PRACTICAL POLITICS

May 2014 Issue No. 207

In our previous Issue, No. 206, faced with several important electoral consultations, we presented the case for annual collection of the rental value of all land, first to abate and then to replace existing forms of taxation. As promised then, in this Issue we provide further supportive material.

TAXATION – A CLEAR DISTINCTION

Using the term *land value taxation* to describe the annual collection of the rental value of all land, does the policy a dis-service. The justification for allowing such a usage is that, in the U.K., that is how, historically, it has been known. In the early years of the 20th. century, there were, successively, the Land Values (Scotland) Bill, 1907, the Land Values (Scotland) Bill, 1908, and the Finance (1909-10) Act, 1910 (which introduced a number of land taxes, none of them actually land value taxation, even though the preliminary campaigning had indeed been for proper LVT!). Later, Section III of the Finance Act, 1931, was entitled Land Value Tax. For well over a hundred years, there have been numerous inquiries, in and out of Parliament and Whitehall, referring either to land value taxation or to its local government equivalent of land (or site) value rating.

Yet, equating LVT with taxes such as income tax, corporation tax, the council tax, the uniform business rate, capital gains tax, value added tax, import duties and excise duties, is to underestimate the superiority and singular character of the former. All of the latter are taxes on work – on the productive process itself or on trade in goods and services or on accumulated savings devoted to capital formation.

Land is not man-made but is a gift from Nature, part of our planet, Earth. No one paid to have it produced!

What each plot is worth, depends on the demand for its qualities, for the social and other benefits and opportunities it offers. Each plot constitutes a monopoly location.

Properly and, as far as practicable, fully implemented, an impost based on the assessed rental value of land is to be viewed as a payment to the community for benefits actually received. What the landholder pays to the Exchequer is thus compensation for what he gets the exclusive right to enjoy.

Although generally known as LVT, this policy is more accurately described as a National Land-Rent Charge – the collection of the rent of land for public revenue purposes, to be effected by passage of a National Land-Rent Bill.

THE BASIC CASE FOR THE NATIONAL LAND-RENT CHARGE ("LVT")

The moral, ethical argument

Whether there was a formal Creation or not, whether there was a Divine Creator or not, it is indisputable that the Earth was not made by Man.

From this it follows (i) that all men have equal rights in the bounty of Nature; and (ii) that no man can with moral legitimacy lay claim to private ownership of any part of that which Nature has freely provided. These principles are universal. Our immediate concern, however, must be to ensure their application where we have the political authority, namely within the United Kingdom.

We use the term, land, to mean the material universe apart from man and his products. The exertion of labour by man is what confers legitimacy on the claim to ownership: a man may not own what neither he nor any other man created.

The economic argument, from observation and inference

The value of land is of course influenced by such purely natural factors as the terrain, soil type, climate, and minerals. It is, though, the presence and activity of the population as a whole which actually confer differential values on sites. Land value is determined by the demand for living, working, and recreational space. It measures the advantages of a particular piece of land over that of the poorest land in use.

Land values are affected by the provision of services such as water, gas, and electricity. They are protected by the police, the fire and hospital services, and flood control. Communications (road, rail, river or sea port, aerodrome) are especially significant, and every improvement to the infrastructure will result in higher land values overall in the areas affected (though individual sites will not benefit equally, and a few may even lose value in the short run).

We notice how North America has developed in the five and a quarter centuries since Columbus; how in the U.K. the comparatively recent preference for trade with continental Europe instead of the Commonwealth has affected the fortunes of East Anglia and Merseyside; how Aberdeen and its hinterland have been changed by the discovery and exploitation of North Sea oil and gas; how the growth of service industries and of light electronic industry at the expense of much “heavy” or “smokestack” industry has resulted in the redistribution of jobs and of people; whilst at a local level, we see how one-way streets, parking regulations, and the re-positioning of a pedestrian crossing can affect the relative attraction of competing shop sites.

The individual landowner, in his capacity as owner of land, clearly is powerless to create his own land value, although if he were also to exert labour or provide capital he would, in those distinctly different rôles, play his small part as a member of the larger community. The landowner as such, though, performs no useful function. His sole “contribution” to the process of wealth creation is to charge labour and capital for access to what Nature has already provided free, at a price which reflects the extent of past, current, and anticipated future levels of economic activity. *Values which ought rightfully to be public, have to be “bought back” from landowners before anything new can be done!*

The pragmatic argument: raising revenue in an efficient, superior way

Essential government services must be paid for somehow. The advantages of LVT are that (i) it is cheap to collect; (ii) its yield is certain and potentially large; (iii) it cannot be avoided or evaded; and (iv) it does not add to the cost of living, because, as all economists agree, it falls on those who have a beneficial interest in land and cannot be “passed on” by them in the form of higher rents for occupiers or higher prices for goods or services made on, or sold from, the premises. In short, land is "price inelastic".

The revenue raised replaces existing taxes, which fall on personal earnings and on the goods and services people provide for each other by productive effort. Work and enterprise are rewarded. Merely holding land becomes unprofitable. Landowners, obliged to pay the LVT, need to generate the necessary income. Valuable land that is unused and under-used has therefore to be put to an appropriate use.

