suspended due to pandemic</td>
</tr>
</tbody>
</table>

For the monopoly services with the potential to generate revenue for the property state by legitimate charges to its citizens, there is a pattern emerging for Singapore, although not always followed precisely. First, the service is corporatised, with the shares usually held by Temasek; the service is run on a for-profit basis. Second, part of the shares might be sold to other investors. Third, the corporation expands its overseas operations, usually by acquisition, or direct investment in subsidiaries. To the extent that dividends are paid for services provided locally (within the nation), this is consistent with the attributes of the property state. To conclude, condition 5, public provision of natural monopoly services is satisfied.

8.2.2 Adherence to the principles of efficient (optimal) taxation

In respect of condition 6, adherence to the principles of efficient (optimal) taxation, the theoretical debate remains highly technical, but an almost unique system of public revenue collection and unconventional taxation has evolved in Singapore. I have covered the operational features of the system in Chapter 4, and the theoretical debate in section 5.2, so do not intend to reprise it here, except to indicate that reform appears to be actively and constantly under consideration, perhaps to extract more revenue from ownership of assets or wealth, rather than income alone. To do so, a brief discussion of the pitfalls arising from the path chosen in Singapore is given.
As things stand, given that the Singapore government owns 90% of the land, by selling it under lease, it collects an advance payment for the use of that land for 99 years. The amount paid is the capitalised value of its annual rental value. From the point of view of land rent theory, that annual rental value is created by the collective economic activity of the community, and past investment both public and private. It is the payment to occupy and enjoy that location – whether to consume directly in housing services or create wealth through some business activity to generate a private income. It is a measure of what benefits the community supplies to the individual using land in that location. The classical economists assumed that a rental payment for those benefits would discharge any obligation to the community from the individual in possession. It is the natural source of public revenue in line with their ability to pay a return for those benefits. By locking up that capitalised rent (treated as past reserves) in financial assets, and passing on the investment income only, not only is the community denied the direct benefit, and excluded from a particular piece of land, but also forced to pay other taxes to cover public service provision. Citizens of Singapore are probably in a better place than those of other countries where the annual rent of land is largely collected privately, but it is only a relative position, given the design of the rent collection: capital sum rather than annual value.

For the community to benefit more directly, it would be better to charge an annual rent to leaseholders, (rather than an up-front premium) and for this rent to be considered as operational revenue (with a small percentage retained for depreciation, repair and eventual building replacement – a sinking fund). The level of annual rent charged would vary according to the value of benefits delivered to the owner of the lease in any given year. The rent paid would reflect regular re-valuations of land and location. More favoured locations would command a higher rent. This way, land would be used efficiently, as users of land would move to the most appropriate place to meet their needs. Such an approach could be applied to both HDB and private developments – indeed, over time, less of a distinction might emerge – beneficiaries of greater local amenity, proximity to work, larger apartments or higher build quality would pay more. Or owners with higher incomes could continue to subsidise those on lower incomes.
By capitalising the annual rent of 99 years in the sale process for HDB apartments, or GLS for private apartments the asset has been financialised. The owner of the HDB apartment, and the private developers leasing land from the government often have to borrow to make the purchase, paying interest to the financial sector. The proceeds of the sale (above the build costs) are in turn, invested elsewhere: they generate an income but the annual rent is lost to the community. Some of the rent trickles back in the NIRC, but this is an inefficient way to deliver a benefit, with a host of fees and charges accruing to the investment managers along the way. In the case of developments on landed property, the land premium goes to past reserves, and trickles back in the same way. In both cases, part of the balance from rising land values during the period of ownership accumulates privately.

A clearer theoretical, even ideological understanding of land rent would avoid this pitfall. The government response over capital receipts (not being part of the system of taxation) (WA1) makes a further point about the instability of land prices, and the danger of relying on capital receipts from land sales for annual expenditure: the returns are volatile. However, by capitalising the rental returns and then investing, the government is in fact contributing to this volatility. Investment assets are inherently unstable, subject to speculation and animal spirits; flexible returns from land rent on the other hand are directly related to the current needs and demands of the community. They are permanent, so long as the community exists. If the community disappears, or moves elsewhere, the rent will go with them, but so too will the needs. I have highlighted elsewhere the privileged private accumulation of rent to owners of landed or freehold property.

In official recognition of the problem of private rent accumulation, at the Nathan lecture referred to earlier, Ravi Menon, discussing the issues of social mobility and inequality of wealth, suggested that the primary factor driving the wealth gap is property investment. Richer Singaporeans make ‘larger investments in real estate’ and the prices rise ‘proportionately faster... in the private residential market’ while the rich also make ‘multiple property purchases’ compared to those on lower incomes, whose choice of purchase is usually in the HDB market. He suggests that wealth taxes such as a property gains or inheritance tax might be considered to
ameliorate the situation, but does not offer any explanation as to why property prices in the private, particularly landed market might rise faster than prices in the HDB sector.\textsuperscript{75} Such a public discussion of the topic indicates the sensitivity to Singaporeans of the growing wealth gap. Moving to 100% land acquisition, with automatic leaseback to existing owners, and/or an annual charge based on rental value of land would limit the disproportionate capital accumulation.

Variable annual ground rents in return for a new form of perpetual lease has been adopted in Hong Kong since the mid-1980s and could be a model for the Singapore leasehold system. It might allow a higher share of investment (to refurbish, or rebuild estates) by the state up front, which will be recouped over the term of the lease.

So far, there has only been an announcement of the new scheme for refurbishment: VERS. For a switch to an annual ground rent, rather than upfront lease sale to work, a more explicit engagement with land rent theory would be necessary. This would be to acknowledge the relationship between a capital value, and an annual rent – the first being a multiple of the other. As the annual rent rises, the capital value would fall. The level of annual rent would need to be significant to have the desired effect. According to Georgists, to reduce the capital value to zero, the annual rent would have to be 100% of the annual rental for the land value only. This may prove politically impossible, but if the alternative for the leaseholder or her descendants is to lose the flat on lease expiry altogether, it might be attractive. A smaller premium would be paid for the perceived value of the building (flat) on the site.

Clearly, the process will have to be handled and communicated very carefully. The idea of relying on home ownership to boost wealth amongst different cohorts of the population is not working in other countries either. In a report by the Joseph Rowntree Foundation in England, it has been found that forty years of promoting homeownership, combined with increased longevity, has not only pushed house prices out of reach for the next generation, but also reduced the number of

\textsuperscript{75} https://lkyspp.nus.edu.sg/ips/events/details/ips-nathan-lectures-by-mr-ravi-menon-lecture-iii-an-inclusive-society viewed 8/10/21
inheritances. Instead, homes are being re-mortgaged or sold during the end-of-life period to pay for care. It has also left property have-nots with even less wealth than before (Appleyard et al., 2010), while those on lower incomes are excluded from the market altogether.

However, it is clear from my interview with an officer from Singapore’s Centre for Liveable Cities that the issue is being actively discussed. Specific proposals or options have not been published by any government agency, given their potential market sensitivity. The officer concluded the discussion by saying ‘I am still not quite sure how this issue will be addressed in the next 60 or 70 years’ (Int2) but refused to be drawn on potential solutions. He did acknowledge that it is more of a problem for residential leases, given the central place that housing security plays in Singapore’s social compact.

