PRACTICAL POLITICS

March 2005 Issue No. 138

STRANGE FASCINATION

First in Issue No. 104 (March 2001) and then again in Issue No. 121 (March 2003) we have had occasion to query the fascination that income tax appears to hold for English Liberal Democrats. They want to introduce a 50p in the £ top rate throughout the U.K. and they want to do away with the council tax and bring in a new local income tax. In Scotland, however, Liberal Democrats know better. Although the Scottish Nationalists did briefly campaign to exercise the option which the Scottish Executive has, to vary income tax by up to 3p in the £, proposing an increase of 1p, the Liberal Democrat MSPs, then and since, would have none of it.

The Land Value Taxation Campaign document, "Options For Local Government Finance: the case for land value taxation", deals in some detail with, *inter alia*, the council tax and local income tax. Liberal Democrats are supportive of LVT as a replacement for the UBR, but, strangely, many fail to see its obvious applicability in the domestic context, seeming to imagine that a local income tax would shield homeowners from having to make land value payments. This is naïve. We are paying over land values now, but in a fiscally unhelpful way! Anyone buying a home pays a price which rolls up capitalised site value as well as the cost of the house itself. If there is a mortgage or other loan involved, part of that will be in respect of the land value. Even if land is fully paid for, the holder has to bear an "opportunity cost" (the income forgone through having funds needlessly tied up in capitalised land rent). Anyone leasing a home is obviously handing over site rent as part of his monthly or quarterly payment. Income tax is an *extra.*

Three points are being missed here. First, a levy on land value can *replace* both the council tax and the UBR, and can also be extended to *replace* the central government grant from general taxation, in which case other taxes can be *reduced* (even income tax!). Secondly, LVT is justified on the benefit principle. The value of housing land specifically, is a function of the potentially huge range of public and private facilities available, and on the appearance and congeniality of the neighbourhood. *LVT is payment in return for, and in accordance with, benefits (social and natural) actually received*. Thirdly, LVT must be borne by the beneficial owner of land and *can not be "passed on"* in higher costs to occupiers. This is because land is "price inelastic" (as accepted by all economists): it is explained in our Issue No. 37.

BEWARE THE GREMLIN!

"So long as people flock to the trains, we know that the railway will generate its own finance in the form of higher land values as well as fares revenue…[but]…It is not only transport infrastructure that creates increased land values. Increased population, greater commercial productivity, most good public and private services all add to the value of individual sites, as do mineral deposits – oil, gold, diamonds and coal, for example – fertile fields, and beautiful views of rivers, lakes, seas and the countryside. So how can we gain from such sites?…Obviously it would be impractical for every person to have personal access to every part of the planet, to every mineral deposit, to every fertile field, to every city centre office site or every desirable residential location…A system of distributing nature's gifts has to be devised…The answer is a location benefit levy (or land value tax) that would apply to all sites…No landowner can create land values…If this were the case, then an entrepreneurial landowner in the Scottish Highlands would be able to create more value than an indolent landowner in the City of London" (Dave Wetzel, article in "Estates Gazette", 12th. March).

"The one tax to avoid is a development land tax" (Wetzel, *op. cit.*, argument set prominently in a box within the compass of the article).

"I also have sympathy for Henry George's idea: tax all land by reference to its optimal use, in order to encourage that optimal use (Paul Clark, another article in that same "Estates Gazette", 12th. March)…but I cannot see a reincarnation of development gains [taxes] working now any better than they did in previous attempts".

So that is all quite clear. No one wants a development tax. Yet, for reasons known only to itself, the "Estates Gazette" gremlin appended in parenthesis at the end of that Clark statement, "For an alternative view, see [Wetzel article]". Alternative view! Wetzel had said unequivocally, "The one tax to avoid is a development land tax". No "alternative view" was expressed.

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! Wetzel (*op. cit.*) shows how it fails, even on its own terms, and exposes its doleful side effects. 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. Squash that gremlin!

