PRACTICAL POLITICS

January 2010 Issue No. 178

The Burt Report (November 2006) on local government finance in Scotland was reviewed in our Issues Nos. 153 and 154. The Lyons Report (March 2007) covered essentially the same ground in respect of England, and, after being noted briefly in Issue No. 155, was considered more fully in respect of its treatment of land value taxation (LVT) in Issue No. 156. The Northern Ireland Executive later conducted a review of its domestic rating system: its Outcome document was published in December 2007and was reviewed in Issue No. 166. We now have the Republic of Ireland Commission on Taxation Report, 2009. LVT is considered in Part 6, Section 6.

IRELAND – AN OPPORTUNITY LOST

Unlike the three earlier United Kingdom studies, this was a Republic of Ireland (RoI) inquiry into national taxation. The body of the Report covers 550 pages, of which LVT gets little more than 3. The conclusion states, simply, “We can see an economic rationale for land value tax. However, we consider that it may not be a pragmatic approach to the restructuring of our property taxation system in the context of the operational difficulties of introducing it and communicating its benefits to home-owners and landholders. We therefore conclude that a land value tax should not be pursued at this stage”. There are, though, two little nods in the direction of LVT: “The windfall gains from increases in land values due to rezoning decisions should be subject to an additional capital gains tax charge” and “A recurrent property tax on land zoned for development should be introduced”. Even the suggestion that LVT is for later consideration, is not included in the recommendations. It has “an economic rationale”, but run, lads, run!

In fact, if one ignores the conclusions and overlooks some easily correctable slips and misconceptions, there is much to applaud in the exposition. Sadly, nearly every time a key point or issue is grasped, some butterfingers spills it. One point, though, cannot go unanswered. What an insult to the Irish it is, to suggest that the public is too dim to understand what LVT is all about. This is the public that understands and uses to good purpose the best, but not the simplest, voting system in the British Isles. It is also an insult to the Irish civil service. Given vision, political will, and clear advice, it is a lot easier than compiling a 550-page report.

An opportunity has been lost. The RoI should be pressing forward with a determined programme to implement LVT now. This has three important direct consequences. First, removing taxes from wealth production, from the products of wealth creation, and from wages and interest, gives the Republic a real competitive edge. Producers can withstand the challenge of imports and be in a strong position to penetrate markets abroad. Secondly, within the country there is that famous ‘level playing field’, because taking land rent for the public revenue removes location value from profitability calculations and ensures that labour and capital combine within each business to compete with others on equal terms. Thirdly, the attractiveness of the country to foreign investors and tourists becomes obvious. See also page 3 of this Issue under the sub-heading, Comment, and footnote [h].

DEPRESSION – painful and persistent

United Kingdom

Already the pound sterling has lost a quarter of its value in this slump. The Bank of England (BoE) has been spending its 'quantitative easing' (QE) money buying government bonds, raising "worries that this and future governments will either prove incapable of reducing their deficit or will resort to inflation in order to erode it" [a]. The QE policy is supposed to imply that, following a relatively brief period of stimulus, the BoE and other central banks will cut off the supply of funny electronic money and go on to sell their accumulation of government bonds in the market. The market might not want them, unless they are priced at a sufficiently tempting discount. Meanwhile, a profligate government will be trying to sell, in that same depressed market, a series of new bond issues to foreign investors and the private sector at home. The logical result will be interest rates high enough to attract purchasers. High interest rates at home, though, will act to stifle businesses at home – negating the aims of QE! The more the government then tries to raise or sustain its expenditure by flooding the markets with unbacked paper currency, the more likely it is there will be that dreaded coupling of high interest rates with high inflation – stagflation.

Europe

Figures published on 8th. January "showed all of the 16 users of the euro – indeed all 27 members of the European Union – have seen unemployment rise in the past year...There are now 15.7m unemployed in the [eurozone] bloc, the highest since the current data series began in the mid-1990s" [b]. "Last week's €1.6bn auction of Greek debt did not go well... The yield on 10-year bonds has touched 6pc, the spreads ballooning to 270 basis points above German Bunds. **Greece** cannot afford such a premium for long. The country must raise €54bn this year – front-loaded in the first half... The design flaws of monetary union are becoming clearer" [c]. **Iceland**, not in the EU, and thus able to devalue its krona, is nevertheless in turmoil. It is "desperately in need of $2.1bn in loans from the IMF and a further $2.5bn from Sweden, Denmark, Norway and Finland" [d]. The loans have been delayed pending resolution of Iceland's row with the Netherlands and the U.K. over a bank collapse compensation agreement. "**Russia** is preparing to launch its first auction of government bonds since sparking a crisis...by defaulting on its debt a decade ago" [e]. It too has a budget deficit to finance.

