PRACTICAL POLITICS

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EU: the lurch eastwards and the outlook for the regions in the U.K.

"Overcoming The Odds" is the title of an analysis brought out by the Land Value Taxation Campaign in February 1999. Specifically, it explained how future developments could affect the financial position and general economic well-being of Northern Ireland; but it was equally applicable to Scotland, to Wales, and to England away from the south-east. That the statement was and remains essentially valid, is underscored by word from Brussels that, with the accession to the EU next year of Malta, Cyprus, and eight eastern European states, the cupboard is starting to look bare. Regional aid to the existing fifteen members will be cut back, with only Cornwall seemingly certain to qualify from the U.K., and Wales the heaviest loser: we did warn of this, and of the consequences, in our Issue No. 104.

The key question is that of relative locational advantage. The British Isles are the EU's offshore islands, distant from the continental heartland. If we assume that identically efficient production of a wonder widget for the London market can take place at Swansea, Swindon, and Southall, lower transport costs will favour Southall over Swindon and Swindon over Swansea. Competition amongst producers for the best sites will raise land rents in Southall, but (within limits) occupiers will pay them for the benefits of a superior location. At the margins, in west Wales, land for wonder widget production is going for a song, but no producer wants it – even at a peppercorn rent – because the logistical disadvantages outweigh the gain.

True marginal land will support only subsistence agriculture, and only then if there are no taxes to pay. Production at the margin brings in just enough to remunerate the labour and capital employed, with nothing left over for land rent or tax. Imposing a burden of income tax, VAT, motor fuel duties, and the like, kills off potential jobs and adds to the nation's welfare bill. It is hard to imagine a dafter system than the one we have to-day. If these taxes are cut back and eliminated in favour of raising public revenue from the national land-rent (the policy known historically but misleadingly as LVT – see Issue No. 122), the best, most valuable land pays its appropriate large whack, modest locations pay lightly, and marginal land, being worth nothing, pays nothing – a tax haven where needed most. *With wages and wealth creation now tax-free, "Made In Britain" again becomes a world-beater.*

AN IDEA WHOSE TIME HAS COME

Landholders “as owners rather than managers or developers contribute nothing to land’s value…A tax on site values encourages owners to use what they own more efficiently. Always desirable, a land value tax is now an idea whose time has come” (Martin Wolf, “Financial Times”, 20th. February). “It offers a tax base that cannot run away, unlike capital or labour; it encourages desired development; it imposes the greatest cost of holding undeveloped land where prices, and so values in alternative uses, are highest; it captures for the public purse a part of the benefits [1] accruing to landowners from investments in infrastructure and other amenities by the public sector [2]; and it makes user costs of ownership of land positive more often, improving the country’s allocation of resources [3].”

[1] How much land value is captured depends on whether LVT is applied only partially or whether the policy is fully and properly implemented. See Issue No. 124 for discussion on the question of the potential yield from full national land-rent collection.

[2] It also captures benefits deriving from private sector investments in infrastructure and other amenities. In short, it captures the value of all benefits, whether natural or social in origin, attaching to exclusive use or enjoyment of a particular location.

[3] Martin Wolf elaborates this point. Because land value rises most of the time, the “carrying cost” of withholding land for speculative purposes (i.e. foregoing rental income) is offset by the “capital gain” of its appreciating selling price. By contrast, when land prices are falling, the “carrying cost” is a real issue. He argues that, at a time of rising land prices, landowners tend to take their profit. He appears to short-cut the argument, in that the new owner then tends to move to develop and even to over-develop to recoup his outlay. “This reinforces the movement of economic activity and people towards the most dynamic regions from the least dynamic ones. A national land tax would partially offset this perverse operation of the price mechanism.”

The question of “partially offset” is, as noted above, the straightforward one of whether LVT is applied only partially or whether the policy is implemented fully.

Our arguments on land speculation are set out in “Landing In Trouble” in Issue No. 29: as the percentage LVT levy mounts, the speculative or “hope” element is knocked out of land pricing. LVT in the context of regional development is treated here on page 1 and in the Postscript to “Implementing The National Land-Rent Charge” in Issue No. 124.

There is confusion arising from not making the distinction between the annual rental value of land, which is a function of its value in optimum use in prevailing circumstances, and its selling price or “capital value”. Capital value is a projection of annual values rolled up in to a selling price. It depends only partly, however, on the current interest rate and the view taken on future interest rates. It also takes in to account perceptions of what land might be worth in the future, with thoughts of speculation in a finite and immovable resource; boom or slump conditions; demographic trends; whether new amenities are introduced to the area; the prospect of planning permission for higher land use; and, on long leases, the falling purchasing power of the currency resulting from inflation. Above all, the selling price is reduced by the capitalised value of the annual duty payable, which alone makes it undesirable as a tax base (although in isolation this objection is of less significance if the percentage levy is low and is expected to remain so – but this is hardly the point of having LVT, is it?). The only realistic value is the rental, what a willing lessee will pay a willing lessor for a perpetually renewable annual lease.

