PRACTICAL POLITICS

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WHAT IS LAND VALUE TAXATION?

What is the consequence of LVT? Ignoring for the moment its moral and ethical justification; ignoring for the moment the economic arguments for its introduction deducible from observation and inference; ignoring for the moment all the benefits (major and minor, direct and indirect) deriving from its operation, and laying aside even the most obvious of these (namely that it replaces taxes currently levied on labour, capital, and their products) – what practical everyday difference is the capture of land-rent for public revenue going to make? Assuming a simple, seamless glide from the U.K. to-day with no LVT, to a future with LVT fully and properly applied (so as to collect as nearly as is practicable 100% of the annual rental value of land), what is the system for providing for society's collective expenditure going to be like? [a]. The answer has to be *"straightforward, much less complicated"*.

Land valuation rolls are public documents and are open to scrutiny. The only fiscal obligation the state lays on a person (British citizen or foreign resident) or on a body corporate (British or foreign) is the payment of LVT for land owned. Land, as such, has no selling price (there is no longer a rental stream left for the freeholder to sell). Obviously the freeholder needs an income, which he obtains from the use he makes of his land or by leasing it out to someone else who will use it. If there are man-made improvements on the land (buildings, for instance, or crops) these are not of course included in the assessment, and may be owned, used, leased, or let without payment of tax on resultant income. The likes of businesses in an office tower block will be paying the owner for the space and facilities they use, but the portion allocated to the land-rent charge (the LVT) has to be deducted by the freeholder from what he receives and is payable to the collecting authority. The principle is always that the user pays for the land he has the exclusive use of, but the freeholder of the land is no longer able to keep it for himself.

The loser is the freeholder of land, and then only to the extent that he does no work and provides no capital, but merely has a paper title to some land. His land is not taken away from him. True, he can no longer retain the *rental value* of the land, but neither he nor any predecessor in title ever created that in the first place, nor, on his own, can he maintain or increase the value or prevent its possible decline. Land value truly is a community value. A National Land-Rent charge returns that value to the community.

LITTLE BITS

(i) "The Irish Property Council…is gearing up to launch a class action against **Ireland**'s Financial Regulator over its role in the collapse of the country's property market…It will seek compensation against the 'reckless behaviour' of banks and the 'incompetence' of the regulatory authorities" [b]. These investors and developers do not appear to have made any protest during the years of absurdly rising land values, when the banks made ready loans against the bogus security of unreal speculative froth tendered as collateral. It takes two to tango, even in the land market. *Caveat speculator!*

(ii) **Weymouth**, on the south coast of England, was chosen as the venue for the sailing events in next year's Olympic Games. At the harbour, 670 berths have been added "along with a 220m slipway…Work continues with a vengeance to improve road access…More than 200 improvements are under way…The largest – a £90m bypass linking Weymouth with Dorchester – has just opened. Another £18m is being spent on roads within Weymouth itself to serve a new hotel, blocks of apartments, a renovated theatre, the new ferry terminal and another marina…The town's longer-term prospects are now seen through the prism of the 2012 Games" [c]. Landowners can hardly wait!

(iii) "Transport links are excellent, with Paddington station and the Heathrow Express on your doorstep and the green spaces of Regent's Park and Hyde Park nearby…The café culture and independent boutique shops along Marylebone High Street contribute to its distinctive village feel. But it wasn't always like this. In 1995, about a third of the shops on Marylebone High Street were either vacant or occupied by charity shops". Larger properties in the area that had been devoted to office use are now being converted to residences, "with the influx of cash-rich buyers from abroad". Will **Marylebone** become a victim of its own success, though, as absentee owners buy up the neighbourhood and threaten " the area's charm and liveliness"? [d]. Lest this happen, landowners should enjoy the pickings now, because location values are determined by what *other people* decide.

(iv) "In 19th-century **Brazil**, land along the tropical north-east coastline was often abandoned or given away to freed slaves as it was unproductive for growing sugar cane. [Now] foreign and Brazilian investors are rushing to develop beachfront plots throughout the region…The choice of Fortaleza as one of the 12 host cities of the 2014 football World Cup finals…has triggered a public spending programme worth R$1.3bn (£517m) in and around the city, to include urban regeneration projects, waste treatment, public transport and road building…The average air temperature is above 27C year-round and the sea is usually around 25C…It is a natural advantage that the north-east has over…the south" [e]. Readers are invited to draw their own conclusions as to what has been happening to land values and for what reasons.

DEPRESSION

By mid year, property investment in **China** had "surged by 33pc from the same period last year, raising fears of a bubble. Consumer prices are rising at almost double the rate of interest, so the Chinese are investing their savings in property for higher returns" [f]. Beware! Bubbles burst, and, where land is involved, they burst in a particularly unpleasant way.