RECAPITULATION

We are paying over land values now, but in a haphazard way and to the wrong people! Anybody renting a piece of land has obviously to pay the landowner, and site rents form part of the payments made for use of buildings. If a property is being purchased with the help of a bank or building society, the loan repayments include a land value element. Even if land is fully paid for, the freeholder has to carry an "opportunity cost" which is the income forgone through having his money tied up in capitalised land rent. *What happens to-day is that we pay land values, which rightfully are public, to the private landowner, and then suffer taxes on our private earnings, goods, and expenditure, to finance public needs.* It is ridiculous. Landowners are not to blame: but the system of landlordism, is.

Land values are not Government's to give away. Morally they belong to us all equally and in theory could be paid out on a *per capita* basis as a sort of reverse poll tax. For convenience we argue that Government retain what is needed to cover essential public revenue requirements and only then distribute the balance.

The moral basis for LVT is payment for benefits received. The landholder pays a duty in return for exclusive enjoyment of the natural and social advantages of his site. What he achieves thereafter, he is free to enjoy untaxed.

Land has its own ability to pay: its value is derived from and reflects its capacity to produce a return with the appropriate investment of labour and capital. In this way LVT restores meaningful recognition that all land is vested in the Crown so that Land-Rent thus becomes available to H.M. Government.

Land value is the one thing that should never be privatised.

A National Land-Rent Charge (LVT) is good politics and good economics. Perhaps above all, it is based on sound ethics.

LVT THE HOLISTIC LAND-RENT CHARGE

Holism is *the tendency in nature to form wholes that are more than the sum of the parts by creative evolution*. One is not too sure about that "creative evolution" bit; but in political economy almost everything affects land value and LVT therefore beneficially affects almost everything. Let us look…

(i) LVT, in its *local* guise of SVR, can replace both the council tax and the UBR, encompassing vacant and derelict land but excluding the value of all buildings and other developments. There is no reason to stop here. One can go beyond this and collect sufficient revenue to replace centrally distributed grants to local authorities as well. Even so, LVT risks being wasted if considered as just a little local tax, for it does much more.

(ii) It is increasingly acknowledged that spending on *infrastructural developments*, by government bodies and private undertakings alike, leads in general to substantial increases in the value of land in the surrounding neighbourhoods. Improvements in passenger transport facilities are particularly evident examples. Whilst LVT is admitted to be a highly suitable means of capturing this land value to defray project costs, it is frequently forgotten that LVT is not to be treated as a means of collecting only increments in land value but all pre-existing land value too, and is not merely to be used towards financing part, or even all, of a single project, but as the fundamental source of income for the public revenue.

(iii) LVT is similarly cited as applicable to *regeneration plans*, usually in an urban context and frequently in relation to the long-standing and vexed question of recovering “planning gain”. LVT does of course do this and, being related only to site value, it also rewards good development and penalises under-development. In a seeming paradox, it acts to render over-intensive development (expensive high-rise office blocks, lots of little houses cramped together) much less likely. The present system tolerates withholding and under-use of land, which makes it scarcer and dearer, obliging developers to resort to essentially uneconomic over-exploitation.

(iv) LVT, then, is not to be viewed as a mere financial measure, a better way of *revenue-raising*. It is, to be sure, better to collect the national land-rent than it is to levy taxation on production, earnings, goods, services, and savings. The consequences of a deliberate move to full operation of LVT go beyond finding a different way to fill the Chancellor’s coffers, however.

(v) Collecting the rental value of land as close as is possible to the theoretical maximum 100%, leaves bare land with practically no selling value, since the capitalisation of a theoretically 0% rental stream which the landholder can retain, is zero. Land is worth holding only for use, and for appropriate good use to boot. *Speculation in land is killed stone dead*. Whereas speculation in goods can do little harm, since withholding products from the market will stimulate further production at home and encourage imports from abroad, and may well be beneficial in making supplies available later if and when a genuine shortage occurs (think of the oil trader laying in stocks of heating oil against an especially cold winter), land is a natural monopoly, and its hoarding must always lead to artificial scarcity and diseconomy.

(vi) *Housing* is affected in many ways by adoption of LVT. Apart from the benefits deriving directly from what has been said above, shifting taxes off labour and capital, and off goods, including houses, means that buying a home no longer means shelling out to buy the land (in south-east England, half of the cost or more), but just the building, fencing, driveway, and any special improvements such, perhaps, as to the garden). Any mortgage required is for a much lower sum. The only outgoings are repayment of this now lower mortgage and meeting the land-rent charge (LVT demand).

(vii) The mechanism of the *cycle of boom and slump* depends crucially on the rôle of land in the functioning of the economy. In essence, private appropriation of the rent of land leads, in a rising economy, to land speculation, to over-building to justify the rising cost of over-priced land, and to over-lending by banks on the illusory security of the rising spiral of land values – up to the point at which the bubble finally bursts. When site rents are paid to the national exchequer, private profit can be made only from the activities of labour and capital. Undistracted by the call of speculative takings from land dealing, the economy grows in an orderly manner, with the rewards of enterprise and effort going to those responsible for producing them.

