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TAXING THOUGHT PROCESSES

"Tax treadmill driven by simple incentives: High rates and complex reliefs fuel the avoidance industry" (headline over first leader, "Financial Times", 4th. December). So far, so good, but "If you tax something" (the leader begins) "you will get less of it: if you subsidise something, you will get more of it." Is this true? If you tax the productive process, the wages of producers, and the returns to providers of capital, you certainly penalise the activity of wealth creation, rendering it unprofitable at the economic and geographical margin whilst raising costs and introducing disincentives elsewhere.

So the "FT" is right? Well, not exactly. If you tax land value, you do not get less land, for land is not a man-made commodity – it just *is*. Equally, if you subsidise land, you do not get any more of it, because land is fixed in quantity [¤] and the Creator has retired, satisfied that His part of the job is over. It follows that Land really is different from Labour and Capital, and that its value can be taxed without there being less of it. Indeed, because an annual tax on the site rental value of land has to be paid regardless of how well or how poorly the owner uses it, holding land unused or under-used can be expensive. Scarcity and speculative values being thus eliminated, more land becomes available at lower cost.

So the "FT" is wrong, then? Well, yes, it is, but… We talk of land value taxation (LVT) because that is the way the policy is known historically in this country. However, LVT 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. 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. Such a policy is more accurately described as a National Land-Rent Charge. The Land Value Taxation Campaign is therefore advocating the collection of the rent of land for public revenue purposes, to be effected by passage of a National Land-Rent Bill.

[¤] Land may sometimes be reclaimed from the sea, but in political economy the term, land, is defined as the material universe apart from man and his products; it thus encompasses the waters. Raising the sea bed is essentially the same as onshore levelling and in-filling.

PLANNING, DEVELPOMENT, AND TAXATION

No one thinking of taking a job in property development or in the construction business will agree to work for less than the going wage or salary that his skills can command elsewhere. No one with savings to lend will accept a lower return on his investment than he can obtain from alternative opportunities exposed to similar risk and time considerations. It therefore follows that any tax imposed by government at the point of development must be borne by the landowner. Put another way, the developer must meet the loan charges and pay the workforce, so the tax has to come out of what would otherwise go to the owner of land.

Of course, if the landowner does not like this, he need not go ahead, and the whole deal falls through. This reduces the amount of land put on the market, stifling development *and* redevelopment, and creating an artificial land scarcity which raises the values of land that is already in use or that does become available despite the tax. The development land tax acts to dry up the market, and at the same time will fail to raise the anticipated revenue. This has happened to Labour governments three times since World War II. The only way to make this type of tax work is to leave so much development value with the landowner that he cannot bring himself to refuse to hand over the remaining pittance. To be a 'success', the tax has to be largely ineffective!

"The landed gentry are alarmed at the prospect of some form of land tax. Factotums for various dukes, earls and mere lords have apparently met to discuss this terrible prospect" (Property life column, "Estates Gazette", 6th. November). "Relax, guys…Ministers are thinking more about simplifying section 106 agreements and introducing a planning gain supplement. Your riches will be largely left untouched by Labour." How true – and what a scathing indictment!

The RICS, the chartered surveyors' organisation, is currently considering how to assist the government in its deliberations on PGS. "The recommendation made in the [Kate] Barker Review of Housing Supply…that a Planning Gain Supplement (PGS) – a form of development tax – be introduced to capture rising land values…represents one of the key, and most controversial, suggestions made in the Review" (RICS Business, October). The Barker Review executive summary is quoted: "Windfall profits, otherwise known as development gains, often arise as a result of development decisions. The government should actively pursue measures to *share* in these windfall gains, which accrue to landowners, so that these *increases* in land values can benefit the community more widely…This Planning Gain Supplement would fall largely on landowners, with little impact on house prices" [our italics – ed.]. We agree with this last sentence. We (and the "Estates Gazette") have already commented on the rest, above.