If an annual ground rent were applied to all property (including freehold or landed property) in line with its introduction to the leasehold sector, both HDB and private, the disparity between prices of freehold and leasehold property would be reduced, together with the private accumulation of rent. A gradual introduction of this annual ground rent to freehold property would both signal the direction of travel for conditionality of land use, but also bring down freehold prices gradually (or prevent further increases). The government has just over 40 years to engineer such a shift, given that the vast majority of 99 year leases will fall due after 2064. For a period there would continue to be individual winners and losers, but over a generation or two, a greater degree of equity would emerge. A fully functioning property state would be established, with strong conditionality for the ownership of all land, eliminating the leakage of land rent to owners of freehold property.

Time will tell whether any reform follows an optimal path according to theory, which would put the emphasis on annual charges on immovable property, or pragmatism, which might introduce capital gain or inheritance taxes, with all the pitfalls of legitimate paths of avoidance which such taxes invite.
I suggest that Singapore’s system of taxation is closer to meeting condition 6 than any other jurisdiction, whether by design or, more likely by default.

8.3 Common Wealth

In this final section of this chapter, I have included the four conditions aimed at providing equal opportunities or wellbeing for all citizens, so I have given it the heading Common Wealth. These four conditions are sufficient property rights for all, treating land as a national endowment, offering land for life and land for wealth.

8.3.1 Sufficient property rights for all

On the face of it, sufficient property rights for all are severely constrained, in the sense that land use is pre-determined, and vacant land is only made available for development by the government. On another level, however, except for the exclusion of foreign workers, some degree of property rights are enjoyed by all citizens through the public provision of social benefits, particularly in respect of housing. The idea of a homeless person in Singapore would indicate a failure of public policy, and a failure of one of Lee's founding principles that everyone should have a stake in Singapore - to belong.

More problematically, however, access to property rights is dependent on individual circumstances on a sliding scale, and the long-term advantage deriving from those property rights are in turn dependent on tenure type.

Individuals in possession of freehold land enjoy greater benefits than those only in possession of a lease, outlined in the previous section. This discrimination, or level of access has as much to do with the structural arrangements, the theoretical framework for property rights, as with government policy. The framework for property rights is essentially contractual: historical ownership titles, whether leasehold or freehold were accepted on transition from the colony to federation, to independent nation. The Land Acquisition Act removed absolute entitlement in law, making compulsory purchase a procedural affair, not subject to appeal, but
recognising that compensation should be paid according to law, while in the meantime respecting existing titles.

Ownership of HDB properties is conditional; you must be over 21, married, a citizen, and maximum monthly income levels apply to different types of flat; to buy the flat, you cannot own any other property, whether in Singapore or overseas. Hidden within the marriage condition, lies ongoing discrimination towards same sex couples. While sex between males remains illegal, prosecutions are rare, and since the first ‘Pink Dot’ rally in 2009, attitudes are changing (the Prime Minister announced in August 2022, that this law would soon be revoked). However, same sex marriage is not allowed, and therefore access to HDB properties is not possible for the LGBTQ+ community, except by subterfuge. Sociologist Natalie Oswin comments: ‘While the city-state’s government strives constantly to stay ahead of the pack and at the forefront of the global economy, it often chooses to “stay behind” on social issues’ (Oswin, 2019:7), suggesting that policies in this field is symptomatic of the city-state’s attitude to ‘others’ of any kind, whether foreign workers, misfits, those in poverty or otherwise non-conformist or critical of the state.

The condition of marriage can be overcome if you buy with a sibling or parent who is also a citizen; if divorced, you can buy if you have a child who is also a citizen. In a bizarre twist of logic, if you have a child without being married, one parent is forced to ‘adopt’ their biological child, in order that the child can become a citizen. Rules for buying resale flats are less stringent.

The timing of a flat purchase, depending on your life circumstances and the housing price cycle can have a profound influence over your ability to accumulate wealth over time. Anecdotally, young people say: ‘would you like to buy a flat with me?’ in place of the marriage proposal. A decision to delay or forego the opportunity of buying a second HDB property denies the owner the resale premium. The idea of ‘getting a second bite of the cherry’ is well known in Singapore, for example, quoted by Dr Cheong Koon Hean, then CEO of the HDB in a 2012 interview (Centre for Liveable Cities, Singapore et al., 2013:15), the cherry being the difference between the new HDB flat price, and its resale value.
At the other end of the scale, the vast majority of foreign workers on ordinary work permits cannot own land, even if they could afford to do so, and their place of residence is chosen by their employer. Well paid foreign talent generally have to rent property, except on Sentosa Island, where leases are available to purchase. It is only those with special category visas (Personalised Employment Pass) who can participate in the property market freely, and this is often a condition of their entry. Permanent Residents, who often arrive as foreign talent, can purchase HDB resale flats after 5 years residency, and eventually apply for citizenship. A summary of the conditions surrounding property ownership are set out in this table.

Table 8-3: Property Rights and other benefits for different categories in Singapore, compiled by author

<table>
<thead>
<tr>
<th>Category</th>
<th>Home ownership, HDB</th>
<th>Home ownership, private</th>
<th>Business ownership, opportunity to work</th>
<th>CPF Saving scheme</th>
<th>Collective benefits and public services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Workers</td>
<td>No</td>
<td>No</td>
<td>Pre-arranged jobs: no freedom to move jobs</td>
<td>No</td>
<td>Limited to transport, healthcare, public parks</td>
</tr>
<tr>
<td>Foreign Talent, unless Personalised Employment Passholder</td>
<td>No</td>
<td>Limited to Sentosa Island</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Permanent Residents</td>
<td>Yes, after 5 years, resale flats only</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Citizens under 21, Single</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Citizens over 21, married, divorced, with siblings or parents; all subject to maximum income</td>
<td>Yes. A divorced parent with a child can buy a flat. Unmarried parents need</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
To return to the origin of Lee’s thinking around land acquisition, and the need to secure any uplift in land value from development for the community, I have explored in chapter 6 the influence on Singapore of the ideas of Harold Laski and Erik Lorange, but I have found no discernible link to the work of J S Mill or Henry George in respect of taxing the increment, or full annual rent of land. However, Lee’s earliest speeches indicate a deep sense of injustice from the colonial system of land use:

The colonial system is the rock on which rich men build their houses and colonialism is the swamp on which the poor put up their slums or their tumbledown attap shacks... We have appalling slums. People packed in cubicles and dark airless tenements. We see attap dwellers evicted and their simple houses pulled down. Speech given for contesting the Singapore Legislative Assembly Elections (21 March 1955) (Lee, 2012:Volume I, 1955).

Almost ten years later in 1964, at the opening ceremony for new apartments, as the HDB programme is gathering pace, with 60,000 units planned over the next five years, he bemoans the obstacle to building more: ‘there is one factor which we cannot change, that is, the price of land’ (Lee, 2012:Volume I, 1964), while at a similar ceremony a year later he claimed that the hallmark of a modern civilised nation would be the state of its housing for ordinary people, rather than the grand public buildings that colonial governments prioritise.

