PRACTICAL POLITICS

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In this Issue, double the usual size, we devote pages 3 to 6 to an essay on the implementation of LVT leading in a series of deliberate steps to collection of what may then better be called the National Land-Rent. The essay examines some of the questions that are met along the way. Elsewhere we look at how land values interact day-to-day with public policy decisions and the simple facts of how and where we live our lives.

EUROPEAN CAPITAL OF CULTURE, 2008

“Liverpool was today celebrating a massive property price boom, just two days after winning the Capital of Culture crown” (Jane Woodhead, “Liverpool Echo”, 6th. June). “Experts told the ECHO a city centre apartment, worth £100,000 on Tuesday, could expect to fetch around £120,000 today. And in five years’ time that same apartment is likely to sell for up to £250,000. Professor Michael Parkinson, director of the European Institute for Urban Affairs who advises the British government and European Commission on policies for cities…claims the £1bn of investment for the region and the 14,000 new jobs which have been predicted throughout Liverpool’s bidding process are ‘very conservative’ estimates”. Others quoted were equally sure. No one seems to have asked what precisely it is that has gone up. It is, of course, the location value of land in Liverpool, now that its status has been given a boost. One lady, though, is reported to have complained sadly that, as a potential first time buyer, she now finds a home unaffordable, overnight.

“Liverpool must use its status to reverse its decline and to ensure that all its citizens benefit from the award. This may seem a major gamble” (Magnus Linklater, “The Times”, 5th. June). To us it seems a hopeless gamble, as matters stand. The benefits of economic progress will filter disproportionately to the holders of land, as they always do. Those at the bottom of the pile will remain there, as they always do. There is a group in Liverpool which has been working away to set up a local land valuation and thus demonstrate the benefits to the city of a switch to site value rating. If encouraged, and done properly, SVR would be a most worthwhile start.

Ken Dodd is said to have greeted the City of Culture news by reminding us that William Shakespeare bought his first biro there. Unhappily, where boring old political economy is concerned, it is no laughing matter.

OFFSHORE

"The latest round of wind farms will be built in three areas of shallow water in the Thames estuary, the Wash and the North West", the Government has decided (Charles Clover, "Daily Telegraph", 15th. July). "The Trade Secretary [has] announced the leasing of the sea bed in the three areas through the Crown Estate". Please, Madam Secretary, encourage your colleagues to import onshore this policy that land value is public.

FRINGE BENEFITS GONE TO WASTE

When a business considers a major new investment, it looks at the cash flow. Land has to be acquired and production plant and utilities constructed. When all is ready, there are the ongoing bills for manpower, fuel, raw materials, distribution, and marketing. Only when products are sold is there incoming cash. The land and capital have to be financed from shareholders' funds and from borrowing. Enter My Lord Bountiful, offering taxpayers' money churned through the Brussels and Whitehall machinery. With the proviso that development is located in a currently favoured region, start-up costs for land and capital are subsidised, with dramatic immediate impact on the company's cash flow. Thus is business seduced into locating in what would otherwise not have been a preferred location. Fast forward through the building and commissioning to the operating period. Investment costs have become irrelevant, because they are "sunk" (past history). Only marginal costing matters now. If the supply line for raw materials is long and if the delivery line to the principal markets is also long, the company is at an operating cost disadvantage compared with its better located competitors, and has only lower interest payments on its sunk capital costs to give it a modicum of consolation. If the market contracts, the weakest supplier is the one who took the subsidy to site his production in the wrong place.

On 23rd. June, the "Financial Times" devoted all of one page and several column inches of another, to detailing failure in RSA (regional selective assistance) investment policy. "Regional grants not delivering jobs – FT survey finds that half of £750m aid offered to 50 projects went to companies that have since closed factories or failed to meet employment creation targets", ran the headline. Of the 16 most disappointing examined, eight are in Scotland, two in Wales, three in the North-East of England, two in the Midlands, and one in the South-West. The real problem is the current system of taxation, as will become clear during the essay beginning opposite.

IMPLEMENTING THE NATIONAL LAND-RENT CHARGE ("LVT")

At the outset it is essential to distinguish the meaning of the word, land, as traditionally used in political economy, from its legal meaning of fixed hereditaments. The concern here is with land as *terra firma*, as location, but taking into account its mineral resources and other natural features. Buildings and other developments in, on, over, or under the land surface of each plot are ignored for valuation purposes, although in each case the surrounding area is taken to be in its existing state of use and development. Land is valued on the assumption of optimum use within planning and other constraints (be it noted that the optimum may be lower than the maximum permitted).

