PRACTICAL POLITICS

February 2010 Issue No. 179

DEPRESSION

This is a bad month for those professing to have seen the green shoots of recovery, but why should the experts who did not see the crash coming be expected to know when or how it might end? Slowly, the more perspicacious are recognising the significance of the rôle of land in the economy, although it is all too often hidden within that weasel word, property. What does it mean to say that property values have gone soaring? Property comprises buildings and other developments set in or upon land. The value of a building for insurance purposes does not rise crazily in a boom, for its replacement cost is expected to change little in real terms. No, what does shoot up is the price demanded for land, which is cheap to insure because cover is required mainly to pay the cost of site clearance in the event of total loss of the building. That should give a clue. Keep the eyes glued on the land market!

The BBC, in an edition of "File on Four" [a], surveyed what had been happening to commercial property prices [*sic*] and the consequences for bank loans – banks, it transpires are facing a shortfall of £50 thousand million. It is negative equity all round, with examples given from Glasgow, Shrewsbury, Birmingham, and of course London. It is a big, big problem for banks holding commercial property debt. So long as they carry this burden (selfinflicted though it be, we have to record) it is no wonder they shy from taking on new loans.

"Europe" is in turmoil, particularly the euro zone. Portugal, Ireland, Italy, Greece, and Spain are the prime suspects, but it is not that simple. Banks and other financial institutions outside these countries are major holders of sovereign debt, because they believed that government bonds issued by European states were secure. Germany holds much debt in Greece (€43bn.), Portugal (€47bn.), Ireland (€193 bn.), and Spain (€240bn.), and the U.K. holds much Irish debt, for instance. "Brussels invoked new EU powers under Article 121 of the Lisbon Treaty, allowing it to reshape the structure of pensions, healthcare, labour markets and private commerce". In Spain and Portugal, "public finances are spinning out of control…Greece is being told to carry out IMFstyle retrenchment without the IMF cure of devaluation" [b]. Meanwhile Eurocrats remain blind to land issues too, it seems.

[a] BBC Radio 4, 14th. February [b] Ambrose EvansPritchard, "Daily Telegraph", 4th. and 10th. February

GLASGOW'S WAKEUP CALL

In 2008, Glasgow City Council set up a Working Group of local councillors and leading officials to look into the present Council Tax ("CT") and possible replacements for it. The Working Group issued a report of its Overall Findings last year. It recommended that the CT in its present form be abandoned, but argued that, if not, a revaluation was needed. It was thought a reformed CT (the principal element of which would be rebanding) would be an improvement. A Local Income Tax, whether set nationally or locally, was not favoured, having been scored below even CT. A composite (land + dwellings) Local Property Tax ("LPT") based on capital values, as put forward in the Burt Report (2006) but summarily rejected by the Scottish Parliament, was thought worthy of reconsideration (although in truth it is only a CTtype system with discrete assessments instead of banding). The case for a land value tax was gratifyingly well received, but, as in the Burt Report, the policy was neither recommended for adoption nor formally rejected, just passed over. However, a hybrid tax of LPT and LVT (sometimes known as the splitrate system as practised in Pennsylvania, U.S.A.) was proposed and recommended as the best option.

Although the Working Group thought there could be "shocks" or "risks" attached to LVT, it also asserted that no insurmountable problems were found. Six key benefits from LVT were identified. (i) It would be more progressive than CT. (ii) Existing systems, controls and valuation expertise could be translated for use in a LVT regime. (iii) LVT brings numerous macroeconomic and behavioural benefits, whilst supporting the environment agenda. (iv) Regular land revaluations would be relatively easy to carry out, contributing to the fairness of the tax. (v) LVT is relatively buoyant whilst retaining the balance of stability and predictability. (vi) From a sustainability perspective, LVT has a constant tax base, incentives to make best use of available land, and helps prevent urban sprawl and land banking. Public investment could also be essentially locally funded over time.

A pilot study looked at Ward 18 (East Centre) in the Dennistoun area of Glasgow “to try and capture as many different property and land types as possible. The ward includes a mix of residential, commercial and industrial units, as well as vacant and derelict land, and covers around 5% of Glasgow homes.” The study had more or less inevitably to assume the same amount of revenue was to be raised as under the CT, yet what was really needed is a pair of variant studies to see how much change would result from (i) interaction with residential land elsewhere in Glasgow and (ii) interaction with nonresidential land in Ward 18 on the assumption that the National NonDomestic Rate/Uniform Business Rate ("UBR") was being withdrawn at the same time as CT, to which would ideally be added (iii) a really revealing study which would have looked at the interactions amongst all classes of land throughout Glasgow (or, more ambitiously still, all of Strathclyde) with LVT replacing both CT and UBR, applying of course the same rate poundage to all assessments.