The following year, speaking to the Asian Socialist Conference in Bombay, on 6th May 1965, he said that ‘no man should exploit his fellowman – we believe it is immoral that the ownership of property should allow some to exploit others’ although only economic growth under capitalist conditions would reduce ‘ignorance, illiteracy, poverty and economic backwardness’ (Lee, 2012:Volume I, 1965). In this and other speeches, there is a sense that the exploitation comes from the colonial power ‘owning’ the land and productive capacity of the colony itself – it is the domination of one country over another, or one group of people over another, which is at the
heart of this exploitation, rather than the fact of land ownership itself. Some sixty years later, these fundamental inequalities have in part, been removed.

On the surface, condition 7 is met, at least for citizens and permanent residents; but only when foreign workers (25% of the population) are ignored.

I have described earlier the general situation of foreign workers in Singapore, but here I will add some comments on their plight, and the different conditions experienced by different nationalities. These insights were gained from interviews with officers from NGOs working with foreign workers, and a foreign worker from Bangladesh. Firstly, no Singaporeans would do most jobs taken by foreign workers. These people have lower expectations as the opportunities in their home countries are out of reach, the majority are only in Singapore for what (money) they can send home – a big sacrifice is made to give their children a better opportunity in life. Exploitation is common, not so much because they are financially illiterate, but with no social capital they are less able to protect themselves from high interest rates from banks, micro-loan groups and money lenders, even their own family and the community, who give them loans to pay the upfront agency fee. One Bangladesh worker said with feeling: ‘almost two years, I worked for freedom’; since then, he has paid for several training courses, and is now qualified as a site health and safety inspector but earns half what a Singaporean would earn doing the same job. After 8 years in Singapore, he admits that ‘my life has been changed – better job, better pay (but) I deserve more... Singapore gave me everything, I am not so selfish not to recognise that’ (Int6).

It is almost an apartheid system. Singaporeans often conflate the foreign talents with foreign workers, and resentment to the former group - highly paid and assumed to be taking highly skilled jobs from Singaporeans - is transferred to the low wage workers. The low wage workers are seen as a dis-amenity, a threat – ‘young men on the loose’ – or conversely, domestic workers are seen as likely to find boyfriends and get pregnant if given a day off, or to entice husbands from their wives and disrupt family life. Geographer Brenda Yeoh asks:
How can we manage this divide mentality between welcoming the skilled and guarding against the unskilled and, at the same time, pay heed to upholding high standards of human rights and dignity congruent with a developed nation like ours? (Institute of Policy Studies (Singapore), 2019:9).

In the introduction to a collection of papers investigating inequality in Singapore, Statistician Paul Cheung reflects on the impact, not only of the stress of city living, but also the underlying anxiety and insecurity brought about by competing with a large and flexible migrant workforce: ‘Compared with similar affluent countries in the Nordic region, Singaporeans manifest a much lower level of ‘happiness’ as reported by the 2013 World Happiness Report’ coming 32nd in the global list (Yahya et al., 2015:2). He also describes a reluctant acceptance of this trade-off between a successful Singapore, and yet a growing cohort of ‘working poor’ citizens alongside the foreign workers to ensure global competitiveness.

Since the pandemic, living conditions have improved, new Quick Built Dorms (QBD) are going up rapidly but they remain out of sight, out of mind. Those who used to live ‘on site’ are now being moved to newer dormitories – further away from the city and public transportation, and more removed from local amenities. There are more cases of depression, as freedom of movement has been restricted. Foreign workers may have larger prison cells, but they are still cells.

There is a steady supply of workers to replace any malcontents, and while some countries such as the Philippines and Indonesia are discouraging migrant workers, others such as Myanmar provide a new source. It might work better, if their terms and conditions of employment and living more closely resembled those of the citizens: if, for example, their wives were allowed to accompany them, and if their children could attend local schools etc. But foreign workers are considered ‘transient’ ‘other’ expendable, they will go home. How can you befriend people with no time, little money, and constantly under pressure from their families at home? So foreign workers remain isolated and vulnerable.

The work of NGOs such as TWC2 and HOME is recognized by international agencies such as the UN and the International Labour Organisation, but the Ministry of
Manpower, who controls the conditions for foreign workers often ghost their reports and activists. Rather than agreeing to disagree, they often only respond by saying the MOM is constrained by current legislation, and therefore cannot advocate for change. Their reports are often characterised as ‘not credible’, in newspaper reports of incidents, or their charitable status is threatened. At worst, correction notices can be issued forcing an agency to withdraw comments or stories on their web sites. Given the overwhelming consensus amongst the population that Singapore is governed well, it is difficult to persuade civil society that there is a problem; a citizen might say ‘why should I feel ashamed’ - this is being regulated by our government - and move on.

Different standards apply, and change will only come slowly, perhaps attitudes will change amongst the next generation, who have had more opportunity to travel, and observe how other cultures have adapted over time. Whether the experience for a domestic worker is positive for her and her family at home, is often due to the luck of the draw, finding a good employer who takes an interest, and perhaps pays a little more than the average. Yeoh asserts: ‘in short, state policy treats foreign workers as disposable labour which must not remain threaded into the basic fabric of Singapore society.’ (Institute of Policy Studies (Singapore), 2019:5).

*The condition therefore fails on the grounds of exclusion*, which I have described in the previous chapter, and will return to below.

### 8.3.2 Treating land as a national endowment

There is no doubt a national endowment has been built around the conditionality for use of land, but how has it been built and how does it operate? Land itself is classified as past reserves; when it is sold, it merely transfers from being a land asset to a financial asset: ‘under the constitution, capital receipts from land sales are protected as part of Past Reserves and do not constitute operating revenue that can be used
for expenditure’ (WA1). The relevant section in the Constitution can be found in Part XI, Clause 142, (1C) (b).\textsuperscript{76}

In a written clarification from the government of Singapore (April 2021) to speculation in social media that government receipts are higher than are declared in their operating revenue, a more detailed explanation is given:

Selling land does not increase revenue. Instead, land sales convert physical assets into financial assets. The Government then invests these financial assets to generate a sustainable stream of investment returns over the long term, or use it for other land-related expenditure \textsuperscript{77}

The article goes on to give an example of a family selling a house – if the family lives on the proceeds, it will soon run out of money – whereas if it invests the proceeds of the sale, and lives on the investment return, it will not. However, the article does not consider, instead of selling the house, the family could collect an annual rent, and live on that. This income would not run out, so long as there is someone willing to pay to occupy the house; I will return to this option below.

