PRACTICAL POLITICS

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"No country in the industrial world is gripped by the forces of recession. Yet gloom and fear dominate the economic debate in most countries. For all the distress of falling stock markets and US corporate scandals, the world has so far been spared a large financial crisis, but investors remain nervous" ("Financial Times" leading article, 16th. November). "Policymakers must continue to stand ready to deal with possible sudden downward lurches with looser monetary policy, and, if that has clearly lost its effectiveness, fiscal pump priming."

Less than a fortnight later the Chancellor of the Exchequer was revealing to Parliament that cracks were indeed showing in his economic policy, though he discerned no fault lines. The Government intends to increase its borrowing for the next two years, after which, we are told, all will be well. So, it is to be looser monetary policy (more borrowing from the money market) but not yet fiscal pump priming (resort to the printing presses and debasement of the currency).

We foresaw all this, and more, in our Issue No. 116 (July 2002), to which we confidently refer our readers.

"Inflation", we wrote in part, "is a dangerously mischievous device. Money can no longer be relied upon to keep its purchasing power. People then begin to look for something that will. Land, irreproducible and immovable, is the perfect 'hedge'. Those who can not or will not recognise the difference between capital and land in political economy, talk of 'property values' or 'asset values', but what really rises is land value. When money is pumped into circulation, banks want to lend it. Borrowers can point to rising land value as collateral for a loan. Businesses and individuals save less and spend more. Spend before money loses its value! Why save when land values keep going up and doing one's saving for one? Expansion breeds exuberance. The speculative frenzy and the crucial rôle played by land are explained in Issue No. 29. It may well be that the boom the next time round will be less extravagant than that of the late 1980s, so perhaps the next slump will be less serious than 1992. Be that as it may, the seeds are being sown now."

We have been told that land value taxation is not something which the Government has under consideration at present. There is, however, still time to act. A clear declaration of intent to bring in such a measure will have instant effect on the land market and on the attitude to landholding. A worthwhile initial percentage levy also allows significant abatement of existing unpopular and harmful taxes. This doubly good result is but a foretaste of the greater and wider advantages to be had from systematically collecting the national land rent for general public benefit.

A CENTURY OF MISUNDERSTANDING

The “Estates Gazette” of 16th. November 2002 reproduced, without further comment, a piece which had appeared in its issue of one hundred years before, on 15th. November 1902. It seems that at Newcastle the previous Saturday, back in November 1902, a conference of “land-value taxers” (no further details supplied) adopted a resolution in which it was declared that “taxing land values would reduce rent and rates”. This produced the rejoinder, “Nothing has yet been known to reduce rates, but the idea that another tax would reduce rents is rather humorous. That is to say, the more property owners have to disburse, the less rent they can afford to take.” Since rates, not taxes, are the subject of discussion, we must assume that the conference resolution was tackling local government finance. LVT related to local government is often referred to as SVR, site value rating. The comments that follow apply also to the council tax and the uniform business rate (u.b.r.) which have almost entirely replaced the old rating system in the U.K.

If rates are switched from the composite values of developed property to SVR, the existing ratepayers do, collectively, pay less, because vacant and derelict properties are now included in the assessments. Under SVR, the levy of course falls only on the location value of the site, with all buildings and other improvements exempt, de-rated. SVR thus redistributes the sum to be raised by the rates, but overall it does not increase it, and the majority of ratepayers can expect to be better off. That the full benefit of a high-quality new development is now untaxed, provides the incentive to regeneration, as owners of poor developments on valuable sites decide to make better use of their land.

Because more land is brought into use, property rents come down: owners of previously vacant sites have to pay SVR bills and, needing now an income stream, have either to develop the land themselves or make way for others who will. That, plus redevelopment on other sites, means that more property is on the market. Hence rents drop as scarcity value disappears.

More fundamentally, the “Estates Gazette” mistakenly assumes that owners of land are able to raise property rents to pass the SVR bill on to their tenants. We explained why this does not happen, in our Issue No. 37 – it follows essentially from the fact that land is “supply inelastic”. If the SVR bill could simply be added to the property rent currently payable for land plus building, why would landowners bother to oppose it? The truth is that they know (better than the “Estates Gazette”, apparently) that they have to meet a national or local land-rent charge (LVT or SVR) out of the receipts they already get from their tenants. The buying/selling price of land inevitably falls as the income stream from the site rental value is captured for public revenue purposes. Thus, to go back to the starting point, the more that property owners must disburse by way of duty on their land value, the less they can retain for themselves – and they can do nothing about it. As owners of buildings and other man-made improvements, however, they are providers of capital, and receipts from lettings of this form of development are no longer taxable or rateable. Thus are enterprise and initiative rewarded. Mere holding of land loses its appeal, but in every other aspect the property business flourishes.