We record, in passing, that land in economics includes the air, rivers, lakes, and territorial waters as well as *terra firma*; but these are more conveniently treated in separate legislation, applying the same principles.

The civil service can be relied upon for competent drafting of the legislation, provided the government of the day gives clear political direction. Implementation will no doubt raise transitional questions – but which of to-day's taxes is so perfect? LVT is a replacement for current taxes.

The applicable circumstances at the time legislation is brought forward are not readily foreseeable now. This makes it a somewhat sterile academic exercise to produce a detailed draft to be put away in the desk drawer just in case it should be needed in the middle of next week. Of course it could happen like that, but a less optimistic view might suggest several, even many, more years of campaigning. What will the state of the country be then? How far will devolution have gone? What will local government be like and what will be its powers and responsibilities? What happens as offshore oil and gas revenue declines? What state is "Europe" in, and where is the U.K. in relation to this "Europe"? How many wars will there have been, how many will the U.K. have become embroiled in, and in what political and economic position does the U.K. find itself in consequence? Is Westminster voting still "first past the post" or will there be some form of proportional representation? If so, will it end violent swings of "in" and "out" and encourage consistency in fiscal policy, or will it paralyse progress in coalition compromise? Where does inevitable change leave the party system, and what is the mood of the general public? The principle underlying LVT, the fundamental aim in introducing the policy, and the broad issues involved in implementation, are already known or readily deducible. The finer detail of the legislation must await the event.

Launching the system

LVT will be brought in as an annual percentage levy on the rental value of land. The lower the percentage of land value that is taken in LVT, the more is left behind with the landholder. All the evil consequences of land rent appropriation will still be present (withholding and under-use of land; extortionate prices; taxation of labour and capital and of the goods and services they produce; unjust distribution of wealth; periodic bouts of unemployment; the cycle of boom and slump). Especially if the percentage is low, and even more so if there is no expectation that the percentage will be increased or if there is belief that the system may in time be dismantled, the macro-economic benefits claimed for LVT will not materialise.

Land is a natural monopoly. Its supply for practical purposes can not be increased, nor can it be transported from where it is almost worthless to a location where it is scarce and costly. Its market price is thus apt to contain an artificial speculative or “hope” element. Land value, if measured nationally to-day, would therefore, in aggregate, be found to be too high.

The aim at the time of the first valuation is to launch the system. It will greatly help if the number of appeals is kept down. Tending initially to undervalue is thus likely to cut the number of complaints of over-valuation whilst also recognising that the advent of LVT will in any case knock some of the “steam” out of the land market by encouraging the bringing of derelict land into use and the better use of land currently under-used. Concentration of effort need not therefore be on seeking perfect accuracy of current values, but rather on attaining correct relative values. The important task is to get the differentials right by consistency in the undervaluation, so as to limit appeals, as far as possible, to questions of comparability. Further to cut down frivolous appeals, landowners who complain that the valuation figure set on their land is too high, may be required to market it (giving public authorities first option) at their own lower assessment of its value.

LVT, then, acts at first to reduce overall land value. It halts and indeed reverses the process of forcing producers to by-pass comparatively good land and set up on land that ought to have been left marginal. Raising the margin of production raises the total wealth output, by using only the most favourable locations. It raises the total going to labour in wages, and it lowers the total that goes to the holders of land (by operation of the economic Law of Rent, as illustrated in our Issues Nos. 12 and 21).

Land is to-day seen as a good investment. LVT reduces its (land’s) attraction in this respect, because it takes part of the land value as a national land-rent charge, leaving less to be capitalised in buying/selling price. Even future windfall gains from planning permission or major infrastructural investment will be at least partially taken away (depending on the rate of LVT). This will likewise act to dampen speculative “investment” in land. The tendency is thus to bring land values down still further. This tendency will be accelerated if it is widely accepted that LVT is here to stay and that the percentage levy will be progressively raised.

Spread of benefits from progressive implementation

As LVT is increasingly applied and its benefits flow through in to the economy and society generally, taxes are taken off labour and capital, off the processes of production and trade, and off the consumption and accumulation of wealth. Without this burden of contemporary taxation, land that is now economically marginal and even sub-marginal will be able to sustain a livelihood and will be brought into economic use. At present, some activities are killed because production does not provide a living wage or a return on capital after taxes like v.a.t. and motor fuel duties have been paid. LVT, by contrast and by definition, is very low just above the margin and zero at (and of course below) the margin.

If the initial effect of LVT is to raise the margin and reduce the land value total, the secondary effect goes the opposite way: it encourages new activity beyond the revised margin back out towards (or to or perhaps even further than) where it was in the bad old days, but this time with added production, added prosperity, added employment prospects, added opportunities for deployment of capital, and a more just society.

