# PRACTICAL POLITICS

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## Declaration of Aim and Principle

Every citizen has equal right to the land surface of the United Kingdom, to its waters, rivers, and lakes, to the territorial waters around it, and to the air space above it, and shall have an equal share in the natural resources thereof. This is to be secured by requiring all who wish to have the privilege of exclusive occupancy of any portion of the national territory to compensate the remainder of the community by annual payment to the Crown of a sum assessed as representing the full site location rent for the land in question. The total yield of such rents is to be the first source of revenue for the public administration, and any surplus is to be disbursed to all citizens *per capita*.

*We have looked back at Issue No. 26 of March 1992, written for the General Election on 9th. April of that year, and (just as we did in April 1997 when we were contemplating the General Election to be held on 1st. May and in May 2001 before the Election of 7th. June) we find our 1992 Issue in no need of change. Let it stand as our manifesto this time too. Instead, for the Election on 5th. May, this Issue reproduces some statements and comments made in "Practical Politics" over the last four years, in the hope they will be useful in prompting debate. They are to be found on Pages 2 to 7.*

## AFFORDABLE HOUSING – a signpost for to-morrow?

"Why does it cost so much to build bloody houses in this country?" demanded an exasperated John Prescott, Deputy Prime Minister (report by Philip Aldrick, "Daily Telegraph", 24th. September 2004, on an event held two days before). The chief reason, it transpires – wholly unsurprisingly to us – is high land cost. This insight sent the powers-that-be scurrying round to find surplus land in public ownership, such, for example, as redundant NHS properties. What marks this moment as a landmark in official policy-making, is not just the obvious realisation that housebuilders can put up affordable homes if they are given the land for nothing, but that the policy will flop within a few years if the new homeowner is allowed to have unfettered freehold possession of the land, to sell on at profit when he moves away. Thus it is proposed to retain the land in public ownership and sell only the house (or sell a lease on it). This makes sense. Better sense still, would be to think beyond land for 'starter home' ownership, grasp the wider truth, and apply it to the rental value of all land, regardless of whether or how well it is used.

# ARGUING FOR A NATIONAL LAND-RENT CHARGE (LVT)

*We have not striven here for balance between topics, nor have we sought to cover every topic – notable absentees include rural and environmental concerns, transport and investment in the infrastructure more generally, housing, the planning system, and the cycle of boom and slump.*

*We have included references to the original text in square brackets. The first two numbers indicate the Issue and the page, and the second two give the month and year. Thus [125/1 11/03] means the extract is taken from page 1 of Issue No. 125 of November 2003.*

## The ethical stance…

This planet was not made by man. In the terms of political economy, it is not a product, not merchandise. What, then, can possibly be the ethical claim to outright private ownership and control of land? It is at least as feeble as the case for chattel slavery. If it is right that some may own the Earth to the absolute exclusion of all others, it must equally be morally right for everyone else to be born landless. Did the Creator so intend? Or are all men to be deemed born with equal rights, with the equal opportunity to exercise their admittedly unequal personal gifts, qualities, and inclinations? The origins of private appropriation of land lie in force and fraud, aggravated when apparently sanctioned under a civilised veneer.

In most of the world to-day, those who provide their labour (and those who provide capital, which is no more than goods previously produced by labour and now recycled to assist in the productive process) must pay landowners for the right to use of a little plot of Planet Earth as living, working, and recreational space – the very space on which they must toil to create the wealth from which the land-rent is drawn. Then the state, needing revenue and having thrown away the rental value of land, turns to tax the fruits of labour, so that labour pays twice, once to the landowner and again to the state. People expect to pay for the benefits, natural and social, afforded by the sites they choose to occupy to the exclusion of their fellow men, but paying once is enough!

Land values reflect collective current demand for access to what Nature has provided free, together with current levels of, and trends in, the economic and social activity of the community as a whole. Only incidentally are land values historical. They must be renewed on a daily basis, and generally they will depend too on perceptions of future economic activity and the maintenance of political and social order. Twice in the last century, the taxation of land values was put on the statute book (frustrated first by World War I and then by the Great Depression), and land taxes (though not LVT) have scarcely been out of public debate since World War II. Land transactions do not occur in a political or moral vacuum.

