PRACTICAL POLITICS

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THE STATE OF THE NATION

In our previous Issue, No. 187, we provided a link to the website displaying the submission made by the Land Value Taxation Campaign to the House of Commons Treasury Committee in response to an Inquiry into the principles of taxation. We now know there were in all 46 responses, of which eight put forward the LVT case. Three others came out in favour of some kind of reformed property tax. Thus, about a quarter were in favour of the principle of using land rent for public revenue. Seven witnesses were called to give oral evidence. None is a LVT advocate. We can but conclude there is no serious interest in LVT within the Treasury Committee, and indeed no serious interest in the principles of tax policy. In short, why has this Inquiry been held at all?

(i) Much has been made over the privileges enjoyed in this country by non-domiciled resident foreigners (the so-called **non-doms**). The previous Government imposed a £30,000 charge on such people who have been here for at least seven years, in return for allowing income and capital gains earned abroad but not brought into the U.K., to remain outside the HMRC net. The Treasury has revealed that only 5,400 out of 120,000 non-doms paid the levy in its first year, worth £162m in tax – way below original estimates. "Accountants claim that thousands of non-doms moved abroad after the £30,000 levy was introduced. The official figures show that the tax paid by non-doms [on earnings and expenditure in this country] fell from £6.9bn in 2007-08 to £5.9bn in 2008-09" [a]. Even if not all the loss is due to the levy, it is clearly, in revenue terms, a big failure. The super-rich remain, but those deterred by £30,000, who are probably the skilled professionals the country should be welcoming, are walking out. With LVT replacing contemporary taxes, non-doms would become liable for the annual land-rent charge on equal terms with native Britons. It is unavoidable.

(ii) **Forth Ports** owns ports at Leith, Dundee, Grangemouth, Rosyth, and Tilbury. Significantly, it does not simply have access to water, but holds valuable *terra firma*, including "1,000 acres of freehold land in Scotland and 725 at Tilbury". It is currently the subject of a takeover bid from its largest shareholder, Arcus. "It has been a difficult business to value, however, because of the fluctuating valuations ascribed to its property estate…Real estate advisers DTZ valued the land at more than £280m at the height of the property boom – slashed to just £60m after the credit crunch. The most recent valuation is £74m" [b]. These figures show how a balance sheet can be overblown one day and wrecked the next. Do academics, politicians, civil servants, commentators, businessmen, and bankers still not see how important is the rôle of land in the economy, and how corrosive the effect of ignoring it can be in, to take but one example, the boom/slump cycle? Incidentally, the figures also show the unreliability of capital values (buying and selling prices) in land value assessments: annual rental value much better reflects the value in optimum currently permitted use.

LOCALISM, ELATION, N-I-M-B-Y, AND TIF

When the Government announced plans to devolve authority as far as possible down to the local level, hosannas were heard throughout the land. A short intake of breath later, the spectre of rule by N-I-M-B-Y reared up. Either not much will be done or only that which pleaseth N-I-M-B-Y will reach the agenda. What to do? An old neglected favourite was taken out, dusted, put in a kite, and duly flown. Yes, TIF is back in town. Surely we all remember old TIF, tax increment financing? Well, perhaps not.

Whereas domestic properties are liable for council tax, properties in other uses (agriculture excepted) pay the national non-domestic rate (NNDR). Because property values are unevenly distributed around the country, the levy on businesses (the UBR) is made at a uniform rate, pooled centrally, and re-distributed to local authorities on a *per capita* basis. There are of course other central grants too: their collective purpose is to equalise the obvious differences in area, population, property values, and perceived need that local authorities must cope with throughout the country.

Because N-I-M-B-Y tends to be stick-in-the-mud or self-regardingly inclined, some sweetener has to be found. "Government has been developing proposals for a Business Increase Bonus scheme to reward those authorities where growth in the business rate [UBR] yield exceeds a threshold, by allowing them to keep the increase – up to a certain level – for a period of six years. Where there is additional growth in subsequent years, the authority would retain that growth" [c] - bluntly, a bribe not to block development, to be implemented in the form of a process called TIF.

"By allowing successful authorities to keep a proportion of this additional income for up to six years…other less fortunate authorities, often with the weakest rate base and facing the greatest difficulties in driving regeneration, will lose out" [d]. Furthermore, TIF, when enacted, will provide successful local authorities with new borrowing powers, enabling them "to borrow against future additional uplift within their business rate base" [c]. "Wealthy local authorities with large rate bases and dynamic businesses will prosper funded by authorities with a poor rate base" who find it hardest to attract regeneration. Authorities retaining part of the UBR receipts after TIF reduce the income to the central rate pool, with the result that less fortunate authorities get less. TIF will not foster prosperity in all parts of the country [d].

Regular readers will know that LVT solves both problems. If N-I-M-B-Y operates to maintain or raise its own land values, an increased location value charge results, which will tend to deter pure negativism. As for TIF, it is unnecessary. Both it and the UBR can be discarded and replaced by LVT, which penalises unused and poorly used sites and takes tax off development and redevelopment. Poor old TIF! Business cannot be taxed into prosperity!