LITTLE BITS

(i) “Scrapping income tax and replacing it with a ‘consumption tax’ on spending would be the best way to boost the US economy, Alan Greenspan said yesterday” (David Litterick, “Daily Telegraph”, 4th. March). The Federal Reserve chairman had in mind a value-added tax or a national retail sales tax. It makes an interesting comparison with the approach of the Liberal Democrats here, and indeed of Labour, which raised that virtual income tax called the National Insurance charge; and it highlights the current confusion over contemporary taxes on wealth production, goods, trade, and wages.

(ii) “German bank Commerzbank paid £231m to buy the Square Mile’s iconic Lloyd’s of London insurance building. Fund manager Deka paid £180m for it in 1996” (“Daily Mail”, 9th. February). A £51m increase in 9 years is big. Has the desire to possess a building of such iconic stature outpaced the structure’s depreciation so vastly? Or is it perhaps location value in the City?

(iii) “London taxes are among the lowest in the world. A reason for high London house prices is low property taxes” (Simon Jenkins, “Evening Standard”, 10th. February). Indeed it is. Much of that “property” value, though, is land value. Collect the land value through a national land-rent charge, and the cost both of houses and of non-domestic property will drop. Nationalists in Wales and Scotland who proclaimed the budget did nothing for them, should shout for LVT. Unlike the so-called hot spots and the warm spots, disadvantaged areas are crippled by the rates at which contemporary taxation is levied, and would rightly benefit from contributing according to their modest or low location value. LVT “levels the playing field”.

(iv) “In 1961, Aylesbury was struck from the London Underground map and symbolically cast into commuter darkness” (Gareth Huw Davies, “Financial Times”, 19th. February). Now, “it seems poised to re-enter outer suburbia…A surge of new building has recently transformed Aylesbury…into one of England’s brightest property spots…A road is triggering the change: the last pinch point on the A41, a cause of chronic traffic jams just south of Aylesbury, was removed in 2003. Now, it’s 18 miles by dual carriageway to the M25 London orbital motorway, which links directly to the capital.” As to the next stage on the road to landowning heaven, “Public transport will be key. Although no Tube extension is planned, there are proposals to reopen the railway from north of town to London.”

(v) Why did the Chancellor of the Exchequer sell half the nation’s gold reserves at the bottom of the market (an average price of $285 an ounce) when, on 16th. March, Budget Day, the price of gold closed in London at $442.95 an ounce? It has been up above or close to $400 for over eighteen months. H.M. Government could certainly use the difference now!

LAWNMOWER-FREE SUBURBS

"Noisy lawnmowers disturbing the peace of a Sunday afternoon are not a problem in Japan. Nor have most Japanese homeowners ever been bothered by the children next door kicking their ball into the back garden…because hardly anyone in Japan has enough green space" (Bethan Hutton, "Financial Times", 19th. February). "With land at such a premium in Japan, the houses are usually half the size and blocks a quarter of the size you would find in a genuine British or American suburb…For most Tokyoites, therefore, the choice is between living in a small apartment in one of the more central wards, with a relatively short commute to work, or a slightly larger apartment or small house in one of the outer wards or other prefectures, with a commute of 90 minutes or more each way. A decent-sized garden is in the realm of fantasy".

SLUM CLEARANCE

Instead of being restricted to large, government-approved infrastructure projects in India, foreign developers will henceforth "be able to develop and invest in almost anything" (Piers Wehner, "Estates Gazette", 12th. March). "The architects of the new regulations have been careful not to allow overseas companies free rein to buy up land that is not being developed…Despite this, it is expected that land values in India will soar in the short to mid-term as domestic players attempt to land bank [i.e. buy land to set it aside, unused or grossly under-used, to grow in value – ed.] before the foreign investors come in." These "players" are speculators, dicing with their fellow-countrymen's lives. Bombay boasts "the 175-acre Dharavi, Asia's largest slum", a huddle of wooden poles, burlap rags, metal and cardboard. For those who live there, it is affordable housing. Will they be re-housed decently, or will they face clearance from the land that was once home? Place your bets! This is not the spinning wheel the Mahatma had in mind…

TSUNAMI II

Guesthouse owners in Patong Beach, Thailand, say that gangsters "are attempting to force them out of business so they can acquire their beachfront land, which is to receive generous government grants for redevelopment" (Daniel McGrory, "The Times", 18th. January).

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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.

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