LVT in its fullness

During the transition period, the yield from LVT will inevitably be partial, though increasing. At the same time there will still be legitimate demands on the state which are the consequence of current policies and practices. Pensions are an example: a 20-year old can be told there will be no old age pension from the state, but one can hardly say that to a 55-year old who has had a lifetime of struggle in low paid jobs with several periods out of work altogether. While this situation of partial LVT and residual welfare demand continues, contemporary taxes will have to remain, albeit at declining levels.

The time will be reached when transition is complete. It will almost certainly have become obvious by this stage that all taxes come ultimately at the expense of land value. Removing remaining taxes of the contemporary sort will therefore lead to a further rise in total land value, at which point the total land-rent fund (as LVT would then have become) would be at least enough for normal peacetime public revenue requirements. Let us follow this line of thought.

For this purpose we may disregard capital and interest. The rate of interest is whatever is necessary, allowing for time and risk, to induce people to provide capital instead of devoting their income to immediate consumption. We therefore concentrate on labour and wages and on land and rent. In to-day's imperfect society, rent is privately appropriated. Some land is withheld from use; much more is under-used. The margin of production is depressed, leading to artificially low productivity. Distortions follow. With less good land available, rents and prices rise. This induces use of capital to mitigate shortage of affordable land (for example, intensive agricultural methods, high-rise buildings, urban sprawl and the need to invest in extended supporting infrastructure and facilities). All this is economically wasteful. Wages are depressed, literally to subsistence level in backward economies controlled by ruling cliques owning all the best land, but in advanced "western" economies to a level of general decency which will ward off civil unrest and the threat of rebellion.

With wages of general labourers held at the lowest socially acceptable levels, it follows that all taxes must come, can only come, from what would otherwise be captured by the beneficial owners of land. Superficially this is not so. Personal and corporate incomes are taxed. Private possessions are taxed (for example, by the council tax and the u.b.r.). Goods are taxed in the course of trade (for example, import duties and v.a.t.). In practice, however, take-home pay and what it will buy are what count, and, with an inevitable time lag, personal taxes are pushed back to the employer, and the employer has to draw the line at what he can now afford to pay for land.

Of course it is more complicated and more wasteful than that. Business will try and pass its higher labour costs on to the consumer and will then have to cope with the demand for higher pay. Consumers will meanwhile have to cut back on what they can buy and/or will turn to cheaper imports and/or to substitute goods. Business faced with higher labour costs will look to use of machinery in place of men. Rising unemployment leads to higher welfare bills, obliging the government to raise taxes and so give the merry-go-round a further spin. A retailer can afford only so much in outgoings if he is to survive, so that a u.b.r. increase reduces his capacity to pay a landlord's demand for a rise at rent review time. If the landlord insists, the retailer has to quit. The landlord has an empty property on his hands until he recognises he has to come back down and, in effect, absorb at least some of the u.b.r. increase. Meanwhile society at large is the loser, for the tax receipts are down, the landlord has idle capital (the shop structure), the retailer is out of a job, and the public loses a shopping facility. On land at and just above the margin of production, there is, as we have seen, either no land value to bear any increase in conventional taxes or insufficient to bear all of it. Since wages are already at the lowest acceptable level, further tax renders work uneconomical, production ceases, jobs are destroyed and capital made redundant.

Where taxes do go down, land does absorb the benefit. Abolition of domestic rating (a property tax) in favour of the community charge (levied on the person) gave an instant, presumably unintended boost to "house prices" (housing land prices) that were already spiralling upwards in the mid and late '80s. Successive u.b.r. revaluations have shifted the incidence of the rate both geographically and between different classes of non-domestic property: beneficiaries have found themselves faced by stiffer rises at rent reviews than they would otherwise have expected. Almost all taxes do come ultimately from land. If there are exceptions, they are single, isolated, unexpected levies like "windfall taxes" and perhaps duties on accumulations of wealth like inheritance taxes.

That word, "ultimately", is important, because in the meantime any tax increase has to be carried by the wage earner (or the retired or unemployed or welfare benefit recipient); and while the effects of conventional taxation are working through the system – a process which can take years in many cases – injustice and the maldistribution of wealth persist, damaging the nation to its very core.

Concluding challenge

It would be an exaggeration to claim that the national land-rent fund must amount to to-day's tax burden plus to-day's land value, but it must be a huge figure all the same, well in excess of either of these elements alone. This natural fund has been created by, is sustained by, and is usually progressively increased over time by, the collective economic activity of the citizenry. Why give it away? The result is to pay once for access to land to live and work on, and then to pay a second time in the form of conventional taxation to fund government revenue needs. Why?

