PRACTICAL POLITICS

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This Issue of "Practical Politics" seeks to challenge, and to site many of the challenges around the housing question. The objective is to suggest different perspectives from those conventionally trailed before us, and to suggest that, while land lies at the root of our problems, the correct treatment of land value in fact offers the solution.

HOUSING is to be viewed not as one issue, but as two. A house is essentially just like any other man-made object, such as a car, a television set, a shirt, or a watch. It becomes scruffy, even defective if not cared for, and its upkeep becomes increasingly time-consuming and expensive until eventually it wears out or is declared out-of-date. Certain styles of house and car can become "collectibles", but sooner or later almost everything man-made is abandoned or discarded, in favour of the new or different. Man's products depreciate, but, crucially, more can be made, on demand.

Although there are mobile homes, it is generally the case that houses are firmly attached to the land. Land is different in kind from the house, though. Land is not man-made. Land is irreproducible. Land is immovable: each location is unique. Land usually appreciates in value, reflecting the general level of economic activity and social development in any given community at any particular time. Where there is hunger for land, land values rise quickly and spectacularly. In the process, it is not houses that have become dear, but housing land. It is the beneficial owners of that land who reap the rewards – but for doing what, pray?

We are used to news pictures of impoverished Bangladeshis trying to eke out a subsistence-level livelihood on mudbanks that become tiny islands as the **FLOODWATERS** pour over and wreck the flimsy shacks. Now the homes of the affluent and not-so-affluent on English river banks have had the waters in, and there is urgent talk of improved flood defences to prevent a harrowing recurrence, at a cost of untold thousands upon thousands of pounds, to be paid for, inevitably, by the general taxpayer. Let us briefly leave compassion aside and look only at the facts. If nothing at all is done, house prices in the areas affected will tumble, meaning, primarily, that the owners of the unprotected land will be the losers. So, if public money is to shore up the threatened land, let the cost be recouped from a levy on the annual rental value of that land, *i.e.* by LVT (applied nationally, of course).

Provision of **AFFORDABLE HOUSING** means provision at subsidised cost. Workmen will not accept less than the going rate. The going rate of interest on capital will have to be paid. Therefore it is the beneficial owner of land who has to give. This used to be achieved by making planning consent to a project dependent on provision of "social" housing, meaning housing built at below full land acquisition cost. More recently, there are moves for public bodies or "approved" organisations like particular trusts or housing associations to sell or rent new houses whilst retaining ownership of the land.

The cry for affordable housing does of course presuppose that for a good number of people housing is unaffordable. Why? Presumably it is a poverty problem – in which case we should (on the lines set out on page 4 of our Issue No. 157) be looking for a solution to involuntary poverty. Why subsidise housing? Do those who cannot afford to house themselves have to occupy expensive sites? Offering affordable housing to maintain a workforce on expensive land is a hidden subsidy to businesses operating in the vicinity, who would otherwise have to pay more to attract labour from a broader catchment area. This is distorting what might be a tendency to disperse work activities to the periphery, or elsewhere entirely. A supply of labour at below true cost enables city centre landowners to keep raising rents. Is this what we want? Are we to go on running the nation for the benefit of its landholders?

Housing provision is best tackled by assessing and collecting site rental values to bring more land to the market at progressively lower cost. Full LVT in fact eliminates the buying/selling price of land, and allows taxation to be taken off labour and capital and their products. It is now necessary to buy only the building, fencing, driveway, and other improvements such as those made to the garden. More, better, and cheaper housing becomes available, and those who want it are able to afford it, as buyers or tenants. Bureaucrats need only ensure that planning permissions respond to demand.

In his Not-the-Queen's-Speech speech to the House of Commons, the Prime Minister "indicated that he was having second thoughts over a windfall tax on profits from selling land for development" (George Jones and Toby Helm, "Daily Telegraph", 12th. July). This suggests the Government may avoid a repetition of previous failures with **development land taxes**. Good! It leaves the land question unaddressed, though, and concedes a clear victory to the landed interests, perpetuating a while longer the basic injustice that is the private appropriation of the rental value of the nation's land.

"Why don't we build 10 new **parks**, each the size of Richmond Park, in the Thames Gateway because everyone knows they improve quality of life and raise the value of adjacent housing?" (architect Sir Terry Farrell, cited by David Cohen, "Evening Standard", 18th. June). Why not, at the same time, implement LVT, collect the land value, and let untaxed people move in to untaxed houses? “Great projects need vision and there is none” (Farrell, *op. cit.)*. Great governments need vision too, and we see none there either.