Land, therefore, is perhaps the primary national endowment. However, to what extent is this used for the welfare of all? Given the restrictions applied to the use of investment income for annual expenditure, a significant share is merely accumulating. For what purpose? An ever-growing cake, but no one is allowed to eat it (except for a little icing each year). There are very few nations confronting the same issue. Most nations do not collect sufficient revenue to cover their annual expenditure, instead relying on private, or overseas reserve investment in government bonds to make up the difference. Exceptions include the oil rich nations, where the analogy of turning sale proceeds into financial assets holds; Norway’s Government Pension Fund Global (GPFG), has invested abroad, and since 2001, a fiscal rule has been imposed whereby only 3% of the annual returns are spent each

\textsuperscript{76} https://sso.agc.gov.sg/Act/CONS1963#pr145- viewed 20/9/21

\textsuperscript{77} https://www.gov.sg/article/clarifications-on-the-governments-cash-receipt-and-revenue viewed 20/9/21
year, estimated to be the equivalent of the real return on the fund over the long term. Nonetheless, this 3% return is currently sufficient to cover about 20% of the operating expenditure. The Alaskan Permanent Fund (APF) has collected a portion of revenue from the sale of oil each year and invested the proceeds in a similar way. However, through its Permanent Fund Dividend, a scheme created several years after the establishment of the APF, instead of using the income to support the operating budget (other direct taxes on oil do this), every qualifying resident, including children, receives a cash payment every year, ranging from US$1000 – US$1500 (Widerquist and Howard, 2012: 6), conceived from the outset as a universal basic income (UBI).

In section 7.1, I gave an overview of the Public Accounts of Singapore. Here I will say more about budget surpluses, and in particular the government reserves policy, which governs the national endowment.

All countries hold reserves, often in the form of foreign currencies which are used to regulate their balance of payments. Singapore has built significant reserves which are used to fulfil other functions, primarily to provide long term stability for the macroeconomy: stable exchange and interest rates in line with global trading partners are used to maintain the flow of imports and exports on which the local economy depends. Fiscal measures to boost or cool local investment are considered poor substitutes to monetary measures exercised by the MAS (Lee, 2012). Reserves are considered as both an endowment and a crisis fund – additional money was drawn from reserves to finance the response to COVID-19 – to balance the needs of current and future generations of Singapore. The MOF do not have a target level of reserves, but their aim is to allow the reserves to grow in line with the economy, in anticipation of future requirements.

Returning to the existing mechanics, an endowment fund implies a more tangible benefit in the form or dividends or direct payments to citizens. Over the last twenty-five years, the government has adopted a series of ‘special’ or one off payments to

78 https://www.nbim.no/en/the-fund/about-the-fund/ viewed
citizens, often linked to CPF top ups to enable people to purchase shares in
government owned companies when surpluses allow:

In 2011, a $3.2bn ‘Grow and Share’ package was announced to share
‘our surplus’...while in 2015 a slew of special transfers to households
and businesses totalling $5.7bn was included in the budget... Such
surplus sharing schemes are presented as ‘special’ transfers separately
from the ongoing operating and development spending of ministries to
highlight that these items are one-off and not to be expected as regular
features (Lee, 2017:29).

Another example of the government being willing to use past reserves as an
endowment for citizens is in their use to guarantee consistent interest payments to
CPF members when GIC investment returns fall below the level of the guaranteed
interest payments. This was especially true in the period after the global financial
crisis, when investment returns were low, and asset values fell. The GIC is a long-term
investor, prepared to take a higher risk for higher reward, and make up any difference
in returns in the short run, and absorb volatility in asset values. This is evidence of
the government moving from a stance of self-reliance to one of collective
responsibility for citizens.

*Condition 8 is thus satisfied*, albeit in a rather miserly and cautious way; a way
determined by the logic of financial assets and their investment returns, rather than
the potential land rent returns.

### 8.3.3 Land for life

*Condition 9, land for life is largely met* through near universal provision of housing,
education, environment, transport as has been described in earlier sections, subject
to the inclusivity proviso for foreign workers discussed at length under different
criteria. K C Ho raises the issue of housing for foreign workers in a posthumously
written ‘conversation’ with Haila, in which, given the state regulation of land, there
is no place beyond the formal housing sector for speculators to offer a range of
options to these low paid workers. Instead, the market ‘has given rise to the growth
of dormitory housing operated by private contractors’ (2021:342), where the state
does not provide, only regulates for a minimum provision of amenities.
There is a direct link between condition 9 and 10, land for wealth.

### 8.3.4 Land for wealth

There is little point in having access to these services (for life), if your enjoyment of them is curtailed by a lack of income. I have already discussed the exclusion of foreign workers, here, some qualification should be added in respect of citizens. The presence of foreign workers can be seen to have had a negative impact on the level of wages for poorly qualified citizens who are competing with them for the low skilled jobs. The government tries to preserve these jobs for citizens and improve their chances to enjoy life with a number of different schemes.

First, the foreign worker levy, imposed on companies contracting and offering low skilled services is varied by sector to control the number of foreign workers in that sector. While the levy itself is designed to restrict numbers, a quota system is in operation as a backup. In addition, minimum wages are set (for citizens) employed in these sectors, with opportunities to increase these wages on completion of training courses designed to improve productivity and move workers into supervisory roles. This is described as the Progressive Wage Model, aimed at ‘professionalising’ these low skilled roles. Workfare Income Support (WIS) is also offered to top up wages, which applies to about 300,000 citizens in employment – this number rose to 400,000 during the pandemic, highlighted by Ravi Menon Managing Director of MAS, at the third Nathan lecture given on 22nd July 2021 at the Institute of Policy Studies. Lifelong learning is also offered to allow people whose jobs have become obsolete due to mechanization and technical investments in AI, for example, to retrain, and move to new positions in higher demand. In his speech, Menon referred to the overall system as 2 safety nets, 1 trampoline and 4 escalators.

One might ask why all this government intervention is necessary; is the market failing its citizens, denying them the benefits of the property state, or perhaps it is the three-pronged Social Compact described in section 6.4 that has proved inadequate? Is there a structural problem within the Singapore economy which renders a significant
section of the working population at a disadvantage – living at or below an imaginary poverty line?

In a written answer (WA1) and interview (followed by written answers) (Int3) respectively, two agencies, the MOF, and MSF pleaded ignorance of the Smith report – a ‘Handbook on Inequality, poverty and unmet social needs in Singapore’, written by academics at the Singapore Management University’s Centre for Social Innovation (Smith et al., 2015) which seems barely credible, especially when a reference was given to it in the prepared questions sent in advance. Instead, the MSF focused their attention on existing mechanisms to provide social support, the main one being ComCare, established in 2005, and now managed by MSF (set up as a Ministry in 2012). The pattern of pragmatic innovation continues: the agency was set up in response to changing needs, which have been driven by external forces such as globalisation. The question of numbers in relative or absolute poverty was avoided by confirming that Singapore has no definition of either condition. ComCare reflects a change of emphasis in the government’s role which used to be focused on housing and health but is now attempting to be more holistic. While annual spending through ComCare is theoretically limited to the interest on the investments held in the Social and Community Fund, more money would be available ‘if it was needed’ (Int3)). A lot of my questions were avoided as being ‘too subjective’ or ‘speculative’ while I was referred back to the agency web site and annual report for answers. The ‘multiple layers of support’ available to people in difficulty via the social compact was emphasised, while to the suggestion that the disparity of income and wealth may be due to some structural defect in the economy, the answer given was ‘no’. The strategy for the programmes offered by MSF is threefold: first, to offer more assistance to students from low-income backgrounds to advance to higher levels of education, in order to promote social mobility. Second to provide temporary assistance to enable people to ‘get back on their feet’ after losing a job, for example. And third, long term assistance for anyone unable to support themselves because of age, disability or illness, or lack of family members able to help. Despite the lack of engagement and transparency, I sensed that there was a willingness and desire to improve the circumstances of their clients. (All inverted comments from Int3).
This sentiment is echoed in a book by Singapore Sociologist Teo You Yenn (2019), who reports that while people working in the sector were warm hearted and aimed to do the best for their clients, the system operating, and the mindset behind that system, made it difficult to offer permanent, life changing help. She describes the fragmented, multi-agency nature of programmes available, the relatively small pay-outs from each, and the constant monitoring and review of circumstance to qualify for any available packages. The mindset is one of temporary help, until the applicant can get back to work for example, of exceptionalism. The need to apply for assistance is often due to accident, illness, loss of employment, divorce (in these cases, an HDB flat must be sold, while single parents on low incomes will struggle to return to ownership) or inability to work due to caring commitments, either of children or parents. In a meritocratic society, the need to call on the state for help indicates failure, both of the individual concerned, and the extended family who are unable to look after their own under the three pillars of the social compact. Ms. Teo, an Associate Professor at Nanyang Technological University, Singapore, with a wide range of academic publications on the issue, was surprised by the impact the book had in Singapore – over 20,000 copies sold in the first year – with invitations for interviews from mainstream media and talks to non-academic audiences. Her work clearly touched a nerve in civil society, exposing a disconnection between putting society before self, and care for every individual:

