PRACTICAL POLITICS

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This Issue is twice the usual size. On pages 3 to 6, we pose, and answer, the question: when is taxation not taxation? Having provided two separate answers, we go on to explain how land value taxation, or, rather, a national land-rent charge, is so singular a tax, or, rather, non-tax. Elsewhere in this Issue, attention turns to Scotland, Wales, and Northern Ireland, where important elections are pending.

THE BUDGET BABES

We commented on the wheeze of the baby bond (child trust fund) in Issue No. 106 (May 2001) – a bung of £250 to each infant at birth and of twice that to each boy or girl born of poor parents. This footling flummery does not obscure the reality. What each child inherits at birth is a share in the National Debt. What that child does not inherit is his true birthright – equal rights to the land of his birth, secured by capturing for common use the annual rental value of land. No man ever made the land, nor can more be manufactured. If it is right that some infants enter this world as owners or inheritors of parts of it, it must also be perfectly all right for others to enter it landless, condemned to pay tribute to their fortunate brethren for a little living space. If the Prime Minister and his Chancellor think this entirely acceptable, then let them proclaim it to be so – and thus oblige their acolytes, their rivals, and all would-be moralists to consider their own positions on this point.

SCOTLAND, WALES, AND NORTHERN IRELAND

On 30th. January, Robin Harper, the only Green Party MSP, introduced in the Scottish Parliament a motion commending the contribution that land value taxation can make to the cultural, economic, environmental, and democratic renaissance of Scotland. LVT will now be considered and investigated. This follows the important recommendation in the final report of the Scottish Office Land Reform Policy Group in January 1999 that, “A comprehensive economic evaluation of the possible impact of moving in the longer term to a land value taxation basis should be undertaken”.

It will not all be plain sailing. The motion was carried by 35 votes (mainly Scottish Nationalists, but including 3 Liberal Democrats) to 13 (all Conservative, although one does wonder why private capital has to figure as the handmaiden of landlordism), with 59 recorded abstentions (mostly Labour, plus a majority of the Liberal Democrats). The number of abstainers, together with 22 absentees, suggests testing times ahead. Mr. Harper himself commented after the vote, that it was clear from the debate that there were many misunderstandings of how land value taxation might work. Now that his proposal has been accepted by Parliament, MSPs can start to explore the proposed new measure and examine those concerns. Mr. Harper called his initiative constructive politics, and a positive approach that could kindle popular interest. Moves aimed at increasing the Scottish Parliament's fiscal autonomy from Westminster, are being contemplated.

"Mr. Harper argued that land values were in fact a measure of public demand for one location over another and were generated by the public at large, not by individual titleholders" (Frances Horsburgh, "The Herald", 31st. January). "He said: 'Surges in property prices, such as currently seen in Edinburgh, are largely a site value phenomenon. They have little to do with variations in the cost of building or development per se'".

A year ago, a white paper published by the Welsh Executive included land value taxation in the list of options to be considered in any reform of the public finances.

The Northern Ireland Assembly has shown itself equally aware of the public nature of land value. During protracted discussion on proposals to privatise the Port of Belfast (see Issue No. 91) the responsible all-party Assembly committee unanimously determined to retain the port estate in public hands and lease out the acreage used specifically for port operations. Subsequently the decision was taken to back away from the transfer of land.

A practical problem also arose in the relationship between the Harbour Commissioners and the privatised Harland & Wolff. The Commissioners agreed to release the shipbuilder from what had become onerous restrictions in the terms of a long lease on 400 acres of harbour land, but only in return for a 50/50 split in the rent arising from revised use of that land.

England, awake! The country's only regional authority, the GLA, is reduced to looking to congestion charging and, conceivably, a TIF (tax increment financing – a U.S. technique to support transport projects). Sad!

