PRACTICAL POLITICS

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MIND THE GAP

We are frequently reminded that the gap between rich and poor is widening. Of course other factors enter into it (acquiring skills and working diligently, for instance) but there is one simple explanation for what holds back those at the bottom of the pile. The poor are the landless. They live in rented local authority or private accommodation, and never benefit from the rise in housing land value that enables others to move rung by rung up the ladder of private housing, maybe pausing every so often to re-mortgage, "release equity", and indulge in some of the better things of life. There is no welfare fiddle that matches land value gains, especially those of the already well-to-do in the economic "hot spots". Please read on…

LITTLE BITS ABOUT HOUSING

(i) From mid 2005 to mid 2006 there was "a 15pc rise in mortgage advances as people increasingly used their homes as a cash machine, often to pay for holidays and cars" (Ambrose Evans-Pritchard, "Daily Telegraph", 9th. October). "Home equity extraction is now running at a staggering rate of £50bn a year, reaching £12.51bn in the first quarter."

(ii) It seems that ministers and senior civil servants "are concluding that housebuilders have had it too good for too long, and that they have begun to be land traders rather than producers of housing" (John Gummer, M.P., "Estates Gazette", 25th. November).

(iii) "We build the smallest homes in Europe – average size 818 sq ft, compared with France, Holland and Denmark, where houses are over 50% larger" (second leader, "Estates Gazette", 2nd. December). "In these three countries the new homes are being built considerably larger than the old – whereas in the UK the opposite is the case…The developers' argument, that they can't 'afford' to build bigger houses, is specious: it's the maximum density that dictates the maximum price paid for land" [maximum *permitted* density – ed.]. The article argues for "imposing minimum space standards". A free market would be better, but can work properly only when the land market has been freed and LVT is operating. Then home buyers can dictate whether houses are to be small and cheap or roomier and a little dearer.

TAXING HOUSES

"A new tax of one per cent a year on the value of houses has been proposed to the Conservative Party's taxation review" ("Daily Telegraph", 24th. July). "The Bow Group proposed that a 'land value tax' would replace council tax, inheritance tax, stamp duty land tax, capital gains tax on property disposals and the television licence fee…The first £70,000 of the value of a house would be exempt." Whatever the Bow Group might think, this is not classic taxation of land values! LVT distinguishes land (a gift of Nature) from houses and other man-made developments in and on land. When this is done, and taxes are removed from goods and services, there is no reason to make exemptions for land alone. There is another bad flaw – obsession with selling price (capital value) as against rental value (annual value). Annual value is assessed at optimum use within current constraints (planning permission, way leaves and similar). Price not only capitalises annual value at whatever might be the current rate of interest, but also rolls up speculative "hope" value and other elements, giving an exaggerated measure of value in current use. In the "hot spots", capital values would simply be too high in relation to to-day's underlying property values. We urge Conservatives to be sceptical of this package and to look instead at real LVT.

Meanwhile Conservatives have shown concern that Government might be planning a council tax revaluation for England "which will put extra charges on homes that have double glazing, a scenic view, a swimming pool, or have more bedrooms than average" (George Jones, "Daily Telegraph", 25th. October). Well now, what do you expect if you levy council tax on the composite value of land + buildings and other improvements? Features of this sort do affect the value of a home. With LVT in operation, though, only the scenic view would affect the land value. None of the rest would bear tax.

WHO IS TO OWN OFFSHORE LAND RENT?

"The Crown Estate is…one of Britain's major public landlords…Last year it netted close to £200m for the Treasury. In Scotland [it] owns almost the entire seabed within the 12-mile nautical limit and charges fees for moorings and rent on fish farms" (editorial, "The Herald", 3rd. November). However, with thoughts of hosts of windmills and other offshore energy projects, a report sponsored by six Highland local councils raises the prospect of making the Scottish Executive responsible for the seabed off Scotland. At present, the Crown Estate is a matter for Westminster and Whitehall. We leave constitutional issues to others, but we do underline that rents for use of locations offshore are a form of LVT. All citizens have an equal right to a share in the bounty of the entire national land-rent fund. Let London and Edinburgh apply LVT onshore too! Offshore is not enough!