No one's land is to be seized and no title deeds taken away. No landowner (rural or urban, individual or body corporate) is to lose anything he himself produces – indeed, the income landholders earn from their labour and the provision of capital goods will be tax-free. What is envisaged is a national land-rent charge to return to the community that which belongs to it. [119/4 1/03]

## …and political philosophy

What is public (collective, if you will) and what is private? That surely is a basic question of political philosophy. The key to applying the science of political economy to the practical problems of the body politic is appreciation of the distinction made by the classical economists between Land and Wealth. Land is not a manufactured product but is something freely given in the scheme of things. Its value is a barometer of society's economic activity. Site value rental is the natural, logical source of public revenue.

This proposition is often called land value taxation (LVT for short), but it is not really a tax at all. Rather is it payment to be made by individual persons or corporations to secure enjoyment of the benefits attaching to exclusive occupation of specific locations. These benefits may involve exploitation of minerals or of a benevolent soil and climate; or they may be entirely a function of the concentration of population with all its attendant infrastructure and services and the demand for living, working, and recreational space. Land value is a truly collective achievement. On the other hand, the values attaching to manufactured objects (whether used as capital or in the hands of the final consumer) are, or have been, personally created.

What we do to-day is collectively to call into being a value attaching to land – which we then proceed to give away! Thus beggared, we tax our wealth producers, creating no end of social problems on the way. [107/1 7/01]

**Pensions**

There are three main providers of pensions in retirement – the state, employers (occupational pensions), and assurance companies (personal pensions). The basic state pension is paid out of current taxation in recognition of 'contributions' made earlier in life by those at work and by their employers. In effect, an occupational pension or a personal pension to which an employer contributes, is a deferred wage. A personal pension funded entirely voluntarily by the beneficiary out of income during his or her working life, is a form of saving selected in preference to, say, a deposit account at a bank, or an investment made directly in property, the stock market, bullion, or works of art.

Labour is all human exertion, mental or physical, directed towards the production of wealth, and Wages are the share of wealth that is the return for labour. In political economy, the term, Wages, covers not only what is called a wage in common parlance, but also all other forms of remuneration – salaries, fees, honoraria, bonuses, tips, perks, payments in kind, and that portion of what was due that was diverted (by the employer) to fund a pension payable at retirement. Current discussion of pensions policy ignores that this is at root a Wages question, and that Wages are at root a function of resolution of the Land question – as examined in our Issues Nos. 12 and 21.

Whatever arrangements need to be made to cover those in or nearing retirement and those too far into their working lives to be expected to start from scratch, the common good depends on securing for the commonalty the value of the land. This raises wages in three ways. First, the withholding and under-use of land (whether for speculative reasons or out of sloth) are penalised, the margin of production is no longer artificially depressed, and a greater share of wealth goes to the wage earner. Secondly, the income stream from land becomes the basic source of public revenue, so that taxes come off the returns to labour and off the goods and services that wages buy. Thirdly, employment opportunities are opened up, as access to land is made easier and cheaper, and as the untaxing of wages turns marginal activities in to profitable ones. Almost all will then have the wherewithal to provide for their futures, and may not need to be directed how to do so. [115/1 6/02]

**Land is different**

The "Estates Gazette" of 3rd. November 2001 carries a trenchant article by the Rt. Hon. John Gummer, M.P. against the commercial property practice of the upwards-only rent review, described as "like resale price maintenance" and "a restrictive practice that the law has condoned for too long". What is of special interest to us is a remark made almost as an aside. "Why is this not a marketplace like any other?" In the context of economic analysis, property is an imprecise word. It consists of land (the ground, the site) and of buildings and other developments. Crucially, land is not man-made, whereas buildings decidedly are made by man, by application of labour and capital (itself wealth manufactured previously). Buildings depreciate, which is to say they need constant maintenance, wear out, and become obsolete. Land does not depreciate. Its value changes with time, reflecting the level of general economic activity, and tends nearly always to rise. Those who design, construct, and manage are true wealth creators, adding to what was there before. Those who 'contribute' land are 'providing' something neither they nor their predecessors in title ever created. When they sell or let, they receive a share of man-made wealth solely for getting out of the way and allowing others access to the Earth and its raw materials.