The Working Group did recognise the limitations of a revenueneutral study in such a restricted area, stating that, in implementing LPT or LVT other than in Ward 18 alone, the rate would vary depending on data on a Glasgowwide or indeed Scotlandwide basis [≠]. As it is, this Glasgow Ward 18 study underlines the lesson already thrown up in the Vale of White Horse case, namely that, in essentially artificially restricted circumstances, LVT shifts the onus of payment from the lower CT bands to the land value of residential properties currently lying in the higher CT bands. This is totally unsurprising, because, in general, better houses are likely to be located on the better sites. By contrast, in the Whitstable studies (which covered all land in the area), there had been a shift away from residential property towards the best of the commercial sites in the town's top streets – a move which could very well be replicated in Glasgow and other towns and cities.

After Burt (Scotland), Lyons (England), an Executive (Northern Ireland), and a Government (Republic of Ireland), the LVT case has again come successfully through a review against rival systems of revenue raising, but without gaining the desired recommendation for implementation. The findings of the Glasgow City Council are still more "moral" than "real", but they give us a little extra satisfaction because they come from a body of councillors and officials who know whereof they speak and would themselves actually be charged with putting in place and operating a LVT regime. We do not, however, allow ourselves to be carried away. The Working Group, we recall, recommends immediate focus on reforming CT. A longer term, more permanent solution "is best served", it thinks, by pursuing LPT, "with a builtin mechanism to enable land value tax elements to be phased in" with the ultimate goal of creating the hybrid tax. On the face of it, this is an endorsement of LVT of a sort, albeit a somewhat restrained one.

[≠] As for the future of pilot schemes in the U.K., the Land Value Taxation Campaign is convinced these will add little to what is already known from Whitstable (1964 and 1973), from the Vale of White Horse (2005), and now from Glasgow, bearing in mind also such solid evidence from abroad as the Brisbane Report (deliberations and findings) of the Committee Of Inquiry Into Valuation And Rating under the chairmanship of The Hon. Sir Gordon Chalk, K.B.E., LL.D., Deputy Premier and Treasurer of Queensland 19651976 (September 1989).

ANOTHER GRAB

In Issue No. 177 we gave details of a proposed merger between British Airways and Iberia. Now a third airline is set to join the scene. BA has gained approval for an alliance with American Airlines. "The British airline should now be able to set prices and market and schedule flights across the Atlantic jointly with its rival". Some rivalry! U.S. regulators had twice previously turned down requests by BA to form a partnership with American, but no longer. "The pair must [now] give up four pairs of operating slots at London Heathrow airport, much less than the 16 previously demanded". A transport analyst is cited, saying "The North Atlantic business is very, very important: not just the routes, but the premium element as well." Giving up a few takeoff and landing slots must hurt but is clearly thought good for business, for shares in both BA and Iberia "rose sharply" on the news [c]. The Heathrow slots cost BA nothing, having been handed over free at privatisation. As we have repeatedly noted, air space, the space above the ground, is, in political economy, termed land, being part of the material universe distinct from man and his products. The value of the air slots is a public value, to be collected as part of the national landrent charge (LVT) for exclusive use of air space.

[c] Rowena Mason, "Daily Telegraph", 16th. February

TOWER BLOCKS

Tower blocks, of apartments or of offices or hotels, are a logical response to expensive land, and are thus usually to be found in cities and towns. Developers build high to create the floor area needed to make the venture profitable. Building a tower block is not always worthwhile, though. Think of the investment just to convey water to the top floor of a 32storey hotel, for example, and then consider the energy needed to light, heat, and air condition it (opening the windows is not an option!) and think too of the unlettable space taken up by those banks of lifts.

Council tax and UBR are both based on the value of the whole property (land + developments) "as found" (*i.e.* in its current state) which rewards underdevelopment and decay. Thus, in the absence of LVT, landholders are able to hold land out of use or to retain a decrepit or obsolete building on their sites. This situation means valuable sites can be underused or not used at all, which in turn encourages speculative misuse and reduces the amount of land that is available and ripe for development and redevelopment. This raises the asking price for the land that does become available and puts increased pressure on developers to build higher still to make the project profitable. The inevitable consequence is that architects have to drop plans to make their buildings aesthetically pleasing and concentrate instead on cost cutting. Sometimes investors will insist on quality for the sake of their image and prestige, but few can afford that sort of luxury. So, without LVT we find we have overbuilding existing side by side with neglect. Are we proud of how we order our public finances and our environment?

THE DEPRESSION AND THE GAMES

"The credit crunch and plummeting London land prices have cost Olympic organisers £150 million…The Government Olympic Executive's annual review…revealed that projected receipts from the sale of land near Olympic Park have been reduced from £250 million to just £100 million as a result of the crash" [d]. Avoid the speculative boom and you avoid the slump. Bring in LVT. What is it about LVT that is apparently so hard to understand?

[d] Paul Kelso, "Daily Telegraph", 10th. February

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Published by the Land Value Taxation Campaign,
54, Woodway, Hutton, Brentwood, Essex, CM13 2JR,
and distributed free to selected members of both Houses of Parliament, of the European Parliament,
of the Scottish Parliament, the National Assembly for Wales, and the Northern Ireland Assembly.

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