PRACTICAL POLITICS

February 2006 Issue No. 145

REDISTRIBUTION OF WEALTH

The Chancellor of the Exchequer aims for it, and even attempts it, often by stealth. For H.M. Opposition, Oliver Letwin seeks, in splendid 'One Nation' tradition, to narrow the gap between rich and poor, though taking care to warn that "fleecing the rich would not help the poor" (Cathy Newman, "Financial Times", 24th. December). Among Liberal Democrats, the love of local income tax and of a new, higher rate of income tax nationally, is still on display, defiantly or otherwise. All parties are in tax-and-spend mode now. Ere long, it will be tax, spend, and inflate the currency too.

In all parties, of course, there are those who have reservations at this turn of events. It might be generally popular to proclaim devotion to a Robin Hood state – after all, who wants to foster poverty, ignorance, poor health, and social disadvantage? – but talk, however earnest, is cheap. Experience teaches that attempts to transfer wealth from rich to poor are burdensomely bureaucratic, inefficient where not ineffective, usually costly, and very likely disproportionately to pinch the piggy in the middle income range. Ultimately, modern Robin Hoods are self-condemned to fail. They fail because they do not ask why wealth is maldistributed in the first place. Whilst allowing some credit for good intention, we, like Oliver (Twist, not Letwin) ask for more.

As we have shown (Issues Nos. 12 and 21) and oft argued, no landholder or predecessor in title ever made the land, nor is a landholder responsible for the revenue stream that enriches him. At the stage of the primary distribution of Wealth, the Rent due for the use of Land should be collected to fund the public revenue, leaving Wages to go in full to those who provide their Labour (of mind or body), and Interest to suppliers of Capital. This is the policy known historically in this country as land value taxation.

Footnote:- "From April, [those skilled, hard-working and/or fortunate individuals who have] pension funds that are worth more than £1.5 million or that generate an annual income in excess of £75,000, will be subject to a 55% tax charge" (Dido Sandler, "Financial Times", 4th. February). "The whole subject of planning for the lifetime limit is mind-bogglingly complex." Naturally, the government has christened the reforms, "Pensions Simplification". The well heeled will of course work round it, but just consider the cash and top-quality brain power that are drained from gainful economic activity by the employment of specialist accountants and lawyers in this way!

FLAW IN THE PRESCRIPTION

"The year in which Britain was to lead the world in making poverty history has achieved little" (Mark Braund, "The Guardian", 3rd. December). The palliatives proposed "would not address the underlying causes of poverty." The classical economist David Ricardo "made explicit [that] if ownership of land and natural resources is grossly unequal, then wealth and wellbeing will be the privilege of the minority. And as the economy develops... the gap between rich and poor will widen…and although the world has moved on…the fundamentals remain the same."

"A neat solution was proposed more than a century ago by…Henry George…The key to transforming the economy lay in the tax system. He argued that instead of taxing effort and enterprise…we should tax ownership and *the exploitation of* natural resources. Currently, people who own land are entitled to keep the *full amount* of *any increase* in its value" [our italics – ed.].

The writer goes on to praise land value taxation. Indeed, there is much in the article to applaud; but it is sadly imperfect. The aim of LVT is to take taxes off labour and capital. George did not want to tax "*the exploitation of* natural resources" but only the private ownership of them, whether put to use or not. The emphasis in the article on "*full amount* of *any increase*" in relation to collection of land rental value, implies agreement that landowners would be allowed to retain all existing land value *plus* part of any increase. George did not say that either! In the press and on the hustings, he urged full LVT.

We set out our practical objections to increment taxes in our Issue No. 109, and now repeat them here:-

There is no intellectually respectable argument for seeking to collect increments whilst ignoring all underlying land value. Furthermore, the political effort to carry such a limited measure would be at least as great as for full LVT. The work involved in making the initial "datum line" valuation for increment taxes is the same as is required for proper LVT. By definition, no payment demand can be issued until a pre-determined period has passed and a second valuation been made, involving yet more start-up cost. The amount raised by increment taxes would initially be low (probably very low), because – with spectacular exceptions – most increments would be small and because persons timid enough not to seek full LVT would also presumably not be looking for a particularly high percentage levy, even on the increments. Small yields and relatively high start-up costs allow little abatement of existing taxes. The large-scale economic benefits which its proponents claim for LVT would not even begin to show. Furthermore, as we illustrated in considering this topic in our Issue No. 6, increment taxation introduces anomalies and does not necessarily accord equal treatment to holders of land of equal value.