The **U.S.A.** heads ever closer towards its $14.3 trillion debt ceiling, with politicians in Congress in political deadlock. Meanwhile Federal Reserve chairman Ben Bernanke was hinting that "fresh stimulus for the faltering US economy had not been ruled out" [g]. Any more quantitative easing (there have already been two rounds) will surely be seen as nakedly inflationary.

Europe was, and is still, in disarray, despite the **eurozone**'s Greek 'rescue' package of 21st. July. The **EU** is not a state, but a grouping of (as they still believe) sovereign states, of whom only two thirds use the euro. From the outset, the euro was a marred concept, a disaster in the making. One central political authority laying down 'one size fits all' laws will not work either, even if it were a possibility: the roughly north/south divide is too deep.

Greece has defaulted. It cannot repay its loans on time, and is to receive a second bail-out. In effect, the eurozone is accepting the reality of the pooling of euro debts and the consequent need for transferring funds from the north to the south to support the currency. Of course the mechanism is not straightforward, to avoid stating baldly what the Brussels agreement really means. Greece is to be handed a bail-out of €159bn to follow the €110bn 'rescue' of just two months ago. €109bn of the new funding will be provided by the eurozone and the IMF, and the rest will come from write-offs by insurers and banks (a 21% 'haircut'). Interest rates charged to Greece by the European Financial Stability Facility (EFSF) are to be generously lowered to 3.5%, with the same courtesy to be granted to **Ireland** and **Portugal**. Greece's problems will further be alleviated by extending the maturity dates on its loans. For its part, the ECB (European Central Bank) has had to concede that it will henceforth agree to accept collateral for loans from eurozone states which have defaulted.

Undoubtedly behind present concerns lie fears for **Spain** and perhaps also for **Italy**. The EFSF and the ESM (European Stability Mechanism) are to have added powers to intervene in problem situations, but extra funds have as yet to be discussed, let alone actually provided. Clearly the EU's problems are far from solved, merely pushed back a bit. [h]

Meanwhile, the **gold** price has reached and gone through the $1,600 per troy ounce mark. In to-day's real world, no paper currency is truly trusted.

TO SOLVE A PROBLEM OF BANKS – without a regulatory burden

Wealth production in its primitive form takes place when labour works on land unaided. In practice, as soon as development takes place, some of the wealth produced is not dedicated to immediate consumption but is diverted back to assist in the productive process and is known as capital. Now labour, working with the aid of capital, is producing wealth in greater quantity and with greater ease, but still of course on and from land. Of the three factors, labour and capital are, within reason, in flexible supply; but land is fixed in quantity and in location. Thus when the good times roll, and land is in increasing demand, all that happens (all that *can* happen) is that its price goes up and up. This makes it an ideal object of speculation. Everybody is feeling good and confidence is soaring as the boom takes off. Land prices rocket spectacularly beyond the land's value in current use. Balance sheets are being adjusted to take account of updated valuations of company assets. Individuals bother less about saving as rising land values seem to be doing their saving for them. Banks are presented with glowing assurances of new riches now being offered as collateral for loans to support expanding businesses and to fuel joyous lifestyle expenditure. Loans look profitable, and the banks want in on the act. Both banks and clients are intoxicated by the same unrealistic froth of rampant land speculation. It cannot last, and it does not. Eventually the bubble bursts and the ensuing slump drags down improvident lenders and reckless borrowers alike.

What of the collateral? Nowadays the banks have a *lien* on the real estate pledged, consisting of (i) the realistic value of the land plus (ii) the value attributed to its element of speculative froth plus (iii) the value of the true capital assets (the man-made developments on or in the land). This is where LVT, fully and correctly applied, comes in. Collecting the land-rent leaves nothing behind to support land speculation. Homeowners and business proprietors may still proffer their houses, business premises, and the crops growing in the fields as collateral if they wish (*i.e.* the development value only, not the site value). This prevents a bank deceiving itself over the value of its collateral. Problem solved. What is all the fuss about?

[a] For an essay on the implementation of LVT leading in a series of deliberate steps to the collection of what is by then better termed the National Land-Rent Charge, please see "Practical Politics", Issue No. 124 (July 2003), pages 3 to 7 [b] Christian Metcalfe, "Estates Gazette", 2nd. July [c] Graham Norwood, "Financial Times", 14th. May [d] Paul Shearer, "Financial Times", 16th. July [e] Nick Foster, "Financial Times", 9th. July [f] Josephine Moulds, "Daily Telegraph", 14th. July [g] Richard Blackden, "Daily Telegraph", 14th. July [h] In compiling the third, fourth, and fifth paragraphs, the editor acknowledges that he drew on information contained in articles in the "Daily Telegraph", 22nd. July, by Louise Armitstead and Bruno Waterfield, Damian Reece, Jeremy Warner, Ambrose Evans-Pritchard, and Emma Rowley, and from articles in the "Financial Times", 23rd. July, by Lex, John Authers, and David Oakley and Richard Milne

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