China

Ordos is a newly built city in China that "could be home to 1m people. Instead, it's empty. With prices rising 50-60 per cent a year in some areas, its houses have been bought by investors expecting to make a turn without having to bother with pesky tenants...China now has more ports, offices, airports and steel factories than it will know what to do with for many years to come. Commercial property vacancy rates in central Shanghai are said to be as high as 50 per cent" [f]. No one is permitted to own land in China, but anyone with a long lease is able to pocket 100% of any rise in the land price. No one buys houses or business properties just to look at them and admire them whilst he forks out on maintenance costs: either he wants a rent or he expects a big land value gain. This speculation in land is driving China towards trouble. "The Chinese government is increasingly worried by inflation...Property prices are rising even faster" [g].

Comment

The European nations in the greatest trouble are Estonia, Latvia, Lithuania, Greece, Spain, Portugal, and the Republic of Ireland. All are well away from the EU heartland. The same is true of the U.K., where England apart from the south-east, Scotland, Wales, and Northern Ireland, are all at a locational disadvantage. Taxes like PAYE, VAT, and motor fuel duty take no account of this, and at the margin tip potential wealth creation in to unprofitability. With such taxes replaced by nation-wide collection of the site value (location value) of land, however, the burden bears lightly at the fringes. In short, LVT creates tax havens precisely where they are wanted most – at the economic margins [h].

[a] Edmund Conway, "Daily Telegraph", 30th. December [b] Stanley Pignal, "Financial Times", 9th. January [c] Ambrose Evans-Pritchard, "Daily Telegraph", 18th. January [d] Rowena Mason, "Daily Telegraph", 8th. January [e] Philip Aldrick, "Daily Telegraph", 6th. January [f] Merryn Somerset Webb, "Financial Times", 16th. January [g] Roger Bootle, "Daily Telegraph", 18th. January [h] *Vide* Land Value Taxation Campaign Response to Northern Ireland Executive Review of Domestic Rating Reform, 2007, Appendix H. The Land Value Taxation Campaign brought out the pamphlet, *"Northern Ireland – Overcoming The Odds"*, in February 1999. This Appendix H reproduces the content and wording of the original paper complete and unaltered. The reader is asked to make due allowance for the publication date (almost 11 years ago now).

FARMLAND

"An acre of dirt now costs about £7,500...Commodity demand curves for wheat prices show markets expect a 30 per cent rise over the next two years. Bio-ethanol plants have also increased the demand for grains. Then there is the European Union subsidy...Since it is denominated in euros, UK farmers have seen the subsidy's value rise almost one fifth in two years. Unlike other real estate, farms have benefited from banks' continued willingness to lend...But not only farmers want farmland. A country home is a sought-after asset for many wealthy families" [i]. Who gains? Not the farm labourer; not the tenant farmer (unless he has a long lease with time to run); not the hopeful young entrant to farming. No - it is the landowners (individual and corporate) who raise rents and prices and calmly walk off with the loot.

[i] Lex Column, "Financial Times", 16th. January

LITTLE BITS about housing (but really about housing land)

(i) Last month the 140 m.p.h. Javelin train inaugurated the high speed commuter rail link between Kent and London. “The value of homes near a station on the network is expected to rise by a combined total of £1.6 billion...Estate agents said east Kent is becoming as desirable as...Guildford and Winchester” [j].

(ii) “Compared with other EU states, the UK has both the smallest newly built houses and the smallest average room size...The Commission for Architecture and the Built Environment said...that private homes built today were too small for everyday life” [k]. Is land perhaps being priced almost out of reach? That, after all, is what landowners seek to do, even though neither they nor any predecessor in title ever produced (or could have produced) his land in the first place.

(iii) “Repossessed homes being sold through auctions have fallen by more than half in the past 12 months, as banks have used the recovering UK housing market to shift problem properties through estate agents...a more discreet way of disposing of repossessions...Banks are also using receivership as a means of dealing with distressed properties...which avoids the need to repossess the home although ultimately has the same goal of recovering the...debt through a forced sale” [l].

(iv) “One in six estate agency offices across the UK’s main cities have [*sic*] shut this year as the housing crash has continued to batter the industry...The level of transactions remains low, which has meant that there is little of the churn needed to generate fees” [l].

AUSTRALIA

(i) “The Adelaide Hills are the reason...the city exists; without their elevation and the water it coaxes from the sky this would be a dusty outreach of the Murray plain of little economic potential” [m]. This is a good argument for LVT, one must think.

(ii) The Shire of Murrindindi in Victoria “suffered terribly during the Black Sunday fires of February 2009. To help speed the recovery and replace the 1,300 homes and businesses lost, the Shire has reverted to Site Value Taxation as opposed to traditional property tax on capital improved [land + development] values” [n]. Great!

[j] Rashid Razaq, “London Evening Standard”, 14th. December [k] Olinka Koster, “Daily Mail”, 12th. August [l] Daniel Thomas, “Financial Times”, 2nd. January, 12th. December [m] Andrew Jefford, “Financial Times”, 5th. December [n] “Incentive Taxation Newsletter”, Center for the Study of Economics, Philadelphia, Pennsylvania, U.S.A.

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