The article as a whole is such a splendidly forthright endorsement of LVT that we have paid closer critical attention to its text than we should devote to a lesser piece. We conclude with two further extracts. (i) “Uniform site – or land – value taxation is a ‘no-brainer’ [i.e. the concept is straightforward, easy to understand and accept – Ed.]. But what makes it particularly attractive today is its superiority to other taxes now imposed on property.” (ii) “National land-value taxation…is both fair and efficient. It should be adopted.” It should!

THIS SPORTING LIFE

“How do you build supermarkets in the teeth of the planners? Stick them next to a football stadium. In Milton Keynes, for example, Wimbledon are poised to emerge from administration…after a bid by [a] businessman… He plans to build a 30,000-seater stadium outside the town, for £40m. Asda’s putting up much of the money, in return for building a huge store next door. The plan has approval, and it’s off to John Prescott” (City Diary, “Daily Telegraph”, 6th. February).

WEST LONDON PIED-À-TERRE

“It looks like an ordinary building site, little more than mud and puddles – but only the seriously rich need apply to buy it. This unremarkable half-acre plot in Holland Park comes with a quite remarkable price tag of £8 million. For that you get the land and planning permission to build a 22,500 square-foot home” (Mira Bar-Hillel and Ed Harris, “Evening Standard”, 17th. February). “Building such a home could cost £5 million” which would put the land alone at a whopping 61½% of the final cost of £13 million.

SOMETHING FOR NOTHING, but, for taxpayers, nothing for something

“The most radical change in farming support in the 50-year history of the Common Agricultural Policy will see £1.7 billion of European money allocated to England, detached from food production and linked entirely to land ownership” (Robert Uhlig, “Daily Telegraph”, 13th. February). The Tenant Farmers’ Association has said it will mean “soaring rents and escalating land prices.” The RICS “believes the CAP reforms will have a serious negative impact on the balance sheet of livestock tenant farmers” (“Gazette Property”, Brentwood, Essex, 27th. February). “Areas that are likely to experience a boost include hill and moorland and poorer grassland in the lowland and disadvantaged areas, where both capital value and short-term rental values will increase”. Thus the taxpayer forks up – not for farmers, but for owners of agricultural land. Is it only the cows that are prone to madness?

A LAND VALUE LESSON FROM THE BENCH

“A small piece of land on which a mobile phone mast was erected beside a public highway should be valued for rating as if it had been leased, although the mobile phone operator enjoyed a statutory right to put up the mast there without charge” (law report of Court of Appeal judgment, “Times”, 20th. February). “The value of the occupation [of the small patch of land under the mast] to the occupier had to be ascertained without reference to any specific circumstance personal to the occupier…The occupation was not made less beneficial by the operation of the statutory restriction…Orange’s statutory right to occupy the land without payment did not determine the value of the land.” For us, the value of land, for LVT purposes, is determined by market demand, the occupier needing to pay only enough to edge out the next ‘bidder’. A statutory privileged right, the Court of Appeal has decided, does not affect a liability to pay the UBR. Nor shall it affect LVT. Orange, by the way, did not contest its obligation to pay UBR on the value of its mast. Orange needs to know that LVT, fully and properly implemented, replaces taxes on labour and its products. Broadcast the good news!

LEFT HAND, RIGHT HAND

Since 6th. October last, a single person aged 60 or over who has less money coming in per week than £102.10, has been entitled to a pension credit from the Government to top up his or her income. This produces an annual income of £5,309.20. The basic personal allowance is £4,615 in the current tax year and £4745 in 2004-'05. Our man or woman, despite being so poor as to merit a boost to achieve minimum income, is already a taxpayer!

DISTRIBUTORS UNDER THE COSH

“Centrality of location is no longer the only factor that drives distributors’ decisions on where to locate” (Stuart Watson, “Estates Gazette”, 21st. February). Around Northampton, Rugby, and Leicester, the take-up of land for huge distribution sheds has sent the cost of a prime site shooting up. “A few developers [four are named] control nearly all of the area’s land supply.” That could be fine, if they were paying LVT. As it is, they reap a monopoly location profit generated by a general public demand for supply of goods.

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