But. This ideal of our country – made up of people who put society before self, a sociologist’s dream – is everyday challenged by the other ethos we face living in Singapore: no one owes you anything and it’s everyone for themselves (i.e. their families). This too has become our culture (Teo, 2019:177).

She describes the culture of assistance as a ‘differentiated deservedness’ – if you can help yourself, for example by teaching your children to read before they start school (or paying tutors to teach them) they will move to the higher streams, and qualify for the grammar school equivalent and overseas scholarships, while if your child needs special assistance in reading, they are labelled slow, sub-standard, destined for the technical stream and early departure from the education system, thus perpetuating the inequality – differentiation. While only those willing to help themselves deserve
the state’s help: ‘...the principle of differentiated deservedness is embedded in social policies, the inequalities generated by capitalist logic are not alleviated but deepened by state policies’ (Teo, 2019:184).

The Smith report, in its conclusions point to a lack of specific data in disaggregated form that would allow the multifarious agencies to tackle social problems in a more coordinated way:

...there is a great need for more data on disadvantaged individuals and families and for much more sharing of the data that exists.

While the fact that the government in its respective Household Expenditure Survey:

pointed out that an increase in government transfers is in part responsible for the increased well-being of the bottom quintile... indicates that the anti-welfare position is not as strong as it once was (Smith et al., 2015:60-61).

Whether the government decides to tackle some of the structural problems in the workforce, (including the disproportionate numbers of foreign workers and their conditions of living and working) or continue to expand welfare provision and transfers remains to be seen, but the former approach would strengthen the example and argument for the property state for other jurisdictions. In a sense, conditions 9 & 10, land for life, land for wealth are two sides of the same coin; both conditions need to be satisfied in order to satisfy each. While they are broadly satisfied for citizens, I will deduct one point due to the exclusion of foreign workers.

I can conclude this section by confirming the scorecard for the general conditions of the property state being met: 8/10, with one major: land for all life/land for wealth due to the exclusion of foreign workers (half a point for each), and two minor flaws, for which again half a point is deducted for each: freedom to use unused land, and accumulation of rent on landed property. I summarise in this table:
Table 7-4: Scorecard for General Conditions of the Property State

<table>
<thead>
<tr>
<th>Section Heading</th>
<th>General condition</th>
<th>Met, or not met</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation</td>
<td>Government control of land use rights</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>Freedom to use unused land</td>
<td>Not met (minor)</td>
</tr>
<tr>
<td></td>
<td>Capture any uplift in value</td>
<td>Not met (minor)</td>
</tr>
<tr>
<td>Technologies</td>
<td>An open land register</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>Public provision of natural monopoly services</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>Adherence to the principles of optimal taxation</td>
<td>Met</td>
</tr>
<tr>
<td>Common Wealth</td>
<td>Sufficient property rights for all</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>Treating land as a National Endowment</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>Land for Life</td>
<td>Not met (minor)</td>
</tr>
<tr>
<td></td>
<td>Land for wealth</td>
<td>Not met (minor)</td>
</tr>
</tbody>
</table>

8.4 Conclusion

In this chapter, I have reviewed the performance of Singapore against an extended list of conditions that might be used to judge whether a state has qualified as a Georgist Property State. In doing so, I do not offer this method as a definitive guide, only as one way to assess how a land use regime might be utilised to measure outcomes in terms of equity. I have indicated a score of 8/10 for Singapore. In the concluding chapter I offer some reflections on how this model might be applied to other jurisdictions, and how any shortcomings might be addressed in Singapore.
Chapter 9  Conclusion. The property state experiment

In this chapter, I begin once again with a reminder of the research question:

Research Question

Private appropriation of economic rent from rising land values is increasingly identified as a key cause of rising inequality of wealth. Through a programme of land acquisition since independence and the collection of land rents to support public revenue, to what extent has Singapore ameliorated this tendency in advanced economies?

Subsidiary Objectives

To explain how Singapore was able to engineer a sophisticated public land value capture policy framework?

To understand any lessons to be learnt in the light of rising land values and land rents in advanced economies becoming a key driver of wealth inequality?

In this thesis, I have judged the success or otherwise of tackling inequality through the adoption of the conditions of the property state and strong conditionality on ownership of land. The Singapore case can also be seen as a series of experiments to judge the validity of Haila’s attempt to develop a general theory of land rent within the framework of a property state, which fits within the image of a Georgist state. Such a framework would demonstrate the possibility for a nation to ‘resolve the housing question, and (which) respected the right of the urban working class to the city’ and adopt a ‘moral, social, political and ideological’ approach to land use (Haila, 2016:219-221) (her emphasis).

Given Singapore’s almost unique adoption of the property state approach, the comparison to a laboratory is apt. Some of these experiments have delivered, but are yet to fulfil their full potential. One thing is clear, a greater understanding of land rent theory amongst policy makers is essential to tackle inequality. I have demonstrated in this thesis how Singapore engineered a transition from colonial backwater to
vibrant Global City with socially equitable foundations in line with Geo-classical liberalism. To be sustainable and/or transferable to other jurisdictions, adjustments might need to be made, or theoretical, even ideological concepts acknowledged to avoid the pitfalls highlighted in the processes adopted in Singapore.

It is clear that pragmatism (as an ideology) still rules in Singapore. This can be a strength: when policies do not work, it is easier to change direction and adopt new policies. However, it is also a weakness if policies informed by theory and backed with evidence are ignored, given less priority, or denied influence in favour of a purely pragmatic approach. The latter path, a dogmatic exceptionalism betrays a lack of confidence or unwillingness to belong to or support a particular tradition such as (Geo-classical) Liberalism. There is a danger that Singapore continues instead to follow a unique path determined by an allegiance to a founding myth: Singapore against the world, or at least its near neighbours. With only a founding myth to rely on, policy adoption begins to resemble a patchwork of sticking plasters, rather than a coherent, logical whole.