Land does not respond to the price mechanism as consumer goods and capital goods do. When land prices rise, no more can be made and none can be moved from where it has little value to where demand is greatest. To use the jargon, land is 'price inelastic'. It is thus the ideal object of speculation, abetted by a tax system that hits at development in proportion to its quality and worth, but that rewards withholding and under-use. If, intellectually and practically, land is disaggregated from capital, correct analysis immediately becomes possible. Whatever accounting convention may say, land is different. Land rental value should be taken to fund public revenue requirements in place of penal and confiscatory contemporary taxes. [108/1 11/01]

**The property business**

"Why does property make more people rich than any other activity in Britain today? The answer is so obvious it doesn't normally bear repeating. But, just this once: the property industry does not obey the normal rules of supply and demand. Whatever the demands for space, the supply of land where people want to live and work remains immutably fixed" (concluding paragraph, first leader, "Estates Gazette", 11th. October 2003). [125/1 11/03]

Property is not in fixed supply. Certainly the land element is; but buildings can be put up, altered, or pulled down. Work performed in buildings is part of the productive chain in wealth creation, whether it is invoicing, retailing, or staff administration. Taxing buildings assuredly does have lamentable consequences, especially when bare land (however valuable) is left untaxed, as is the case with the UBR. Good development is taxed more highly than inferior construction on a site of equal value. Decay is rewarded by being granted a lower assessment.

Politicians and civil servants cannot not know the deficiencies of the policies they advocate and administer. They get away with doing little or nothing about it because there is no rigour at the top. As for the British Property Federation, it has yet to accept that it has to make its mind up whether it speaks for landowners or for those who do the work of financing, building, and managing property. The activities of this latter grouping benefit



society. Landowners live off society. Their contribution consists of no more than getting out of the way and letting others get on with their work – for which kindness they are allowed by politicians and civil servants, with the connivance of most academics, to trouser very handsome rewards indeed. These can be collected in LVT with economic consequences wholly benign. [113/4 4/02]

**Taxes – and other exactions**

The tax system has become an engine of social division. The richest avoid much of their notional obligation, by employing skilled accountants and lawyers and, if pushed to it, joining the brain drain and becoming tax exiles. For the poorest, the tax system forms part of the poverty trap. Those in the middle bear the brunt. In effect they are fined for successful engagement in legal economic activity. [109/1 12/01]

Government, at national, devolved, and local level, has to be funded. A certain amount can be raised from fines or by licensing, but the bulk of expenditure is financed by general taxation on persons, businesses, or property, or by borrowing ("gilts" and National Savings, for example). [Nowadays, lottery money too is being used to support public services – Ed.] Central government also has available the device of inflation, by which, in effect, it meets its bills simply by printing extra money (thereby debasing the currency).

Not all taxes are actually called taxes. There are import duties and excise duties which are taxes on goods. The term, rate, is used for the UBR (uniform business rate); and rates are still collected on domestic property in Northern Ireland. The community charge was a capitation levy often referred to as the poll tax. The National Insurance Contribution is also a tax by another name, a payroll levy on employer and employee, put towards general expenditure on welfare and health care, but having none of the characteristics of a regularly funded and managed insurance scheme (let alone an actuarially sound one).

Against this, not everything that is dubbed a tax strictly is one. So-called pollution taxes are a case in point. If an undertaking has the right to release liquids, gases, or particulates in to the environment up to a specified limit, any payment exacted for exceeding the entitlement is properly a fine, akin to a motorist's speeding offence; and if those waste disposal allocations have to be purchased, the analogy is with the fee for an annual vehicle licence giving the right to use the roads.