DOWN TO BRASS TAX

Our Latin dictionary defines the verb, *taxo, taxare,* as *to estimate, rate, appraise the value of anything*. In modern English, this is still the meaning in the courts of law, where a taxing master is one who *taxes* costs by examining them and allowing or disallowing the various component items claimed.

A wider use of the word has largely taken over from the strict, etymological meaning, so that *taxation* to-day signifies *a government charge on certain things to provide money for the state*.

The expression, taxation of land values, may therefore mean the action of collecting a charge on the value of land to provide revenue for the state or, more simply and in accordance with the original meaning of the word, the act of appraising land in accordance with values assessed on and assigned to various plots or parcels.

The use of *taxing* land value in the classical Latin sense presents no difficulty beyond making clear the use intended. However, adopting *land value taxation* in the broader modern meaning does the policy a dis-service. The justification for allowing such a usage is that, in the U.K., that is how, historically, it has been known. In the early years of the 20th. century, there were, successively, the Land Values (Scotland) Bill, 1907, the Land Values (Scotland) Bill, 1908, and the Finance (1909-10) Act, 1910 (which introduced a number of land taxes, none of them actually land value taxation, even though the preliminary campaigning had indeed been for proper LVT!). Later, Section III of the Finance Act, 1931, was entitled Land Value Tax. For well over a hundred years, there have been numerous inquiries, in and out of Parliament and Whitehall, referring either to land value taxation or to its local government equivalent of land (or site) value rating.

Yet, equating LVT with taxes such as income tax, corporation tax, the council tax, the uniform business rate, capital gains tax, value added tax, import duties and excise duties, is to underestimate the superiority and singular character of the former. All of the latter are taxes on work – on the productive process itself or on trade in goods and services or on accumulated savings devoted to capital formation. The land is not man-made (no one paid to have it produced!) but is a gift from Nature, part of our planet, Earth. What each plot is worth, depends on the demand for its qualities, for the social and other benefits and opportunities it offers. Each plot constitutes a monopoly location: land is not transportable from place to place.

Properly and, as far as practicable, fully implemented, an impost based on the assessed *[taxed]* rental value of land is to be viewed as a payment to the community for benefits actually received. What the landholder pays to the Exchequer is thus compensation for what he gets the exclusive right to enjoy. Although generally known as LVT, this 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.

HOLISTIC

While we still have the dictionary open, we find that holism is *the tendency in nature to form wholes that are more than the sum of the parts by creative evolution*. We are not too sure about that "creative evolution" bit, but we think that in political economy almost everything affects land value and that LVT therefore beneficially affects almost everything. Let us look…

(i) LVT, in its local guise of SVR, can replace both the council tax and the UBR, encompassing vacant and derelict land but excluding the value of all buildings and other developments. There is no reason to stop here. One can go beyond this and collect sufficient revenue to replace centrally distributed grants to local authorities as well. Even so, LVT is not to be considered just a little local tax, for it does much more.

(ii) It is increasingly acknowledged that spending on infrastructural developments, by government bodies and private undertakings alike, leads in general to substantial increases in the value of land in the surrounding neighbourhoods. Improvements in passenger transport facilities are particularly evident examples. Whilst LVT is admitted to be a highly suitable means of capturing this land value to defray project costs, it is frequently forgotten that LVT is not to be treated as a means of collecting only increments in land value but all pre-existing land value too, and is not merely to be used towards financing part, or even all, of a single project, but as the fundamental source of income for the public revenue.

(iii) LVT is similarly cited as applicable to regeneration plans, usually in an urban context and frequently in relation to the long-standing and vexed question of recovering "planning gain". LVT does of course do this and, being related only to site value, it also rewards good development and penalises under-development. In a seeming paradox, it acts to render over-intensive development (expensive high-rise office blocks, lots of little houses cramped together) much less likely. The present system tolerates withholding and under-use of land, which makes it scarcer and dearer, obliging developers to resort to essentially uneconomic over-exploitation.