All land value is public and none of it is private. The objective is not negotiable – welcome though it is to see land commended in high places as a suitable source of public revenue. The implementational route, though, does not lie through the increment thicket.

LITTLE BITS

(i) In **China** “rural land remains under collective ownership and cannot be traded by farmers” but “corrupt local officials” are seizing it illegally and without fair compensation. They can then make big profits by having the land “re-zoned for industrial use, allowing them at a stroke of the pen to sell it for use as a factory” (Richard McGregor, “Financial Times”, 21st. January).

(ii) “Consumer prices in **Japan** have risen for two consecutive months, for the first time in more than seven years” (David Turner, “Financial Times”, 28th. January). The central bank has been pursuing an “ultra-loose monetary policy”. So, “inflation is beginning to take root in the world’s second-largest economy.” Inflation is debasement of the currency by the issue of unbacked paper money. It lowers the purchasing power of all notes and coins already in circulation. The losers are the lenders, who are repaid in devalued currency. Those with big debts are the winners, for they can repay with money which has the face value of the original loan but is now worth much less. These debtors include, significantly, the individual and corporate speculators who were caught fifteen long years ago at the height of a land boom of truly absurd proportions – over-borrowed, over-stretched, holding land they could sell only at a huge loss. All that stagnation – and now the prospect of inflation with its painful in-built consequences. Eventually memories fade, and land may be seen as the classic “hedge” against inflation. Speculation sets in…

(iii) In the **U.S.A.**, “many local authorities operate a so-called split tax system, in which buildings and land are taxed separately” (Jerry Jones, “Morning Star”, 12th. October). “Typically some 95 per cent of staff in valuation offices are employed valuing buildings and only 5 per cent valuing land. There are also many more appeals against the valuation of buildings than of land, with authorities winning more appeals on land than on buildings” thus confirming that land may be valued relatively easily and effectively.

(iv) “In just one generation, the **plot size** of an average family home has dropped by a third” (Dan Snow, “Daily Express”, 9th. January). Rising land costs have led to cramped accommodation and handkerchief gardens.

(v) The Old Chapel at **Rodney Stoke**, Somersetshire, has planning permission to be converted into a home. “The price will always be depressed by the Old Chapel’s proximity to the road”, slap bang on the main A371, with “precious little garden” (Helen Davies, “Sunday Times”, 15th. January).

(vi) “Tesco is sitting on a £13bn portfolio of freehold property”, representing “around half its current market value” (“Daily Telegraph”, 26th. January). As planners deny **supermarkets** new locations, Tesco’s worth assuredly rises.

HAVE YOU HEARD THE LATEST – A HOME-VALUE CONTRIBUTION?

Let us say straight away that the latest proposals from the National Institute of Economic and Social Research (reported by Philip Thornton, "The Independent", 27th. January) are not thought likely to attract the approval of party hierarchs of any hue; but they do illustrate wondrously the intellectual confusion and practical mess in which our tax system currently languishes.

"Homeowners should pay an annual tax based on the value of their home in exchange for the abolition of the council tax". From the context, the annual tax would be on buying/selling price, not on rental value. That in itself introduces anomalies and disparities, because capital value includes more than just capitalised rent, and is unsuitable as a basis for the public revenue. Nevertheless, homeowners would pay "an annual tax of 1 per cent of the value of their home". We leave readers to amuse themselves by doing their own series of calculations on what that means and on winners and losers.

1 per cent will raise a great deal in some localities and not very much in a good number of others. There would presumably be an equalisation system but none is mentioned. Instead, "to ensure the plan…does not lead to a higher tax take, income tax rates should be cut and stamp duty abolished [this last doubly irrelevant, but let that rest – ed.]. Meanwhile, local councils should be funded by a local income tax in place of council tax" [no, we could make no sense of that, either – ed.].

It is clear that the proponents of this rigmarole are aware that there is much wealth sunk in domestic property (land + development). Between about 20% and 60% of a home's value will be attributable to the land, depending on its location, and that is all that concerns us as advocates of LVT. Generally, the grander houses are built on the better land and *vice versa*, so the proposal is moving hazily in the right direction. Now, let us see what we can put together from this little analysis. We could collect the value of all land (including of course domestic) not just at a footling 1 per cent on capital value but at a deliberately planned and increasing rate on annual rental value up towards the notional 100 per cent. This would allow removal of all taxes on buildings and other improvements and indeed would lead ultimately to removal or massive abatement of all other taxes.

****

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.uk*