Land value tax is similarly a misnomer, being payment for benefits actually received and attaching to occupancy of the particular site. When implemented as fully as is practicable, LVT virtually equates with their value. It is thus better described as National Land-Rent (the term used by James Dundas White in his book, "Nature's Budget", Allen & Unwin, 1936). [114/1 5/02]

A development land tax is misconceived, aiming only for a *share* in *increases* in land value as a *single hit* on *capital values* (selling prices) at the point of *grant of planning permission*, leaving untouched all pre-existing and all future land value, and all land value unaffected by a formal planning application – in short, nationwide, almost everything! LVT, by contrast, is an annual rental charge on all land value, no matter how or when it first arose, because it is perpetually maintained and modified by the level of economic activity of the community as a whole and by the confidence that this will be safeguarded for years to come in a society enjoying civil order. LVT is unique. There is no alternative.
[138/2 3/05]

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**On the fringe**

According to the House Builders Federation, "Wales' housing stock is the oldest of any western European nation…with 8.5pc classified as 'unfit' with a total repair bill of £1 billion and 4pc derelict" (Philip Aldrick, "Daily Telegraph", 26th. January 2004). Much of Wales is on or close to the economic margin. Production can pay wages and remunerate capital, with little or nothing left over to pay land rent, let alone the high taxes that the economic 'hot spots' can afford. Replace those taxes with LVT, and Wales will be relieved of an insupportable burden. Houses will then be repaired, and built. [128/4 2/04]

"The official unemployment figure of 900,000 (based on those claiming the job-seekers' allowance) would rise to 1.4 million under the International Labour Organisation's broader definition and to 2.5 million if some of those on incapacity benefit were included" (leader, "New Statesman", 20th. September 2004). "Incapacity figures are highest in the depressed regions". Discrepancies between 3% in parts of south-east England and 23% in Easington, Co. Durham, and Merthyr, south Wales, are cited. Clearly, some of the sick and disabled are the unemployed in disguise. Their number will continue to rise "until policies are specifically framed to create jobs in depressed areas." LVT is the appropriate policy. At the depressed economic margins production is just enough to remunerate the labour and capital employed, with nothing over to support land rent or tax. Contemporary taxes make work unprofitable, leaving capital to rot and men to turn to welfare dependency. With LVT in place, marginal land, being worth nothing, pays nothing – a tax haven where needed most. [135/4 12/04]

**The wet stuff**

"More dams must be built in developing countries to meet future demands for water and electricity", says the World Bank (John Mason and Vanessa Houlder, "Financial Times", 15th. March 2003). Dams are needed to meet UN targets for clean drinking water and are essential to hydroelectric schemes, as well as (although the report does not say so) to irrigation projects. Such schemes will set environmental groups at each other's ears (clean, carbon-free, emission-less energy versus tampering with the local eco-system). At least as importantly, who gains and who pays? We have seen before that the owners of land served by the new facility are the prime beneficiaries and that the landless poor shovelled out of the way are the major sufferers, whilst the general public coughs up the funds. Justice? [122/8 4/03]

"High-risk properties can lose at least half their value if homeowners cannot obtain insurance, said estate agent FPDSavills this week" (Alexander Jolliffe, "Financial Times", 22nd. June 2002). There are two points to make. First, a site prone to flooding would normally have a much lower land value than one more safely located, so that a low LVT assessment would compensate for the risk. Land value is simply a measure of relative locational advantage. Secondly, any subsequent defensive work installed by the owner would not attract tax, though any flood defence payments made from public funds or work carried out by a public body would, logically, result in a higher LVT bill. [117/2 11/02]

The classical economists defined land as the whole of the material universe outside of man and his products. For most purposes most of the time, land equates to *terra firma*. Sometimes it is necessary to consider air rights (the radio spectrum; take-off and landing slots) or rights at sea (oil, gas, and other offshore minerals; fisheries). There can be cases of erosion and of silting. Examples of deliberate creation of dry land from land previously



below the sea are less common, but there is now one such instance off Dubai.