DON'T COUNT THE HOUSES, JUST COUNT THE HOUSING POLICIES

"Last year there were just 162,000 homes built – the lowest figure in more than 75 years" (Nick Mathiason, "Observer", 17th. November).

"Practical new measures were strikingly scarce at the two-day Birmingham conference…attended by 13 government ministers and 1,600 delegates… dominated by quangos and councils" (Jonathan Guthrie, "Financial Times", 2nd. November). "The summit had 'been about recognising the urban renaissance agenda'". [We caution the reader not to confuse this extravaganza with the one-day London conference on urban regeneration held the week before, to which two rather more favourable references were made in our last Issue, No. 117 – Ed.]

In the two articles cited above, we counted no fewer than 18 policies on housing. Doubtless there are many, many more. Perhaps more timber has gone in to the manufacture of green and white papers than in to actual building construction work? Lord Rogers, he of the 1999 Report, seemingly "saw little hope of progress without much tougher measures to encourage people to live in city apartments, such as banning greenfield housing developments in some areas and choking off investment in commuter transport. But that sounds a lot like continental-style *dirigisme*" (Guthrie, *op. cit.*). More than that, it is a policy drenched in defeatism.

"One major omission is that the Government has so far failed to introduce a tax that captures increased land values following the provision of major infrastructure such as the Channel Tunnel Rail Link" (Mathiason, *op. cit.*). "But as the Government acknowledges that major infrastructure has to be in place before development, the issue will surely come to the fore." This sounds more promising, but why aim to capture only increases in land value and only those that follow provision of new infrastructure? Is it just a single hit that is in mind, like the failed development charges and the development land tax? A charge that is imposed when a particular development goes ahead, is a deterrent that invites landowners to delay and await repeal. To aim only for increases is to ignore the mighty accumulation of land value already in place. To focus solely on land value occasioned by major infrastructural developments is to ignore all other land value arising from and maintained by the day-to-day activity of the whole community. Only an annual charge on the rental value of land meets the needs of the situation.

That land matters is now widely recognised. "Transactions…indicate significant increases in land values across the whole of the North East region" (Valuation Office Agency, cited by Peter Bill, "Estates Gazette", 16th. November). "Go about developing your garden the right way and you could sell the land free of CGT [capital gains tax]. With two-acre gardens going for between £1m and £3m and single-house plots going for between £250,000 and £500,000 in some towns in south-east England, the tax is well worth saving" (Ross Davies, "Financial Times", 2nd. November). There is no justification for a shortage of decent homes for our people. The first step is a new fiscal policy – LVT. Fully and properly applied, this provides funding for public expenditure in place of to-day's predatory taxes, raises the general level of wages, and gives access to land to all on equal terms. Not bad.

RECLAMATION

The classical economists defined land as the whole of the material universe outside of man and his products. For most purposes most of the time, land equates to *terra firma*. Sometimes it is necessary to consider air rights (the radio spectrum; take-off and landing slots) or rights at sea (oil, gas, and other offshore minerals; fisheries). There can be cases of erosion and of silting. Examples of deliberate creation of dry land from land previously below the sea are less common, but there is now one such instance in the Persian Gulf off the coast of Dubai (report by Wendy Gomersall in the “Night&Day” magazine, “Mail On Sunday”, 20th. October).

The project is the idea of the Crown Prince and is being funded by the Dubai government and banks. It “involves the construction of two entirely man-made, palm tree-shaped islands that are set to become the best leisure resorts money can buy…Each will have 50 themed hotels, two 400-berth marinas, shops, restaurants, health spas, cinemas, golf courses, even a theme park. They will also have about 2,000 luxury homes, many with a private beach…A 1,000ft bridge will connect each island to the mainland.” The first residents are expected to move in in 2006. “Thousands of tons of rocks…are being brought in from 16 quarries throughout the United Arab Emirates.” The land reclamation cost is put at £2 billion.

It is interesting that the proceeds from exploitation of one form of land (the mineral resource, petroleum) are now paying for the construction of dry land on another form of land (the sea bed). Our concern, however, is to look at how the man-made “creation” of dry land (in offshore Dubai or elsewhere) is to be treated in a régime that finances its public revenue from the collection of land rental value.

Presumably the sea bed and waters above it will have had some small value deriving from the marine life present. LVT based on that, would remain in being. The rest of the value added after reclamation is clearly a result of the application of labour and capital to “make” the land, together with the value dependent on and derived from the connection to the mainland and the value attributable to people’s willingness to go and work there and the interest shown by visitors in going there to disport themselves in luxury. It is for the public authorities therefore to take what is really a political decision on how long a period the land “makers” will be given to amortise their agreed project costs. During that time, LVT is assessed as if the new dry land had been there for ever, but payment is made less the negotiated “write-off” sum. At the close of the transition years, LVT becomes payable in full. Recognition of any ongoing maintenance costs can probably be incorporated within the site value assessments. There are no taxes on labour or its products.

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