In drawing up our challenge to established contemporary thinking, we have adopted, if not poetic licence, then at least political licence. We know we are not going to jump from the present fiscal régime straight to full and proper LVT. Our Issue No. 124 carried a four-page article on the implementation of LVT leading in a series of deliberate steps to collection of what may then better be called the National Land-Rent. The essay examined some of the questions that are met along the way. Among these are recognition that full LVT cannot be brought in overnight by wave of wand and consequently that there will need to be transitional arrangements. Implementation is set in a context.

None of this provides an excuse for inaction. The reverse is true. Indeed, the very announcement by the governing party that it will bring in LVT and is submitting a motion to cover preparatory expenditure, will of itself produce beneficial reactions, as corporate bodies and individuals introduce allowances for such a change into their decision-making. A similar declaration by the leading opposition party that it proposes to bring in LVT on regaining power, would produce a comparable result. A firm commitment to LVT by a third party, especially if combined with a statement that it would, if necessary or desirable, enter into arrangements to support either of the larger parties to ensure a proper LVT measure reaches the statute book and the policy “beds in”, would also be effective. The benefits from LVT will start to flow even before the first valuation is under way.

While Labour seems less inclined to reprise the series of past failures with development land taxes, yet appears unwilling to go for LVT despite the recent rather favourable Burt and Lyons reports (please see our Issues Nos. 153 and 156), and while the Conservatives continue to promise policies some day, the Liberal Democrats, commendably hyperactive in policy matters, continue their dance in total thrall to **income tax**. We have lost count of the number of tinkering changes made, but now another one has come along. “Proposals…slashing the basic rate of income tax by 4p” are included in the latest package (Brendan Carlin, “Daily Telegraph”, 12th. July); but “there will also be plans to replace the council tax with a local income tax at an average rate of 3p to 4p in the pound.” On revisiting Burt in Issue No. 154 we found something which Liberal Democrats, and others, might ponder:-

“Replacing a tax based on property” with a tax on income could “result in property values rising, stimulating house-price inflation” (9.86) [*]…One piece of evidence given to the Inquiry noted an extreme shortage of affordable housing in St. Andrews, blamed on the council tax exemption for properties occupied solely by students. “This exemption in practice benefits landlords…rather than students themselves” (14.25) – another fine example of subsidies and tax breaks ending up appropriated by landholders.

[*] This, of course, is exactly what happened when the old rating system was replaced by the community charge. For all its defects, council tax does capture some land value.

WOBBLY WORLD

Turbulence in the housing markets of the world's leading developed nations has been widely reported, usually in the context of the spiralling cost of housing land, the way in which it discourages more conventional and direct forms of saving (such as pension contributions), and the temptation it offers as security for loans to support high living standards. On its own, it may bring undesirable social consequences; but more intractable economic dangers may follow. There are signs the malaise is spreading. Three recent pieces by Ambrose Evans-Pritchard in the "Daily Telegraph" illustrate the point.

It now seems that some banks have lent more than originally thought to high-risk funds "linked to the lower-tier 'sludge' category of sub-prime mortgages most vulnerable to rising US default rates" (*op. cit.*, 22nd. June). "Securities, known as Collateralised Debt Obligations, are packages of mortgages that are sliced and diced into segments according to credit-worthiness. The process allows the bulk of sub-prime mortgages to be marketed as high-grade AA or even AAA debt, while concentrating all the risk in the bottom tier…There is now over $1,000bn in outstanding CDO debt."

"Junk bonds have suffered a second day of mauling on Asian, European and US markets as investors shun risky credit" (*op. cit.*, 12th. July). According to a credit director, "people in equities are starting to wonder about financing conditions for new deals". The implication is that expansion schemes could be at risk and employment prospects threatened.

"Investment banks could soon be left holding $200bn in high-risk exposure on jumbo takeover deals agreed before the credit markets turned hostile a month ago" (*op. cit.*, 23rd. July). "Investors have demanded much higher interest rates in the new mood of risk-aversion". Banks could be left with "far more risk on their books than they bargained for, [which] could ultimately force them to pull back sharply on lending."

[From our Issue No. 53, May 1995] Landowners do not "provide the land". God did that, some time back. Landowners, purely in their capacity as owners of title to land, provide nothing. They take. For graciously agreeing to allow labour and capital to exert themselves in wealth creation on "their" land, landowners collect a rent as tribute.

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