Here is an issue where there is widespread agreement. Planning decisions create a new class of the undeserving rich; or, worse perhaps, make the already rich into the very rich. In the process, the wider community is cheated of its land value, and is then taxed on its earnings, its savings, its trade, and its goods and its services, to make up for the stream of revenue which ought to have been drawn from collection of the annual site rental value of land. The “Estates Gazette” has rather depicted landowners as peers of the realm with country estates, and we have been remiss ourselves in implying that owners of land are necessarily people, whereas both we and the “Estates Gazette” know that the big, hugely valuable landholdings are in the major cities and are often in the ownership of bodies corporate (by no means always controlled by powerful individuals). None of this alters at all our contention that land value rightly belongs to the collectivity and that, conversely, the returns to labour and to the providers of true capital are private.

There is a lack of principle in government thinking here. It is not a question of looking 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*. This leaves all other land value untouched. Yet there is no moral, social, economic, or political justification for such a feeble stance. LVT – a national land-rent charge – collects all land value as an annual rental, 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 an essentially peaceful civil order.

“To judge from the Budget speech on 2nd. July, the ‘new’ Labour Party is in full intellectual retreat. When Philip Snowden was Chancellor of the Exchequer, his 1931 Finance Act provided, in Part III, for a Land Value Tax. The subsequent National Government, citing the Depression as the excuse, first suspended and then repealed the measure” (“Practical Politics”, Issue No. 72, July 1997). “Whilst no government could have tabled a major new fiscal measure in all its detail within two months of attaining office, it could have delivered a stirring message to the nation. A resolution might have been put, declaring the intention to levy an annual duty on the annual rental value of land apart from improvements made upon it, and authorising the payment, out of moneys provided by Parliament, of any expense or remuneration payable in connection with any valuation of land or premises for the purposes of any duty charged thereon by any Act of the present Session.”

There is time to make a mark before the next General Election. Nearly nine years on, whimpers about a wretched Planning Gain Supplement just will not do!

LIVERPOOL’S SMILING LANDHOLDERS

42 column inches of text in the “Daily Telegraph” of 25th. November, plus headings and photographs, celebrate the coming rebuilding and reviving of Liverpool (European Capital of Culture, 2008) with more than 200 ambitious schemes at a cost of billions. The lenders of capital will take no more than the usual interest rate and the construction workers will get the going wage, on which they will pay income tax and National Insurance and, when they buy anything, they will lay out 17½% in VAT. The article does not say that the city’s landholders are about to be handed a huge free gift in the form of greatly enhanced site value.

LAND – HOT STUFF in NEW DELHI!

As in Liverpool, so in New Delhi. In the "Financial Times" of 30th. October, 22 column inches celebrate the 18-stop elevated Delhi Rail Metro. The city's first underground rail link follows shortly, with two further developments next year and major extensions in to Haryana and Uttar Pradesh planned after that. "We haven't done a study on the economic effects…but they will be substantial", the managing director of Delhi Metro notes. "The social impact is visible to anyone", writes Edward Luce (*op. cit.*). We bet the economic effects already appear in the bank balances and wallets of the teeming city's landowners, and that the poor will not have gone away. Did not Henry George publish "Progress and Poverty" in 1879?

WHY BOTHER TO BUILD WHEN DOING NOTHING PAYS SO HANDSOMELY?

"The soaring price of land for housebuilding in England and Wales has massively boosted housebuilders' profits over the past 10 years. The price of a hectare has more than quadrupled to £2.29 million since 1994" ("Evening Standard", 29th. October) and in London to "a massive £6.68 million." Meanwhile, in Florida, U.S.A., where 160 acres cost $60,000 in 1976, "you can't touch a piece of land over here [the Everglades area] for less than $30,000 or $40,000 an acre today" (Henry Hamman, "Financial Times" magazine, 18th. September). "In the line of any development it might be $100,000…An old tomato field went for $20m."

JOBS, UNEMPLOYMENT, AND INCAPACITY BENEFIT

"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). "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. As explained in detail in our Issue No. 129, 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."

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