(viii) Apart from what is needed to ensure *capital formation*, created wealth is distributed to labour as wages and as rent to landowners. Because basic wages are set at the economic margin, and because that margin is artificially depressed by widespread under-use and withholding of land, wages are far lower than they ought to be. Most wage takers receive little more than they need to keep themselves and their families in something ranging from bare respectability to a reasonable comfort. Consequently they have little or no scope to set aside savings and become significant owners of capital. Thus it is that the owners of land (private persons, trusts, and bodies corporate) also own most of the capital. The assessment and collection of land values in place of present-day taxes will ensure that those who actually perform work become the chief providers of new capital.

(ix) How can there be *unemployment*, other than transient? Men are idle, wanting to work. Capital too lies idle, rotting by the day. If people cannot supply, they cannot effectively demand. If the problem does not lie with labour or capital, it must lie with land. In fact, insufficient land is available on affordable terms. Land stands unused or under-used. Furthermore, Government lurks by to impose job-destroying taxes on labour and capital. LVT not only replaces those taxes but obliges landholders to put their land to use to generate the income to meet the land value duty.

(x) Imbalance in *regional development* is not a question of capital investment or of labour productivity; it is a matter of location. 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, the south-east, and the continental EU. Land values are normally lowest at the outer fringes, reflecting those regions' geographical and other disadvantages as compared with the centre. To-day's taxes like PAYE, VAT, and motor fuel duty take no account of this, and at the margin tip potential wealth creation into unprofitability. LVT, however, by definition, bears lightly at the fringes, and creates tax havens exactly where they are wanted most.

LVT – collection of the national land-rent – is not just a tax policy, not just a useful tool to stimulate urban (and rural) regeneration or help pay for a new transport scheme, or any other item we have mentioned, or, indeed, have left unmentioned here. It is much more – a *holistic* remedy that will fully reward the attention devoted to its establishment and nurture to fruition.

PROPERTY AND THE PROPERTY BUSINESS

The property business, as the term is widely understood, is not about movable personal property. It covers that which is regarded as fixed, immovable – houses, factories, offices, shops, farms, mines, warehouses, airports, for example, together with their underlying and surrounding ground. 'The property business' in fact is a catch-all expression, lumping together at least four groups of participants. Landowners sell or lease out the site. Financiers organise the funds to support the land acquisition and construction costs. Constructors bring men and equipment to the site and organise and direct the building work. The professionals are those who actually carry out the work - the architects, surveyors, engineers, skilled craftsmen, general labourers, and, when all is done, the property managers.

The financiers, constructors, and professionals all perform work, by hand or brain. In the terms of political economy, they provide Labour. Some, from the plumber with his own specialised tool kit to the great civil engineering company with its cranes and bulldozers, will also provide Capital, which is to say goods previously manufactured not for direct consumption but for use in further Wealth creation. Finance comes from private savings via banks and from the resources of such as insurance companies, trusts, and pension funds. The money thus supplied is a Wealth token, representing its owners' temporary denial of gratification through consumption so that it may be used in investment, in the business of making and furnishing a building. Labour is work. Capital is a form of stored and re-circulated Labour. For all their differences and their internal divisions, financiers, constructors, and professionals represent current and past Labour.

What of the landowner? Land was not man-made. It was provided free by dear old Mother Nature. If, in the present context, we rightly disallow the ownership of Labour (chattel slavery), the crucial distinction in economics is that between Land and Capital. If Land is withheld, Capital, as well as Labour, is locked out, and can produce nothing. Each plot constitutes a monopoly location: Land is not transportable from place to place. Property and property values are imprecise terms, misleading in economic analysis.

The Land interest is mostly at odds with Labour and Capital, and has most to gain from the confusion. Of course we know that one person or one body corporate may perform more than one function or indeed all three (a man may own Land and provide his own Capital and perform his own Labour) but in political economy the functions are distinct, and require to be considered differently and separately. Capital and its value are private, and so too are the rewards of Labour. The value of Land comes from the economic attraction of the location, which in turn stems from natural advantage and the general presence and activity of people. Land value is public. Landowners do not want attention drawn to that; and the British Property Federation has yet to admit to recognition that the dichotomy exists, let alone decide whose side it is on!

THUMPING THE TUB

We end, not with a plea for reason, because we have been doing that throughout two special Issues, so here goes a cry to arouse some action.

The infrastructure the public provides and whose integrity Government largely guarantees in so many ways, is a massive gift to holders of land title deeds. What would a land title deed be worth without the courts to uphold it and the police and military to enforce it? What would land be worth without roads, railways, ports, gas, electricity, water and sewerage, and basic social services such as hospitals, schools, and fire and postal services? What would land be worth without the organs of government to provide for everything from defence of the realm to collection of household rubbish? What would land be worth without all the organisation of businesses to support the production and distribution of wealth? Change, sudden or creeping, of economic and demographic factors occurs and land values shift accordingly; yet landowners have no power to "produce" their own land value or even to maintain it or hold back its erosion. They make nothing. They just take - and contemporary society lets them get away with it!

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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.

Internet   http://www.landvaluetax.org