Taking 1965 as its starting point, and the shock land reform brought about by the Land Acquisitions after this date, followed by the GLS programme on 99 year leases, we are passing the half way mark in this experiment, albeit some leases have been extended as a result of densification schemes, while a few shorter, or Colonial issued leases are falling due. It is therefore a good time to see how the experiment is unfolding, and how it might end.

In this conclusion, I will return to the main deviations from the property state conditions in Singapore. Many of the issues have been discussed in Chapter 8, here, I will offer suggestions for improvements or modifications which might bring the Singapore experience closer to an ideal model.

9.1 Understanding rent theory

In earlier chapters I have highlighted the leakage of rent to private appropriation through the HDB resale programme, CS, and the anomalies around freehold land ownership, and discussed potential ways to address this issue. Here, after a brief
review, I will offer some conclusions to this discussion in order to answer the first research question.

The ongoing opportunity for private appropriation of rent and rising inequality is underpinned by the divergence in values between private and HDB assets.

To underscore the scale of the problem, private property prices were steady until 1981, fluctuating in line with events such as the Asian Financial Crisis of 1997/98 and the SARS epidemic of 2003, until settling 120% higher by 2008, relative to 1975. Prices dipped briefly until climbing to 150% by 2012 when the government intervened with various cooling measures, particularly around stamp duties. The HDB resale market saw similar rates of increase, albeit at a lower price level. (All figures from the relevant government agencies, quoted in (Phang, 2018:39)).

Since then, from the full government dataset, which separates landed property from non-landed, between 2009 and 2013, landed property, increased in price by 79% while non-landed private, and HDB resale properties increased in price by only 49%.

From another source, the Singapore Property Exchange calculate a Singapore Property Index (SPI) from transactions across the three main categories of tenure: landed, non-landed (private) and HDB. Adopting, approximately the financial crisis as a base year, where in each tenure, the index stood at 100: landed property now stands at 225, non-landed (private) at 205, with HDB at 150.

These figures are very broad brush, there will of course be variations according to location and the age of the property, but clearly, owners of landed property, even though they are a small number, have benefited most from the uplift in land values over time. This index diverges from official government statistics for private landed

80 https://data.gov.sg/dataset/hdb-resale-price-index viewed 12/10/21

297
and non-landed property and the Exchange explain their methodology and reasons for the difference on the web page referenced below.

Rising prices will have the effect of making housing more attractive for investment; it can also be seen as a leakage of economic rent for private appropriation, either directly in the form of uplift in value, or indirectly in the form of interest payments to private banks for larger loans. The former uplift remains with the owner, while the latter lands in the financial sector asset values and salaries, as described by (Christophers, 2020).

Combined with falling asset values coming to the HDB and private non landed sector, the divergence is set to accelerate, and therefore inequality will become more extreme. Singapore’s initial success at promoting equality through property ownership can only be maintained by redistribution via their National Endowment Fund. It is not clear how far, or fast, the government will go to unlock this potential income stream for future generations, even if it were desirable to do so.

A second cause of rising inequality is linked to the ongoing policies around foreign talent and foreign workers. Clearly, there is a huge discrepancy in equity between citizens and foreign workers, but I have also referred to growing resentment towards the foreign talent. Lee’s initial policy to welcome foreign talent and investment by MNCs kickstarted the journey from third world to first. Since then, Singapore’s citizens have gained the education and skills to replace many of the foreign talents but feel excluded from many of the top jobs due to the ongoing policy of open immigration for this category of worker. The current trend for executives based in Hong Kong to transfer to offices in Singapore while continuing to work for the same company, is fuelling this resentment. Adding to the pool of foreign talent puts added pressure on the price (and rents) of private landed (and non-landed) property. Families moving from Hong Kong to Singapore are also creating significant competition for places in the best schools.

The answer to the first research question therefore remains open, but if current trends continue, and nothing is done to arrest declining HDB asset values, the balance
of wealth owned by the poorest 50% of the population will drift away from the Piketty ideal. Having said that, the asset values are at least being transferred back to the state to be recycled to the next generation when new 99 year leases are sold. However, there is a better way to deal with this issue as I have indicated.

9.2 Land value and building value

Turning now to the subsidiary objectives, the Singapore story offers useful lessons. Many of the difficulties generated in this story of Singapore’s attempt to satisfy the housing requirement of the property state, together with the need to compete and maintain its status as a Global City come back to the design of its system of tenure, and a failure to appreciate the difference between land or location value and amenity, or building value. While a significant percentage of public revenue has been raised from land values every year, and remains sustainable in the medium term, say 20 years, it is unclear how citizens will respond to the declining value of HDB leases beyond this time period. It is possible that the political fallout from this design flaw would derail the property state model. The electorate may demand reform such that the HDB sector more closely resembles the private sector.

The reader will recall that an annual ground rent for a lease was recommended by Erik Lorange, (albeit at a very low rate) but not adopted. Instead, a capital valuation was paid at the start, and this value will fall to zero at the end of the lease. To explore the dynamics of this market, we come back to the separation of land value from building value - what determines house prices? Land rent does not enter the house price in the same way as the cost of producing the building. As long as there is a population and someone willing to pay to occupy a particular location, land has an infinite value. Access to any particular location is determined by one’s bank balance or the availability of credit. The price paid for a new building on the other hand must cover at least the cost of production. In addition, a premium will be paid for the expected life of the building, which could equally be expressed in terms of the expected annual depreciation, however this is not an exact science. Some people are willing to live in more dilapidated buildings than others and will pay (or not) accordingly. Eventually, the value of the premium will expire, and new costs will be
incurred to restore the common parts for another twenty years or so. Another way of thinking about this building premium is in terms of the developer’s profit. The value of the building is limited to its useful material life.

In Hong Kong, the early leases were issued with fixed rents; lease extensions were also granted with fixed rents. Rents are paid in addition to Rates, which are charged at 5% of rateable value. From 1973, the variable Government Rent at 3% of rateable value applied to lease (now perpetual) extensions. Rateable value is calculated as the open market rental value for any property, reviewed annually, net of any service charges – referred to in section 2.1. An annual rent of 3% is better in this context than Lorange’s 0.5%, but a higher rate would have reduced the absolute price of buying a lease, both old and new. Activist investor David Webb, based in Hong Kong, theorised the effect of a new lease with a 30% annual ground rent, which he called GR30, in contrast to what would be GR3 (a 3% annual ground rent). He calculated that the ‘land premiums in current auctions would be between 32% and 40% lower for GR30 leases than for the current GR3 leases.’ 82 Raising the ground rent to 40, or 50% of the rateable value would further reduce prices. It should be noted, that in Hong Kong there is no distinction between land and building in the calculation of rateable value. So, to be consistent with the theory of land rent (that the value of annual land rent can be collected with no distortionary effect on behaviour) there is a limit to the percentage of the combined value that could be collected. If too high a rate is collected (for both land and building), the property would begin to have a negative value, as there is not enough left for the owner to maintain the building. Rather than rely on chance, it would of course be better to calculate the land value, if the rate of Government Rent were to be increased to the extent Webb suggests.