Since the late 19th. Century, LVT, site value rating, and other forms of land taxation (all of the latter unsound in theory and ineffectual or worse in practice) have rarely been out of the political consciousness here and abroad (especially in the old Empire and Commonwealth). The land question is as old as the Physiocrats and formal economics itself. No one participating in or entering the land market can legitimately plead ignorance. Landholding does not take place in a historical, political, or indeed moral vacuum.

Postscript

In the foregoing, several references have been made to the economic margin. There is of course a true margin, beyond which all production is, at any one time, uneconomic. This is the margin which has been used here for illustrative purposes and for simplicity and clarity. There are, however, many margins within this ultimate margin. The value of a plot of land depends on the advantages, natural and social, which its location offers. Very few classes of potential user can afford the best sites, much as they might like to have them, because they cannot conduct profitable business from them at the assessed rental value. In short, the site offers advantages which these would-be producers or traders cannot make full use of. Conversely, there are sites which most businesses will not use, even at an annual rent of 5p, because the locations suffer so many disadvantages that costs of production and distribution far offset the cheapness of land. In cases like this, producers need the advantages of much better locations and are willing to pay for them. The land market, freed from distortion by national land-rent collection (LVT in its fullness), simply allocates use sensibly and fairly according to who is best suited to exploit profitably the advantages of each unique location. Within this framework, a pattern of margins will be discernible for each trade and for each sector within each trade. References to the interaction between the economic margin and the withholding and under-use of land, and between the economic margin and taxation, are to be read with this greater complexity in mind.

PUBLIC OPEN SPACES

"Developers won a High Court battle yesterday to stop the creation of a village green on land that they could use for new homes in the future…At a recent hearing [the judge was told] that if the fields were not registered, they would have a value of £500,000, rising to £10.8 million if sold with planning permission. But their value would be reduced to zero if the village green plan was allowed to proceed." (Frances Gibb, "The Times", 9th. July).
"Communities throughout the country are stealthily campaigning to take over pieces of vulnerable land and establish them as village greens…The campaigners, mainly middle class, are [claiming] land that they do not own but believe they can use 'as of right'" (Valerie Elliott, "The Times", 14th. July).

Where, in all this, lies the true public interest? It lies in collection of public land value and in preventing its appropriation by private interests, whether present homeowners, future housebuilders, or owners of agricultural land with eyes on planning consents. N-I-M-B-Y folk want green spaces kept because they add to the location value of their homes, denying to newcomers the privileges they already enjoy. That is acceptable, provided there is LVT to ensure they pay for their exclusivity. The values of village greens and urban parks are reflected in the land values of surrounding areas. Look at Hyde Park and Regents Park, for instance. Whether, and where, to allocate land for development, is a planning matter. LVT itself is no foe to amenity.

JUSTICE, LAW, AND TAXES

The law is a set of rules, codified or established by custom over many years. Citizens, through established institutions, have the power to change the law, but meantime are required to obey it. It is both desirable and convenient that laws conform to a general perception of justice, but, in public administration, it is the law that matters. Bootless it is to rail that, in matters of taxation, so-and-so should pay more or that such-and-such a business is getting away with it – it is a well-established fact that no one is under an obligation to hand over more in taxes than the law requires, and that all have the right to regulate their affairs so as to incur minimum tax. Tax avoidance is simply common sense. What is illegal is tax evasion, failure to declare income and pay taxes in conformity with the law.

Nevertheless, tax avoidance frequently gets a bad press. It is so easy to sensationalise as “tax dodgers” people and businesses who are behaving entirely rationally and, indeed, lawfully. A headline like, “Corporate tax avoidance is costing us all billions” (“Observer”, 29th. June) is self-evident non-sense. More to the point would be “Ill thought-through and wretchedly prepared legislation is costing us all billions” or, more challengingly, “Tax loopholes sustain businesses and preserve jobs”.

Contemporary taxation is a hodge-podge of fines on successful, lawful engagement in production, trade, and capital formation. Governments devote thousands of officials at all levels to developing, implementing, administering, and enforcing a vast system of tax legislation that becomes ever more complex with each passing year. The rich, tycoon or pop-star, with much at stake, can afford hefty expenditure on avoidance action, and employ the smartest accountants and specialised tax lawyers. Similarly, big profitable companies have batteries of experts and consultants at their beck and call. What a waste of good brains! What a loss to the productive economy!

Avoidance is impossible where revenue is based on collection of the national land-rent. Land can be neither moved nor hidden. Justice is done when public land value is captured for public purposes and taxes are lifted from what truly should remain private. *The switch to LVT is becoming unavoidable!* Principle demands the change, and expediency will drive it.

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