Our concern is to look at how the man-made 'creation' of dry land is to be treated in a régime that finances its public revenue from the collection of land rental value. Presumably the sea bed and waters above it will have had some small value deriving from the marine life present. LVT based on that, would remain in being. The rest of the value added after reclamation is clearly a result of the application of labour and capital to ‘make’ the land, together with the value dependent on and derived from the connection to the mainland and the value attributable to people’s willingness to go and work there and the interest shown by visitors in going there to disport themselves in luxury. It is for the public authorities therefore to take what is really a political decision on how long a period the land ’makers’ will be given to amortise their agreed project costs. During that time, LVT is assessed as if the new dry land had been there for ever, but payment is made less the negotiated ‘write-off’ sum. At the close of the transition years, LVT becomes payable in full. Recognition of any ongoing maintenance costs can probably be incorporated within the site value assessments. There are no taxes on labour or its products. [118/4 12/02]

**Claims and challenges**

Improvements in 'buses, trains, schools, hospitals, policing, and the like, render more attractive the localities that benefit, and land values rise. Government presides over a transfer of purchasing power from taxpayers (called upon to fund or subsidise better services) to the beneficial owners of land. [109/1 12/01]

Businesses at the economic and geographical margins where land rents are very low or relatively low, could generate returns to reward labour and pay for capital, but not sufficient of a surplus to add to wages to enable contemporary taxes to be met. Meanwhile, the ability of London and a few other centres to pay much more is not recognised because the surplus has largely leached away in land values – witness spiralling house prices and commercial rents. Landholders, far from benefiting, should be doing the paying (LVT)! Truly, our Chancellor runs an upside-down economy. [109/1 12/01]

Let us not forget that land is being valued purely on the worth of the site all the time, even now. For instance, whenever a filling station is closed to be redeveloped for shops, offices, or dwellings, the pumps, tanks, canopy, and glorified hut of an office, are of no interest whatsoever: the buyer wants only the land. LVT has been in operation for many years in a number of places overseas, in admittedly partial and even imperfect form. On Brisbane, please see our Issue No. 9. On Hong Kong, see No. 57. On Orange Free State, see No. 18. On Denmark and New Zealand, see No. 4. In much of the U.S.A., land is valued separately from buildings and other developments, even though taxes are almost always placed on composite values. [117/2 11/02]

**Finally…**

“Why is a property lease not a lease? Because it is two leases. A lease of land and a lease of the building that stands on it. This, at least, is the view of the International Accounting Standards Board. Its accounting standard IAS 17 on leases insists that lessors and lessees should consider their leases as consisting of the two components: land and buildings elements” (Michael Brett, “Estates Gazette”, 4th. September 2004). “Land normally has an infinite economic life”. There we have it, clear as can be. [137/2 2/05]

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## TSUNAMI III

Thai “villagers fight a second wave of dirty land deals” (Sebastien Berger, “Daily Telegraph”, 25th. March). “Villagers in more than 30 areas face losing their land." A spokesman said, "Most of the land along the coast is a tourist attraction so it is expensive. Corrupt government officials issue land titles and the tsunami is a chance to clear the people from the land."

## TAX QUESTION, but not a taxing one

"The real question is the appropriate balance between taxation of income from labour, taxation of income from capital and taxation of income from land" (letter, "Financial Times", 26th. March). All on land value, say we!

## A NOTE OF HOPE TO END ON

"A land value tax…is the one truly radical idea which the Treasury and Number 10 are studying behind closed doors" (Samuel Brittan, "Financial Times", 18th. March 2005).

**"Practical Politics"** is the bulletin of the **Land Value Taxation Campaign**. The Campaign is a non-party organisation established with the aim of securing legislation to change fundamentally the basis of public revenue in the United Kingdom. It proposes that existing taxes on wages, goods, and services be progressively replaced by a property tax on the rental value of all land, a policy known historically as land value taxation ("LVT"). The term, land, is used in its meaning in political economy – the material universe apart from man and his products. The Campaign distinguishes the returns to labour and capital, which it regards as private values, from those to land, which it holds to be public values and thus peculiarly suited to provide the basis of public revenue. The policy advocated by the Campaign would be introduced in a series of deliberate steps so as ultimately to secure the full rental value of land for the Exchequer.

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