PRACTICAL POLITICS

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TOUGH LIFE AT THE MARGIN? IT NEEDN'T BE!

Northern Ireland, much of Scotland, much of Wales, and indeed large areas of England, lie on the periphery, distant from the economic concentration in London and the south-east, let alone from the continental EU. Land values are normally lowest at the outer fringes, reflecting those regions' geographical and other disadvantages as compared with the centre. 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.

There is of course a true margin, beyond which all production is, at any one time, uneconomic. This is the margin which is generally used for illustrative purposes, for simplicity and clarity. There are, however, many margins within this ultimate margin. The value of a plot of land depends on the advantages, natural and social, which its location offers. Very few classes of potential user can afford the best sites, much as they might like to have them, because they cannot conduct profitable business from them at the assessed rental value. In short, the site offers advantages which these would-be producers or traders cannot make full use of. Conversely, there are sites which most businesses will not use, even at an annual rent of 5p, because the locations suffer so many disadvantages that costs of production and distribution far offset the cheapness of land. In cases like this, producers need the advantages of much better locations and are willing to pay for them. The land market, freed by national land-rent collection (LVT in its fullness), simply allocates use sensibly and fairly according to who is best suited to exploit profitably the advantages of each unique location. Within this framework, a pattern of margins will be discernible for each trade and for each sector within each trade.

The U.K., being situated offshore at the north-west periphery of the EU, is, with the possible exception of the south-east of England and parts of East Anglia, at a distinct locational disadvantage with respect to the continental heartland, especially since the centre of gravity of the EU has lurched eastwards with the accession of 12 new countries. Taxes of the conventional sort are peculiarly injurious to marginal economic activities. The U.K. has and must retain the right to replace present taxation by a national land-rent charge – and it must use it. The U.K. should press 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 whole Kingdom 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 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 becomes obvious.

A WORRIED WORLD

Inflation is a dangerously mischievous device. Money can no longer be relied upon to keep its purchasing power. People then begin to look for something that will. Land, irreproducible and immovable, is the perfect ‘hedge’. When money is pumped into circulation, banks want to lend it. Borrowers can point to rising land value as collateral for a loan. Businesses and individuals save less and spend more. Spend before money loses its value! Why save when land values keep going up and doing one’s saving for one? Expansion breeds exuberance. The speculative frenzy and the crucial rôle played by land were explained in Issue No. 29 (July 1992).

With the CPI now at 3.1% and the RPI up at 4.8%, the U.K. has reason to start worrying. “Many people have been buying [commercial property] assets with a lower yield than their cost of borrowing” [a]. “Investors are supposed to look forward but…most…look back – and assume that the future will be like the past” [b]. “Buyers may be paying too much for a given income stream…encouraged by past price rises” [c]. “There is probably a lot of speculation built into the housing market…on the belief that prices will go on rising smartly [d]. “With remortgaging for loan consolidation and equity withdrawal to support lifestyles…the die is cast [e]. “Britain now has the worst inflation in the G7 and…the worst ‘fiscal profile’ in the OECD, bar Japan” [f].

Remember the “thrifts” (U.S. equivalent of building societies) in the 1980s? Well, something similar is happening again in the home mortgage markets. “There has been a “wave of defaults in the sub-prime tier of America’s property market” which “is spreading up the chain to the much-bigger prime sector” [g]. “The biggest problem in the US right now is the melt down in the housing market which hits hard at consumer wealth, which is based so precariously on debt raised against housing equity” [h]. “The slump in the housing market has caused a marked slowdown in overall economic growth…Business investment has been surprisingly weak.” [i].

“Dublin may be joining the bloc of southern European states stressed by monetary union…EMU membership has distorted the economy and caused a property bubble. Personal debt per capita has reached 190pc of GDP, the highest in the developed world… Germany is at the opposite end of the cycle, starting to grow briskly after a decade of flat house prices” [j]. “French house prices have shot up by 210pc since 1995…much to the delight of 180,000 Britons with second homes across la Manche” but “according to France’s OFCE research institute house prices are 25pc overvalued” [k]. “Keep an eye on the old Communist bloc…The markets seem to assume that the Swiss National Bank will keep supplying cheap credit for ever…Switzerland raised interest rates…Hungarians, Poles, Romanians, and Balts most certainly noticed. Their mortgage payments have just gone up again for the seventh time…Latvia’s central bank belatedly raised interest rates to 5.5%…still below inflation at 7.3%. Estonia and Lithuania are not much better…Throw in Turkey, Ukraine, and Kazakhstan…and one starts to discern a problem big enough to bother western banks” [l].

China faces “an oversupply of factories and office blocks…living off marginal exports” [m]. “Beijing’s control over 170,000 politically-managed state bodies is more fiction than reality...Party officials have already accumulated $800bn in bad debts” [n].

[a] Jim Pickard, “Financial Times”, 31st. March [b] [d] [i] Roger Bootle, “Daily Telegraph”, 9th. April, 26th. December, and 16th. April [c] Michael Brett, “Estates Gazette”, 27th. January [e] Howard Springett, “Daily Telegraph”, 5th. March [f] [h] Damian Reece, “Daily Telegraph”, 18th. April and 14th. March [g] Ambrose Evans-Pritchard and David Litterick, “Daily Telegraph”, 5th. March [j] [k] [l] [m] [n] Ambrose Evans-Pritchard, “Daily Telegraph”, 20th. April, 28th. March, 19th. March, 11th. December, and 20th. April

LYONS

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 was noted, briefly, in Issue No. 155. We look now at how Lyons treated land value taxation (LVT).

