PRACTICAL POLITICS

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"**Would radical reform of the UK's land and property taxes produce a simpler, more stable, more market-efficient system?**" Not if it is left to the R.I.C.S., it wouldn't! That august body thought of "all the stages a property goes through, from vacant land to planning consent through to development, letting and occupancy, and, once the building has reached the end of its useful life, to demolition and back to vacant land" [a]. It then commissioned Volterra Consulting "to research various levels of reform of the property tax system, with a view to optimising government revenue *without impinging on the functions of property as accommodation and investment*" [our italics – ed.]. The taxes the R.I.C.S. asked Volterra to examine during the property lifecycle are listed as the community infrastructure levy; stamp duty land tax; council tax and business rates; income tax, corporation tax, and VAT; capital gains tax and corporation tax. Volterra was also to look at systems in use elsewhere, and to have regard to eight maxims including a reference to "the entire tax system" in a context which made it evident it was expecting the continuance of essentially the same ragbag of existing taxes to be fed back to it. Of the radical, of the fundamental, there is no trace at all.

Like the British Property Federation, the professionals of the R.I.C.S. know full well that 'property' is a loose, sloppy term to use in a discussion of political economy. They know that land is fixed in quantity and location and was in being before the creation/evolution of mankind. The BPF and R.I.C.S. have yet to accept that they have to make their minds up whether they speak ultimately for landholders or for those who do the work of financing, building, and managing property. The activities of this latter grouping benefit society. Landowners live off society. Their contribution consists of no more than getting out of the way and letting others get on with their work – for which kindness they are allowed by politicians and civil servants, with the connivance of most academics, to trouser very handsome rewards indeed.

Land is not a product, not merchandise. What, then, can possibly be the ethical claim to outright private ownership and control of land? It is at least as feeble as the case for chattel slavery. If it is right that some may own the Earth to the absolute exclusion of all others, it must equally be morally right for everyone else to be born landless. Did the Creator so intend? Or are all men to be deemed born with equal rights, with the equal opportunity to exercise their admittedly unequal personal gifts, qualities, and inclinations? The origins of private appropriation of land lie in force and fraud, aggravated when apparently sanctioned under a civilised veneer.

[a] Thomas Pienaar, R.I.C.S. "The Land Journal", September-October 2010.

LAND AND THE MARGIN; LAND AND THE RICH/POOR DIVIDE

In our previous Issue, No. 184, we explained the difference between land and capital to uncover why it matters. We also recorded the case that land rental value is amply sufficient to support public revenue needs. We now illustrate the rôle of land in two important respects – its significance at the economic and geographical margins and its relevance to the ownership of capital and the rich/poor divide.

(i) The key question is that of relative locational advantage. The British Isles are the EU's offshore islands, distant from the continental heartland. If we assume that identically efficient production of a wonder widget for the London market can take place at Swansea, Swindon, and Southall, lower transport costs will favour Southall over Swindon and Swindon over Swansea. Competition amongst producers for the best sites will raise land rents in Southall, but (within limits) occupiers will pay them for the benefits of a superior location. At the margins, in west Wales, land for wonder widget production is going for a song, but no producer wants it – even at a peppercorn rent – because the logistical disadvantages outweigh the gain.

True marginal land will support only subsistence agriculture, and only then if there are no taxes to pay. Production at the margin brings in just enough to remunerate the labour and capital employed, with nothing left over for land rent or tax. Imposing a burden of income tax, VAT, motor fuel duties, and the like, kills off potential jobs and adds to the nation's welfare bill. It is hard to imagine a dafter system than the one we have to-day. If these taxes are cut back and eliminated in favour of raising public revenue from collection of the national land-rent (the policy historically known as LVT), the best, most valuable land pays its appropriate whack, modest locations pay lightly, and marginal land, being worth nothing, pays nothing – a tax haven where needed most. *With wages and wealth creation now everywhere tax-free, "Made In the U.K." again becomes a world-beating proposition.*

(ii) According to neo-Marxists, there is a fatal contradiction within capitalism: workers are paid such low wages by the capitalist exploiters that they have not the purchasing power to buy back all they have produced and that recurring depressions and unemployment are therefore inevitable and will ultimately bring about crisis and revolution. This theory wrongfully ignores the distinction between land and capital in economic analysis and fails to take account of the key rôle of land in the economy [b]. There is of course a 'surplus value', but it is land rent and it is taken by the landholders. It is the share of wealth that is attributable to the superiority of any one piece of land over marginal land. Each parcel is unique in its attraction as a location in comparison with all others. Its rental value derives from natural advantage and from the past activity of the community as a whole; but, more importantly still, that rental value is constantly being maintained or varied by what society does in the here and now and by what it has in mind for to-morrow. Whereas wages (the return to labour) and interest (payment for the use of capital) are properly private values, land rent is uniquely suited to collection for public revenue purposes.