If Singapore adopted a similar policy, and introduced an annual ground rent for all properties at a significant rate, although it would forego some premium income for new lease sales, it would gradually increase its annual income as more leaseholders joined the annual ground rent scheme. Switching to a perpetual leasehold, in return

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82 https://webb-site.com/articles/leases2.asp viewed 29/9/21
for the annual ground rent charge could offer a solution to the looming issue of lease
terminations.

Leaseholders would no longer face the loss of their apartment at the end of the lease
term; descendants could keep the apartment, as long as they pay the annual ground
rent, and periodic maintenance charges for the building. Over time, a new way of
thinking about property might develop: the idea of property as an investment could
give way to the idea of a property as somewhere for people to live during their
lifetime, with everyone paying on the same terms. The idea of property as a package
of use rights, rather than the thing itself. Any difference in the amount of ground
rent paid would reflect the locational advantages of a particular site, in terms of
amenities provided, whether public or private (schools, transport, shops, etc.). Such
a logic is beginning to apply for many other products in today’s market, particularly
in technology and web-based services. Many people no longer invest in physical
recordings of music or film, records, tapes or DVDs; instead, they are rented from
streaming service providers (even if these service providers are monopolistic, and
collect enormous rents, the principle of renting services could become more
acceptable). Similarly, documents and data files are often copied to online cloud
platforms, rather than being stored on in-house servers, or paper copies being kept
in filing cabinets. Even software used to run accounting, CRM or logistical
management systems are used in return for an annual fee, rather than being bought
outright. This way, companies can benefit from regular upgrades, rather than run the
risk of obsolescence, file corruption, or intermittent migration to new programmes
at high cost.

Would it be too much of a step to change people’s perceptions about ownership of
land? What, after all, is ‘buying’ a fixed term, 99 year lease, if not a rental agreement,
albeit of 99 year duration. At the end of the term, the property is returned to its
owner, the property state. Adopting a system of a variable (assessed every two years,
say) annual ground rent would cement this fact into the property contract. The rental
charge would be calculated on the basis of land, or location value, and would
therefore vary according to proximity to amenities such as transport, schools, parks
and other social infrastructure. The payment for the building, would reflect either the
upfront cost of construction, or compensate the previous owner for all maintenance charges incurred during their tenancy to keep the apartment and common parts in good order for the new owner. Such an arrangement would reflect more accurately the reality of property stewardship during a lifetime, while maintaining the feeling of ownership.

Allowing property values to find their level, to float down, and encourage occupation by new users who can afford the annual rent of land, would allow a more gradual transition, less exposed to sudden incursions from rent seekers and periodic gentrification of a neighbourhood. If such an annual rent were applied to freeholds, rising levels of inequality would be checked, and over time begin to diminish. Measures of material success would be determined solely by levels of income from produced wealth than ownership of non-produced assets.

By introducing an annual rental charge for land use, the question of ownership becomes less important. Other jurisdictions would not need to acquire land in the way Singapore did, periodic revolution or dramatic land reform might be avoided. Singapore too could adopt such an annual charge to preserve the current distribution of asset ownership, and arrest the declining value of fixed term leases, as well as rebalance the divergence in wealth between owners of landed vs. HDB property.

Adopting an annual ground rent charged to all property owners in Singapore would begin a new laboratory experiment to correct the flaws in the design of the first experiment. Such an experiment might address the questions posed by my subsidiary objectives.

9.3 Foreign workers

I have described earlier Singapore’s non inclusive growth model, with its large contingent of foreign workers. While most western economies rely on low paid workers in other countries for their consumption goods and some services (such as overseas call centres), Singapore has imported large numbers of them to work *in situ*. In the UK for example, only relatively small numbers are allowed to work in the
agricultural sector on a seasonal basis, or in the health sector on temporary visas available at a price.

Recognition of the need to reconfigure labour markets, to increase low pay or introduce a substantial minimum wage for all, allow a transition from foreign worker to PR and eventually to citizenship (as is common for foreign talent) would go some way to create a more inclusive economy in Singapore in line with the conditions for the property state. Clearly, these measures would reduce or remove altogether the extreme forms of inequality experienced by foreign workers, not only of income, but quality of life, privacy of living conditions and enjoyment of family life. At present, there is very little public debate on the potential for such reform, while most of the population seem content with the status quo.

9.4 Endowment and inequality

As described in Chapter 8, Singapore has reluctantly, and in a piecemeal way moved towards a more universal system of social benefits, so far concentrating on specific groups of people, either by age or income bracket. In the logic of a property state, is the notion of sufficient property rights for all – not just a place to live, but also the opportunity to earn a living on one’s own account. If so, ideally, this might take the form of access to land for all. However, there may be reasons that such a scheme may be impractical, either due to lack of space, reluctance or incapacity to take up the opportunity, or a preference to work collectively and co-operatively with others: this would be particularly necessary for any enterprise needing scale or significant investment. Another way to conceive the idea of property rights for all, is to distinguish between joint ownership, where everyone in a community has individual rights, and common ownership, where equal rights are held in common. To serve justice, the distinction is between joint rights and equal rights, see (Obeng-Odoom, 2021:61-68), where equal rights are preferable.

This way of conceiving sufficient property rights, (as equal) would be to acknowledge the contribution a whole society makes to wealth creation, particularly in respect of the generation of economic rent. The outcome would be to grant all citizens a UBI.
At the heart of one of the earliest treatises on the subject, Thomas Spence advocated that all land be held in common, and offered for rent by each Parish on seven-year leases. The revenue would be divided three ways: one third to the national government for defence, and maintenance of law etc., one third for local services...

Then the residue of the public money or rents after all public demands are thus satisfied, which is always two-thirds, more or less, of the whole sum collected, comes lastly to be disposed of, which is the most pleasant part of the business to every one. The number of parishioners, and the sum thus left to be divided among them being announced, each, without respect of persons is sent home joyfully with an equal share (Spence, 1796: 11).

If set at a sufficiently high level, this would ensure a recognition, for example of the need for personal care services to be valued, and delivered at home, whether of pre-school children, elderly parents or family members recovering from injury or sickness. The alternative in western economies is to pay for such services privately (often at a high cost), or through welfare provision (sometimes at poor quality or varying consistency), or muddle through, excluding at least one family member from paid employment. Experiments in UBI have been conducted in Finland, some States and cities in the USA, as well as a few developing countries in Africa and Asia. An oft quoted reason to discontinue such experiments, or at least not to extend them is their perceived cost. Singapore, as one of the few countries with a growing source of endowment wealth not reliant on a finite resource such as oil is in a good position to adopt such a policy. The cost of UBI is borne by the economic rent generated by the community.

In terms of education, health, quality of life, Singapore ranks well in international comparisons, for example in the United Nations Human Development Index, it is 11th, behind the Scandinavian nations, Switzerland, Australia and Hong Kong, but ahead of the UK, USA and the other OECD countries. Its score has climbed steadily over the last 30 years. But when adjusted for inequality, Singapore drops to 26th place, still ahead of the US, but now behind the UK and most other European nations (UNDP, 2020). Accommodating the need for family members to drop out of the workforce (thus contributing to a fall in household income, and inequality) by way of UBI would
answer the aspiration of sufficient property rights for all, and redress inequality somewhat. To ensure more economic rent is available for distribution, a policy of introducing UBI would need to be accompanied by a more determined effort to collect the rent from landed property, rather than let it continue to be appropriated privately.