"A number of groups, from the Land Value Taxation Campaign to the British Retail Consortium, supported the idea of a land value tax in their submissions to the Inquiry" (6.43). "Most economists would agree that there is a strong case for levying taxes on land. Land is in fairly fixed supply, and much of its value will therefore be what economists call 'economic rent', which can be taxed without altering the incentives to use the land. The fact that much of the value of land is the result not of the actions of the owner, but the activity and investment of the wider community, makes the case for such taxation even stronger. Taxing only the value of the land, not the use to which it is put, or the buildings and other improvements constructed on it, could also ensure that there is no distortion created by the tax system between the types of activity that might be undertaken on the land" (6.42). *[Footnote 5 gives a wayward but modish definition of economic rent which seems both unhelpful and pointless in this context. We had in fact subjected it to critical examination in our Issue No. 64 as far back as July 1996. It should not, however, be allowed to detract from the clear endorsement of LVT at this point in the Report – ed.]*

"Raising tax revenues through land…taxes has the additional advantage that it could allow for reduced taxes on profits and incomes, thus reducing the disincentive to effort and success that such taxes can create" (6.46). "There are also a number of advantages to land…taxes from an administrative perspective, related to the fact that land …[is]… immobile, and relatively straightforward to identify for taxation purposes. As a result, they are difficult to avoid and cost-effective to collect because those liable to tax cannot move their property elsewhere to avoid taxation, or hide their property to evade taxation" (6.47).

This approach is clearly leading to urging implementation of LVT. Something must be done to get out of this corner! Something is done. The council tax and the national non-domestic rate (the uniform business rate) are both charges on immovable property, which of course includes land (though not all land). Both CT and NNDR share some of the advantages of LVT. The solution is to tinker with (sorry, reform) the existing system. Some useful points are made here and there, but what remains is partially clarified bath water and no baby.

"There are also some arguments in favour of taxing the property built on land, as well as its basic value as land. In general, taxes should be applied to as broad a base as possible in order to reduce the tax rate needed, and thus the potential distortions created. Taxing the value of improvements as well as land values can help to expand the size of the property tax base…On the negative side, however, the taxation of the value of property as well as the land value could distort activity by discouraging investment in development and improvements" (6.44). "Business rates are a tax on current use value, rather than the optimum use of land, which potentially means that they do not provide the same incentives [as LVT does] for underused property or land to be redeveloped for another use" (8.16).

The alleged widening of the tax base is no such thing. Land that is undeveloped, under-developed, or unused, is untaxed or under-taxed under NNDR and CT. Lyons first accepts the case for LVT, but, finding no substantial counter to it, he just slopes away.

LITTLE BITS from HERE and THERE

(i) "Thousands of Texans are about to become instant millionaires after discovering that their town is built over the second biggest **natural gas** field in the U.S. Many of the 60,000 inhabitants of **Fort Worth** own the mineral rights to everything in the ground under their homes [and] are cashing in by selling drilling rights to gas companies. They will also get a percentage from what is extracted. There will be 4,000 rigs operating within ten years" ("Daily Mail", 15th. November). Some people work: others are lucky landowners.

(ii) A Bank of England survey has found what we could have told them for nothing. "Those [borrowers] most prone to default are people on low incomes with high credit-card and other unsecured debts. They are likely to be renting and unable to tap into the **rising value** of their **homes**" (Scheherazade Daneshkhu, "Financial Times", 3rd. February).

(iii) Georgestown is a neighbourhood of St. John's. "Part of the reason for the recent growth in the neighbourhood's population is a booming **oil industry** that has attracted many young professionals to **Newfoundland**" (Daina Lawrence, "Financial Times", 7th. April). "Rising property taxes are a point of contention. Houses sometimes deteriorate because the owners do not want to put money into renovations because they don't want their taxes to go up…It's easy to find a property in a state of abject disrepair next to one that is…cared for and worth hundreds of thousands of dollars." We do not support taxes on developments either. LVT would both recover land value resulting from the increased population and ensure untaxed homes; but is there not a saying about noses and faces?

(iv) Forth Ports is a company that operates in the infrastructure sector, handling cargo profitably at Grangemouth, Dundee, Rosyth, and Tilbury. It is in the **property** business too with 400 acres of "prime Edinburgh waterfront…Forth is having the estate independently valued each year", with its 'market value' currently £277m. and the longer term 'calculation of worth' put at £402m. This figure "is likely to prove conservative, assuming that **Leith** property prices keep rising and Forth wins permission to build more luxury flats than social housing" (Questor, "Daily Telegraph", 20th. March). For the patient the shares are "a buy".

(v) The Port of Felixstowe has had to introduce a surcharge of £5.50 on each container landed, to help cover a "£85m investment in **rail** and **road** links tied to a £240m expansion of the port" (Roland Gribben, "Daily Telegraph", 19th. April). The Government used a 2004 policy change to make this a condition of approving the work. The Freight Transport Association says "The surcharging of users of **ports** will add directly to the costs of the UK's supply chain" and "raise costs to businesses as well as the end consumer". The rail network is to be expanded as far north as Doncaster, and the effects of improved freight movements will ripple out still further. It is evident that landholders in the areas served will be beneficiaries of all this investment, without performing any labouring task or providing capital. Instead of a container surcharge, let there be LVT revenue to back a bond issue!

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