Wages will undoubtedly rise as contemporary taxes are lifted. Capital is in effect stored labour, which is to say previously manufactured wealth used in the production of more wealth, plus wealth in the course of exchange [c]. Interest on capital is simply the amount to be paid at any one time to induce people to defer their own consumption and so permit production to be diverted to capital goods [d]. With the land-rent charge (LVT) operating fully and correctly, land no longer commands a selling price. This is the crucial point. Land will be required only for use and enjoyment. It will not on its own provide an income stream to support indolent living. The 'surplus value' that now enables landholders to become also the principal owners and suppliers of capital, will be devoted instead to the needs of the public finances [e]. With rising wages untaxed, those whose work, physical and mental, produces the goods and services required, will also have the opportunity and responsibility to become (with the one limited exception of the organs of the state) the sole owners and suppliers of capital. *The division between rich and poor is fated to persist until the land question is faced and resolved as we propose. To be honest, successful, and enduring, capitalism must liberate itself from the shackles of landlordism*.

[b] Karl Marx appears at first to have sustained this position, but in the posthumously published volume 3 of "Das Kapital", he does seem to distinguish clearly the underlying primacy of land monopoly. [c] Capital thus includes intermediates and stock-in-trade, as well as such items as tools, machinery, buildings, and vehicles used in the productive process. [d] There is of course scope for adjustment to allow for the degree of risk and for the period over which the loan will be outstanding. [e] Any surplus is available for distribution to all citizens on a *per capita* basis.

WHAT A STATE TO BE IN!

In 1974, Jerry Brown became the youngest Governor of California. He was re-elected in 1978. Now he has won a third term. He finds a state that has one of the world's biggest economies but is broke, faces a budget deficit of $25 thousand million, has 12.4% unemployment, and "a once booming real estate market [that] continues to suffer the fall-out of the mortgage foreclosure crisis" [f]. Ironically, in 1978 the state had capped property taxes and is now "overly reliant on income taxes and taxes on stock option sales… Painful public service cuts are inevitable." Have California's landowners feathered their nests too well for their own good? Well, LVT has been used in the irrigation districts. Prime that pump and use it state-wide, Governor!

[f] Matthew Garrahan, "Financial Times", 27th. November

SIGNALS FROM LONDON'S NEW RAILWAY PROJECTS SHINE AT GREEN – FOR LANDHOLDERS

Never mind the disgracefully potholed state of the roads and pavements, London and its commuter belt are to be blessed by a new-found enthusiasm for railways. High Speed 2 (HS2) is intended to link London to Birmingham and, later, to points further north. This fast, non-stop link, involving expensive engineering, will carry passengers from one point in London to one point in Birmingham. Because there are no intermediate stops, no new conveniences are on offer along the route, and no land values will be enhanced except, marginally, at and around the terminals. It is hard to see what real benefits there might be. It looks a certain loss maker.

Works on Thameslink, which runs north-south through central London at Farringdon, will add to the attraction of established commuter towns in Hertfordshire (St. Albans, Harpenden, Hertford, among them), and at Croydon and Brighton, and will improve services to the airports at Luton (to the north) and Gatwick (south). "For families who want their children to grow up outside London, the misery of the commute has to be weighed against the improved standard of living" [g], and, let it not be forgotten, the added cost of the commuter's fares.

It is, however, Crossrail that has the estate agents slavering. This is a new east-west underground line passing through Farringdon on its way across London, and extending to Heathrow airport and to Maidenhead (Berkshire) in the west and to Shenfield (Essex) and Abbey Wood (Kent) in the east [h]. "Informed property watchers have their eye on one particular place – the City-fringe district of Farringdon. Now one of London's quieter mainline stations, by 2017 Farringdon will be Britain's busiest, with a sevenfold increase in commuters and 140 trains per hour passing through it...Property investment opportunities will be substantial in and around the area…Office rents will rise and so will residential values as affluent white-collar workers buy or rent homes nearby" [j].

In London and the Home Counties, landowners will be raking in the cash benefits of these undertakings. Passengers will pay fares, advertisers and traders will lease station space, and the taxpayer will deliver subsidies, but owners of land will be effortlessly enriched. 'Strewth, 'tis a mad world we live in!

[g] Jeremy Hazlehurst, "City A.M.", 3rd. December [h] Your editor has to declare an interest here. He lives a mile from Shenfield station. On present information, he can see no significant gain from Crossrail. It is not obvious why the project is being carried east into Essex beyond Stratford [j] David Spittles, "Evening Standard", 17th. November

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