U.S.A.

"Proposals in a white paper…would wind down Fannie Mae and Freddie Mac, the government-sponsored enterprises that have received billions of dollars of taxpayer money to prevent their failure" [e]. This is "a government retreat from the housing market…ending the decades-old push for ever greater home ownership". Subsequently, the President "proposed a budget that will push this year's deficit to a fresh record of $1.65 trillion [$1,650 plus nine more noughts]. It remains unclear whether bond vigilantes will tolerate such extreme deficits once the Fed's quantitative easing (QE) ends in June" [f]. The U.S. continues to look to foreigners to fund about half its debt. Fortuitously, "Money is being rotated out of emerging markets, where inflation is rising fast, and into the developed west" [g], abetted by recent turmoil in North Africa and the Middle East. Internally, "The continued policy of near-zero official US interest rates has driven yields down across financial markets. As a result, investors have taken on more risk in order to boost returns and junk bonds have been a key beneficiary". These are bonds offering high-yielding debt "sold by companies with ratings below investment grade" [h]. Government policy of low interest rates, a massive budget deficit, and lots of inflationary QE, has given a presumably unintended lift-up to junk.

EUROPE

In euroland, the European Central Bank has hinted that an interest rate rise might be imminent. The heavily indebted are not going to like it, but, as they agreed to enter a monetary union which, *inter alia,* forbids devaluation, they have left themselves no choice but to pay the price. Their plight, though, does tend to act as a brake on the international value of the euro, which, ironically, helps Germany, by making its high-value, high-cost exports cheaper – a little piece of currency manipulation by other means!

Moody's cut the credit rating of Greece from Ba1 to B1. Investors "drove the yield on 10-year Greek bonds to 12.32pc, as prices for Irish and Portuguese bonds also fell" [j]. Spain "has €2.5 trillion of combined household and company debt" [f]. The savings bank sector is "burdened by bad property loans" [k]. Then Moody's downgraded the country's credit rating to Aa1, noting that "The government, regional juntas , and banks must together raise or roll over €300bn of debt this year…Spanish house prices are falling steeply…The more property prices fall, the more strain this puts on banks" [f]. "Europe seems as much stuck in a state of denial as ever…Large parts of the European banking system are still grossly undercapitalised…With public balance sheets already stretched to breaking point by the crisis, there's little scope for governments to subscribe the capital either, and certainly no incentive for them to own up to the extent of the unfunded liabilities" [m]. Neglect of the land question is taking a terrible toll. When will we all learn?

LAND AND ITS LOCATION

(i) "The supply of prime sites is limited, which has fuelled growth in land prices…Grosvenor and Native Land bought the site occupied by Holland Park School [in London] for more than £100m last year" [n]. One wonders what the pupils have learned about the unique rôle of land in the economy.

(ii) "Views of the famous Royal and Ancient Golf Course are property gold". A director of a local estate agency has declared that "While an ordinary 1970s modern detached in the town [St. Andrews] would fetch £350,000, a similar property adjacent to the golf course could achieve close to a £1m value" [p]. The town's attractions were listed as good schools, stunning scenery, world class golf courses and a university of international standing. For none of these are the town's lucky landholders responsible. Interestingly, St. Andrews figured in the Burt Report into local government finance in Scotland [q]. 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” (sub-section 14.25) – a fine example of subsidies and tax breaks ending up appropriated by landholders. The case for LVT is sound, on ethical, fiscal, and wider economic grounds. All that is lacking is the will to get on with it.

CLOSING THOUGHT: ON THE ORIGINS OF SLUMPS

"What in the end floored Royal Bank of Scotland and Halifax Bank of Scotland were not the antics of bonus-driven traders but simple, good old fashioned overlending, much of it in commercial property, of the type which since time immemorial has been behind all banking crises of any significance" [m]. Solve the land problem and all else will be so much simpler.

[a] Robert Winnett, "Daily Telegraph", 16th. February [b] Alistair Osborne, "Daily Telegraph", 8th. March [c] White Paper, "Local growth: realising every place's potential" (cited by Charles Partridge) [d] Charles Partridge, "Estates Gazette", 15th. January [e] Tom Braithwaite and Suzanne Kapner, "Financial Times", 12th. February [f] Ambrose Evans-Pritchard, "Daily Telegraph", 15th. February, 10th. March, 11th. March [g] Richard Milne, "Financial Times", 19th. February [h] Aline van Duyn and Nicole Bullock, "Financial Times", 19th. February [j] Richard Blackden, "Daily Telegraph", 8th. March [k] Victor Mallet, "Financial Times", 19th. February [m] Jeremy Warner, "Daily Telegraph", 10th. March, 8th. March [n] Daniel Thomas, "Financial Times", 15th. January [p] Antonia Swinson, "Financial Times", 5th. February [q] “A Fairer Way: Report by the Local Government Finance Review Committee”, published by the LGFRC, under the chairmanship of Sir Peter Burt (Edinburgh, November 2006)

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