PRACTICAL POLITICS

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"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). *True. For further comment, please refer to "Property And The Property Business" on page 2 of our Issue No. 123 (June 2003) and "The Ethical Stance" on page 4 of Issue No. 119 (January 2003).*

We open this Issue by illustrating some of the varying factors which lead to the rise and maintenance of land value.

(i) According to the Organisation for Economic Co-operation and Development, "for every dollar spent in price support" for agricultural production in the developed world, "only 25 cents ends up in the farmer's pocket. The rest seeps out into other parts of the economy, for example into higher land prices" (Lea Paterson, "Times", 15th. September).

(ii) Widnes lies between Liverpool and Manchester. Its house prices "have risen by a remarkable 68 per cent in the year to September" (Anna Fifield, "Financial Times", 18th. October). "Once you get away from the industrial parts you're in attractive leafy areas with great road links…The location and the better value means *[sic]* that it's becoming part of the 'stockbroker commuter belt' like Macclesfield and Altrincham…It's mainly because of the motorway access that prices have gone so high…A second Mersey crossing, due to be completed in about 10 years at a cost of £300m, will open another strategic gateway." Here, house price is housing land price, location value.

(iii) In political economy, Land is defined as the material universe outside of man and his products. It includes not just *terra firma* but also lakes, rivers, territorial waters, and the air – meaning in turn the radio spectrum and airport take-off and landing slots. "Without landing rights, airlines do not have much going for them" (Lex Column, "Financial Times", 27th. September).

(iv) "Parents compete against each other by bidding up house prices in neighbourhoods with the best schools" (Rupert Darwall, "Daily Telegraph", 6th. October). "Alongside its geographical joys, Somerset's motorway links to the capital and its outstanding schools are major factors in its favour for Londoners seeking the good life" (Heidi Best, "Financial Times", 11th. October).

(v) "Most of Britain's top developers have proved more adept at playing the land game – buying it cheap, selling it dear – than at building communities" (Roger Blitz and Henry Tricks, "Financial Times", 2nd. August).

Specifically on **Scotland**, but with lessons of general validity, was an article by Mark Nicholson in the "Financial Times" of 11th. October.

(vi) "The differences in what you get for roughly the same money between Shetland and Perthshire signal the fact that the Scottish rural market, as anywhere, is all about location."

(vii) "If you can get somewhere within 90 minutes of an airport, particularly for a country house, it makes all the difference in the world…Shifts in transport access to different parts of Scotland quickly translate into changes in prices. The relatively recent advent of direct daily flights from Dundee's little airport has already warmed up prices in Angus. Significant road improvements under way between Glasgow and Ayr have brought a price bow-wave in their wake."

(viii) "Other areas enjoying a recent boomlet include Inverness, among the few Scottish cities with a growing population, and its hinterland…Berwickshire is also seeing rising prices, thanks to improved road links to Edinburgh… Decent farmhouses in the Borders have at least doubled in price during the past two years…The Edinburgh effect stretches over the Firth of Forth" with the result that "prices in East Fife rose by more than 30 per cent last year alone…A less fashionable pick for anyone seeking beauty and less bothered by access would be Kirkcudbrightshire, the placid and verdant south-west corner of Scotland whose coast is gently warmed by the Gulf Stream." So, population growth (Inverness), intensification of economic activity (the Edinburgh orbit) and climate (Kirkcudbrightshire) join the growing list of natural and human factors that create and bolster the site value of land.

(ix) Bill Macaskill (letter, "The Herald", 21st. August) has the final say. "The forthcoming Scottish parliamentary inquiry into land value taxation could not have come at a more opportune moment…Fiscal autonomy, equitable taxation, development of idle land, a sound economy, and much more are on offer if we have the courage". For 'courage', read 'political will', perhaps?