ENVIRONMENTALISM AND LAND POLICY

“Wind power is ‘land hungry’ – it requires some 235,000 acres (or 368 square miles) per gigawatt of electricity generated – but land is something we don’t have in abundant supply. Wind is also, by definition, an unpredictable source of energy.”

“A practical disadvantage of solar cell technology is that, like wind power, high volumes of electricity generation require extensive land usage: it currently requires 550 square miles of solar cells to generate 1 gigawatt (1,000 MW) of electricity.”

“All biomass needs to go through at least some of the following steps: it needs to be grown, collected, dried, fermented and burned. All these processes require resources and infrastructure. And it’s not an effective source for high volume electricity generation: it takes 2,400 square miles of forest to generate 1 gigawatt.”

“Building a [hydroelectric] dam often involves flooding large areas of land.”

The above are all taken from “The Shareholder”, October 2006, where they appeared in a review of alternative fuel sources and of some of the companies offering them. Except in small-scale local applications, these sources of electricity generation are mostly not viable propositions in developed countries. What the article emphasises yet again, is the significance of land and land use in the functioning of a modern economy. The *sine qua non* of a successful environment policy is LVT.

BEER, COAL, AND RETAILING

Young’s has moved out of its Wandsworth brewery. The sale of the site raised the company’s interim pre-tax profits nearly tenfold. The shares are now backed by “mostly freehold pubs in the wealthy bits of London” and “are likely to increase in value as [Young’s] focuses more and more on its estate” (James Quinn, “Daily Telegraph”, 17th. November). UK Coal had 50,000 acres of land at privatisation, and “is to sell about 2,650 acres…for residential and commercial development in a move that the company believes could generate £800m over the next few years” (Russell Hotten, “Daily Telegraph”, 8th. November). “Harrods’ store in Knightsbridge, London, enjoyed an upward revaluation by some £66m last year” (Chris Hughes, “Financial Times”, 2nd. December). This helped the company cut £12m off its debt and still raise its book value by 11 per cent. Is it not wonderful what land value can do for a balance sheet – not work, not use of capital, but just land?

BANKERS GAMBLING ON COMMERCIAL PROPERTY BOOM

(i) “Concerns that major UK banks have become over-exposed to commercial property borrowers have set alarm bells ringing…Since 2001, rising UK commercial property prices have made banks comfortable with lending money to the booming sector. ‘The last time banks were this exposed to commercial property, we had the Nineties recession when the sector crashed’ said Ed Stansfield, property economist at Capital Economics” (Naomi Rovnick, “Sunday Express”, 22nd. October).

(ii) “Property is taking a record share of Britain’s bank lending as investors seek to benefit from Britain’s most reliable asset, according to Jones Lang LaSalle, the property advisers” (“Daily Telegraph”, 7th. November).

For our treatment of that Nineties recession, please see our Issue No. 29, July 1992, containing an examination of the development of the economic boom, its arrival at bursting point, and the subsequent rapid slide to slump. The second edition of our booklet, “Crash Course”, contained a reprint of the article with a post-script covering the decade to 2002. It was not a property boom, of course, although oft presented as such. It was a land boom. Offices, shops, factories, and houses can be produced by man, but the supply of land is finite.

OF TRANSPORT AND OTHER INFRASTRUCTURE

Sir Rod Eddington’s review on transport, presented on 1st. December, set out much that is sensible and challenging. It did not, however, tackle the vexing question of who is to pay for transport improvements, who is intended to gain, and who does in fact gain. Crossrail, a scheme to put trains under ground, west-east across London, illustrates the dilemma perfectly. “Senior Treasury sources” said “there had been no recent decisions on what would be ‘a substantial public sector cheque’” (Joe Murphy, “Evening Standard”, 18th. October). “The rail link…is in stalemate because of a dispute over how much of the cost should be charged to businesses and the lack of a widely accepted charging mechanism for firms that would benefit.” That is to miss the point. The ultimate beneficiaries are the landowners, who raise rents at review time to absorb the value of those benefits. “That is why a land tax related to site value is the simplest way of extracting benefits from large scale public investment” (Martin Wolf, “Financial Times”, 9th. June).

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