(iv) LVT, then, is not to be viewed as a mere financial measure, a better way of revenue-raising. It is, to be sure, better to collect the national land-rent than it is to levy taxation on production, earnings, goods, services, and savings. The consequences of a deliberate move to full operation of LVT go beyond finding a different way to fill the Chancellor's coffers, however.

(v) Collecting the rental value of land as close as is possible to the theoretical maximum 100%, leaves bare land with practically no selling value, since the capitalisation of a theoretically 0% rental stream which the landholder can retain, is zero. Land is worth holding only for use, and for good use to boot. Speculation in land is killed stone dead. Whereas speculation in goods can do little harm, since withholding products from the market will stimulate further production at home and encourage imports from abroad, and may well be beneficial in making supplies available later if and when a genuine shortage occurs (think of the oil trader laying in stocks of heating oil against an especially cold winter), land is a natural monopoly, and its hoarding must always lead to artificial scarcity and diseconomy.

(vi) Housing is affected in many ways by adoption of LVT. Apart from the benefits deriving directly from what has been said above, shifting taxes off labour and capital, and off goods, including houses, means that buying a home no longer means shelling out to buy the land (in south-east England, half of the cost or more), but just the building, fencing, driveway, and any special improvements such, perhaps, as to the garden). Any mortgage required is for a much lower sum. The only outgoings are repayment of this now lower mortgage and meeting the land-rent charge (LVT demand).

(vii) The mechanism of the cycle of boom and slump depends crucially on the rôle of land in the functioning of the economy. This was treated in a special article, “Landing In Trouble” in our Issue No. 29. In essence, private appropriation of the rent of land leads, in a rising economy, to land speculation, to over-building to justify the rising cost of over-priced land, and to over-lending by banks on the illusory security of the rising spiral of land values – up to the point at which the bubble finally bursts. When site rents are paid to the national exchequer, private profit can be made only from the activities of labour and capital. Undistracted by the call of speculative takings from land dealing, the economy grows in an orderly manner, with the rewards of enterprise and effort going to those responsible for producing them.

(viii) Apart from what is needed to ensure capital formation, created wealth is distributed as wages and to landowners. Because basic wages are set at the economic margin, and because that margin is artificially depressed by widespread under-use and withholding of land, wages are far lower than they ought to be. Most wage takers receive little more than they need to keep themselves and their families in something ranging from bare respectability to a reasonable comfort. Consequently they have little or no scope to set aside savings and become significant owners of capital. Thus it is that the owners of land (private persons, trusts, and bodies corporate) also own most of the capital. The assessment and collection of land values in place of present-day taxes will ensure that those who actually perform work become the chief providers of new capital.

(ix) How can there be unemployment, other than transient? Men are idle, wanting to work. Capital too lies idle, rotting by the day. If people cannot supply, they cannot effectively demand. If the problem does not lie with labour or capital, it must lie with land. In fact, insufficient land is available on affordable terms. Land stands unused or under-used. Furthermore, Government lurks by to impose job-destroying taxes on labour and capital. LVT not only replaces those taxes but obliges landholders to put their land to use to generate the income to meet the land value duty.

(x) Imbalance in regional development is not a question of capital investment or of labour productivity; it is a matter of location. Northern Ireland, much of Scotland, much of Wales, and indeed large areas of England, lie on the periphery, distant from the economic concentration in London, the south-east, and the continental EU. Land values are normally lowest at the outer fringes, reflecting those regions' geographical and other disadvantages as compared with the centre. To-day's taxes like PAYE, VAT, and motor fuel duty take no account of this, and at the margin tip potential wealth creation in to unprofitability. LVT, however, by definition, bears lightly at the fringes, and creates tax havens exactly where they are wanted most.

LVT – collection of the national land-rent – is not just a tax policy, not just a useful tool to stimulate urban (and rural) regeneration or help pay for a new transport scheme, or any other item we have mentioned, or, indeed, have left unmentioned here. It is much more – a *holistic* remedy that will fully reward the attention devoted to its establishment and nurture to fruition.