SDLT

We have PAYE, CGT, VAT, IHT, UBR. Now meet SDLT. Stamp duty is to be replaced on 1st. December by a modernised Stamp Duty Land Tax – but is it different? In concept, not at all. In detail, yes, somewhat. Who pays it? Notionally the buyer, but see below. Will it mean more bumf and more work? Of course, particularly for the buyer. Is it a land value tax? No! Is it a land tax, then? To a lawyer, yes; but not to an accountant or an economist.

For our past comments on stamp duty, please see Issues Nos. 87, 94, and 101. They remain valid. The existing stamp duty régime continues to apply to stocks, marketable securities, and bearer instruments. Except for the paperwork, there is little immediate change on residential property. Changes are afoot, however, which will affect non-residential property purchases and leases granted for 7 years or more or which give rise to a charge. Lease duty will be based on the net present value of the rental stream.

SDLT, then, is a tax on property transactions. Property, at law, means fixed hereditaments – the land itself plus buildings and other developments set on or in it. To an accountant drawing up the corporate balance sheet, this is all part of the capital employed in the business. To an economist, the site is land, but the man-made improvements are capital. SDLT, like UBR and the council tax, falls on the composite value of land and capital.

The costs in acquiring property will not change. What buyers/lessees are collectively able and willing to afford sets the market, and limits what even a monopolist seller/lessor can squeeze out. The chief costs are the purchase price or rental on the lease, the UBR and other running costs on the property, and the SDLT. If taxes rise or are expected to do so, a would-be buyer/lessee has to reduce his purchase/lease offer. Any tax increase which the SDLT represents will, in the end, be borne by the seller/lessor. The owner may be prepared to hold out, though, hoping for amendment of the offending part of the legislation, in which case the potential buyer/lessee is turned away, a business activity does not take off (and makes no taxable profit), a property is left vacant, and society at large loses an economic benefit.

SDLT is another of those taxes we could well do without. It arises only upon disposal of property (usually a voluntary act), falls on capital as well as on land, and holds back redevelopment. LVT, by contrast, is an annual charge on site rental value collected regardless of the actual use being made of the land, and replaces contemporary taxes which penalise work and initiative. The SDLT would be subsumed in a modest charge payable to the Land Registry to cover the simple services of administration.

JAPAN

For over a decade, Japan has agonised in deep recession. We have followed the story since Issue No. 8 (March 1990). The problem dates from the late 1980s and is one of frenzied over-borrowing and over-lending against the illusory collateral of ridiculously spiralling land values. When the bubble of land speculation finally burst, recession set in, banks tottered, big industrial and construction projects failed, hundreds of medium and small companies were ruined, unemployment spread, and the very fabric of the nation ripped apart. Japan was, and is still, the worst case, but the analysis of the cycle of boom and slump described in our Issue No. 29 applies world-wide.

"Fresh doubt was cast over the strength of the Japanese banking industry yesterday after Resona, the lender rescued with an injection of public funds in March, said it would report a far higher-than-expected loss of Y1,760bn ($16.2bn) for the first half of the year" (David Ibison, "Financial Times", 11th. October). "The loss was due primarily to bad loan write-offs of Y1,260bn for the period, as well as hidden losses of about Y400bn at affiliated real estate companies."

There is no painless way out of a situation like this. Keynesian prescriptions have not worked. Are banks to fail? Are borrowers to be bailed out by massive printing of banknotes, to debase the currency so that loans may be repaid in devalued money? Should Japan now raise interest rates and should there be some sort of "clear-out of its corporate and financial sectors" (Philip Coggan, "Financial Times", 26th. July)?

Japan will not recover until land rents and prices fall low enough to enable economic activity to pick up again. There are signs this might at last happen. In Tokyo "commercial land prices have plummeted by about 80 per cent [and] in Japan's six largest cities [they] are down to levels last seen in 1978" (Mariko Sanchanta, "Financial Times", 20th. September).

Correct action can be no more hurtful than continued paralysis or a quack remedy. Clear announcement of a national valuation of all land, preparatory to the levy of an *ad valorem* duty upon it (against remission of current taxes), would, we warrant, swiftly re-energise the economy.

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