9.5 Variety of Capitalism

Having started this thesis with Haila’s description of the property state in Singapore, I have told the story of Singapore in more detail, attempting to discover the theoretical or ideological origin of the system built by Lee Kuan Yew and his colleagues in the PAP. At the same time, reflecting on which policies have been more successful than others in delivering equality for people living in Singapore, I have suggested an extension, or additional general features for her concept of a property state. This contribution is useful in the burgeoning debate surrounding the rentier economy, offering a means by which inequality can be addressed without disrupting land ownership.

The attempt to discover Lee’s inspiration for the system has been less successful. It seems that Lee picked up ideas which could be implemented in the conditions operating at the time, in the unique circumstances of Singapore gaining independence at the height of the Cold War, taking advantage of its important strategic location to supply goods, and become a free market exemplar in Southeast Asia, his characteristic pragmatic approach.

The strongest indication of an inspiration comes from the UN sponsored report delivered in 1962 written by the Norwegian Town Planner Erik Lorange. The system adopted, created by a series of Laws around use, and compensation after land acquisition has imposed strong conditionality on ownership of land.

I would suggest, that in the process, a new variety of capitalism has been forged – the public property state - which follows Geo-classical Liberal principles. Not just a theoretical version, which existed in the minds of some of the Classical Economists, but a practical reality which can be observed.
As policies in Singapore continue to evolve, it remains a laboratory for other jurisdictions, an economy with its own blend of public and private ownership, economic potential and state involvement. Many of their policies have endured, and proved successful, resilient against the neo-liberal call to privatise natural monopoly services. Others have only been partially successful in tempering the tendency towards high inequality in western economies during the last forty years. My contribution has been to show how the property state framework in Singapore has ameliorated inequality until today, and which has been only partially successful for the reasons cited in Chapter 8. In this conclusion I have suggested several ways in which a more complete iteration of the property state to serve justice would be possible in Singapore, and offered some ways in which other jurisdictions might adopt these principles for their own circumstances. Having said that, I am wary of this warning: ‘often it is not desirable to summarise and generalise case studies. Good studies should be read as narratives in their entirety’ (Flyvbjerg, 2006:241).

The property state framework differs from existing varieties of capitalism by adopting Geo-classical liberalism which imposes strong conditionality on the use and provision of universal network services – through premiums, fees and charges – particularly on land, while imposing weak conditionality on privately produced goods and services in the form of low personal taxation. In doing so, it takes advantage of people’s willingness to pay for convenience (in the form of location), according to their different levels of income. Imposing strong conditionality, in a uniform way (on both landed and leasehold tenure) would enhance the state’s ability to subsidise services for those on lower incomes, as well as directing the path of land use to promote economic growth more generally. Collecting the economic rent, which arises from living in community gives the state an endowment which can be used for further investment, or distribution to all households. As such, Singapore comes close to delivery of the Georgist remedy for poverty amidst progress. Whether, and how it chooses to do so more completely remains an open political question. But the property state conditions, first identified by Haila have been used in this thesis to gain a clearer understanding of the potential benefits accruing to any state which chooses to socialise rent.
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Appendices

Appendix 1: Table showing leasehold values as a percentage of freehold value

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<th>Term of Years</th>
<th>Percentage (%) of Freehold Value</th>
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Appendix 2: Total receipts, Singapore public revenue 2000-2018, showing capital receipts and investment income as a percentage of the total, and actual NIRC as a percentage of the possible contribution. Compiled by author.

<table>
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<td>114</td>
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<td>164</td>
<td>225</td>
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<td>505</td>
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<td>25,314</td>
<td>27,468</td>
<td>28,170</td>
<td>31,287</td>
<td>40,373</td>
<td>41,085</td>
<td>39,545</td>
<td>46,058</td>
<td>51,076</td>
<td>55,813</td>
<td>57,019</td>
<td>60,836</td>
<td>64,822</td>
<td>68,963</td>
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<td>7,392</td>
<td>8,413</td>
<td>8,130</td>
<td>10,633</td>
<td>13,503</td>
<td>7,226</td>
<td>7,431</td>
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<td>9,420</td>
<td>9,546</td>
<td>16,144</td>
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<td>Investment/capital receipts as a % of Total</td>
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<td>35</td>
<td>39</td>
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<td>NIRC as a % of possible contribution</td>
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Tax Revenue, Fees and Charges, Other form the Operating Revenue

Investment and Interest income are generated by GIC and Temasek, plus bank interest

Capital receipts are mainly land sales revenue

2003 is the first year to show investment/interest income and capital receipts
Appendix 3: Sources of public revenue, UK, 1802-1920, compiled by author. Taxes based on land values include Land, Income and property tax, and death duties

<table>
<thead>
<tr>
<th>Year</th>
<th>Total £000s</th>
<th>Customs £000s</th>
<th>Excise £000s</th>
<th>Stamps £000s</th>
<th>Land £000s</th>
<th>Income £000s</th>
<th>Post Office £000s</th>
<th>Telegraph £000s</th>
<th>Telephone £000s</th>
<th>Death Duties £000s</th>
<th>Land value taxes as % of total</th>
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<td>8,300</td>
<td>40,900</td>
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</tbody>
</table>

*1910 - very little income tax was collected (£13.3m), due to the failure to pass the budget of 1909. In fact, it had been estimated to bring in £37m
Appendix 4: Worked example of Collective Sale

To give an example of a CS agreement, we can examine the detail in the case of Advance Apartments, No. 8, Lorong 25A Geylang, a development of 14 units, with the potential for 34 new apartments. The site area is 1,061.8 sqm and the existing GFA not verified, however, total Strata Floor Area of the 14 units is 1,939 sqm. The proposed GFA is 2,973.04 sqm the tenure is freehold, with residential zoning. The existing property was bought by NNB 8 Development for $26.5m in December 2020.

To calculate the Development Charge (DC) the developer will look up the DC Sector – 101, its DC Rate (w.e.f. 1-Sep-2020) – $6,790 psm for Use Group B2 (Non-landed Residential) which the URA confirmed should be used (Development Baseline Enquiry reply – Use Group B2, GFA at 2,744 sqm). So, proposed Value = 1,061.8 sqm x 2.8 (the plot ratio permitted) x $6,790 psm = $20,186,941, while the Base Value = 2,744 sqm x $6,790 psm = $18,631,760. The DC is calculated by subtracting Base Value from Proposed Value which comes to $1,555,181. Existing leaseholders will receive their share of the purchase price according to flat size, while the government receives the DC. The developer will hope to cover all these costs, plus development costs, and make profit on the sale of the 34 new apartments.83

83 https://www.businesstimes.com.sg/real-estate/geylangs-advance-apartment-sold-for-s265m-to-local-consortium viewed 12/10/2 with further information from JLL, a Singapore property agent given in written answer to enquiries.