BOOM-AND-BUST AND THE HOUSING MARKET

The second leader in the "Financial Times" of 12th. April noted that "Detailed IMF research shows that housing market busts regularly follow booms…" The same edition of the same newspaper carried a report, by Lydia Adetunji, of an address by Lord Lawson to the Council of Mortgage Lenders. The former Chancellor agrees with the present incumbent "that most of the 'stop-go' economic problems Britain had suffered in the past 50 years had been linked to the cyclical nature of the housing market...He placed part of the blame for the 1980s boom on lenders who piled in to lend people sums of money that were not 'prudent' to satisfy demand after the mortgage market was deregulated." This begs the question: why were lenders so eagerly deluded? The underlying cause was the precondition of a speculative boom in land, of which housing land was only a part – see our Issue No. 29. Lenders could not resist the lure of what in fact was fool's gold.

SPACE FOR A HOME, SPACE (MAYBE, LATER) FOR A HOME

"Bermondsey, SE1. Cleared site with consent for 11 maisonettes/flats. Freehold. Offers in excess of £1m.", i.e. £100,000 each – and it's not "posh"!

"Surrey – An area of land in Bletchingley, approx 100 ft. x 50 ft. adjacent to up market residential. No planning at present [i.e. probably, 'we tried unsuccessfully: you may be luckier later' – Ed.]. Offers around £60k."

These advertisements are from the "Estates Gazette" of 29th. March.

WHAT TAXING BUILDINGS DOES TO BUSINESSES

In August 1997, a couple decided to open "a back-packers' hostel… with an adjoining cycle shop and hire business…alongside Loch Venachar, near Callander" (Terry Murden, "The Herald", 26th. March). The hostel, which they built themselves, "has been hugely successful…However, the business rates bill has taken a huge slice out of the couple's income, restricting their expansion plans, including their ability to take on employees". They have seven rooms to let at £12.50, including breakfast. The rateable value is £11,000, which is above the £10,000 limit which would qualify the owners for the new small business relief scheme. If they had been in older, more run-down premises, the tax would be lower. What did we say about a holistic approach? Here we see enterprise and effort penalised, rural diversification discouraged, job creation set back, small business hurt, and gainful activity at the economic margin overburdened. Please let us have LVT instead!

Footnote:- "Our rating system penalises occupiers of buildings, but the owners of empty sites pay nothing. Indeed, companies that sack staff and create empty buildings are rewarded with half rates. If they smash in the roof, they do not face the courts, but instead are rewarded with an exemption from paying rates altogether because their building is regarded as uninhabitable" (Dave Wetzel, "Observer", 6th. April). If enlightened owners rehabilitate the premises, "we penalise them with business rates, corporation tax, national insurance, PAYE, and VAT. Is it any wonder that many landowners would rather just sit on an empty, appreciating asset?"

WATER AND ELECTRICITY

"More dams must be built in developing countries to meet future demands for water and electricity", says the World Bank (John Mason and Vanessa Houlder, "Financial Times", 15th. March). Dams are needed to meet UN targets for clean drinking water and are essential to hydroelectric schemes, as well (although the report does not say so) as to irrigation projects. Such schemes will set environmental groups at each other's ears (clean, carbon-free, emission-less energy versus tampering with the local eco-system). At least as importantly, who gains and who pays? We have seen before that the owners of land served by the new facility are the prime beneficiaries and that the landless poor shovelled out of the way are the major sufferers, whilst the general public coughs up the funds. Justice?

NOW, CORSICA

"Corsicans will be given a chance to create a unified assembly for their island" (Philip Delves Broughton, "Daily Telegraph", 8th. April). France will put the proposal to a referendum in July. Powers will include the right "to oversee local budgets". We hope Corsicans know enough of the *impôt unique*, and of the Physiocrats and their successors among the classical economists, to demand rather better than just that!

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