PRACTICAL POLITICS

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SOME TAXING THOUGHTS

(i) In his pre-Budget report to the Commons, the Chancellor tinkered, yet again, imposing further complications on the payroll departments of the nation's businesses. In particular, small firms and the self-employed carry a dead weight of unremunerative labour and otherwise redundant capital investment on behalf of the state machine. In all but name, this is itself a tax. Already there are twelve payroll obligations, of which PAYE, National Insurance, and statutory sick pay are perhaps the best known. Two more are on the way.

(ii) Viewed more generally, the tax system has become an engine of social division. The richest avoid much of their notional obligation, by employing skilled accountants and lawyers and, if pushed to it, joining the brain drain and becoming tax exiles. For the poorest, the tax system forms part of the poverty trap. Those in the middle bear the brunt. In effect they are fined for successful engagement in legal economic activity.

Higher taxes will not bring £ for £ amelioration in public services. Improvements in ' buses, trains, schools, hospitals, policing, and the like, render more attractive the localities that benefit, and land values rise. Government presides over a transfer of purchasing power from taxpayers (called upon to fund or subsidise better services) to the beneficial owners of land.

(iii) Regional imbalance is a land problem too. Businesses at the economic and geographical margins where land rents are very low or relatively low, could generate returns to reward labour and pay for capital, but not sufficient of a surplus to add to wages to enable contemporary taxes to be met. Meanwhile, the ability of London and a few other centres to pay much more is not recognised because the surplus has largely leached away in land values – witness spiralling house prices and commercial rents. Landholders, far from benefiting, should be doing the paying (LVT)! Truly, our Chancellor runs an upside-down economy.

A NOD IN THE RIGHT DIRECTION – but no more than that

A leading article, “New taxes for old”, in “The Guardian” on 30th. November, declared that “One impost that is both fair and inescapable is a tax on the increased value of land”. Why not just “on the value of land”? There is no intellectually respectable argument for seeking to collect increments whilst ignoring all underlying land value. Furthermore, the political effort to carry such a limited measure would be at least as great as for full LVT.

The work involved in making the initial “datum line” valuation for increment taxes is the same as is required for proper LVT. By definition, no payment demand can be issued until a pre-determined period has passed and a second valuation been made, involving yet more start-up cost. The amount raised by increment taxes would initially be low (probably very low), because – with spectacular exceptions – most increments would be small and because persons timid enough not to seek full LVT would also presumably not be looking for a particularly high percentage levy, even on the increments. Small yields and relatively high start-up costs allow little abatement of existing taxes. The large-scale economic benefits which its proponents claim for LVT would not even begin to show. Furthermore, as we illustrated in considering this topic in our Issue No. 6, increment taxation introduces anomalies and does not necessarily accord equal treatment to holders of land of equal value.

All land value is public and none of it is private. The objective is not negotiable – welcome though it is to see land commended in high places as a suitable source of public revenue. The implementational route, though, does not lie through the increment thicket.

PUBLIC EXPENSE, PRIVATE GAIN

“When the first trains run along the new track at the end of 2003 the journey time from the Channel Tunnel to London will be cut by 20 minutes. When section two is complete in 2007, a further 15 minutes will be shaved from the current journey time of 70 minutes” (Peter Birkett, “Evening Standard”, 31st. August). “The prospect of fast domestic services connecting Ashford to central London in 37 minutes and the Ebbsfleet area in 15 minutes is mouthwatering for property owners in areas served by the two stations.” If riches for doing nothing make landholders’ mouths water, it makes our eyes stream with tears of embarrassment at the awfulness of the nation’s leadership that it refuses to accept the obvious.

A LESSON FROM NORTHERN IRELAND…

"Derry is already benefiting from a healthier office market...Plans are afoot to develop Atlantic Cross in a joint venture between DuPont and Teesland Ireland" (William Ellison, "Estates Gazette", 10th. November). "The North West has an abundance of well-educated people, partly thanks to the two colleges in Londonderry. The city can call on a catchment population of 300,000, if Donegal across the border is included…The DuPont site sits beside the Belfast-Londonderry railway, a regional airport and a deep-water port." The Teesland managing director is quoted: "Devolution and decommissioning have brought confidence. In the next 24-36 months there will be real growth in property here". People; education; catchment area; rail, air, and sea links; devolution; decommissioning; the latest ceasefire – all of these are what people have brought about collectively, by their labour, by their use of capital, and by their political, constitutional, and social decisions. Why is so much of this benefit to be allowed to fall into the deep pockets of the landed interest? Northern Ireland deserves better than this!

…AND ANOTHER FROM THE REPUBLIC

"Planning guidelines introduced in January…impose a cap of 32,300 sq ft on the net retail floorspace of supermarkets in Ireland. A larger cap of 37,700 sq ft is allowed for…Greater Dublin" (Donal Buckley, "Estates Gazette", 10th. November). This "underpins the investment of developers in existing shopping centres" by denying economies of scale to potential competitors. In this way does planning become the handmaiden of land monopoly. The general public, whose presence and activity gave the land its value in the first place, simply does not seem to matter. Whilst land values are syphoned off by private interests instead of being collected to fund the public revenue, earnings are taxed and – final insult – v.a.t. is imposed on the goods sold in those protected retail outlets!

There is more. In the office sector, "Following the strong increase in property values of recent years, some investors are realising their gains and even forgoing their tax breaks. But by being able to pass these on to the purchaser, the value of the property can be enhanced while also enabling the purchaser to achieve a maximum tax break." In other words, the purchaser pays the vendor for the right to enjoy the tax break. That subsidy has to be made good from general taxation, doubtless levied on the earnings of the office workers who toil in those buildings and in the form of v.a.t. on their retail purchases. So much for Irish jokes!

LONDON, GLOUCESTERSHIRE, BAVARIA, AND TAMIL NADU

(i) "Work starts today on bringing the Tube to millions more Londoners" (Tom James, "Metro", 6th. December). "A new extension to the East London Line will open up one of the capital's most densely-populated areas – Hackney…The inner-London borough will soon have four new stations… Linking with North London Line services will make it possible to get one train straight through to Willesden Junction. New track on the southern end of the line, linking to Wimbledon and Croydon, will mean completion of another section of an emerging and desirable London orbital rail route. Bringing Tube access to new areas will help generate investment in some of the country's poorest communities." Lucky landholders can see riches ("emerging and desirable") heading their way too – all for doing nothing!

(ii) "A [Painswick] couple burgled three times failed in a High Court bid to have a public footpath through their garden diverted" ("Daily Express", 8th. December), because they "must have known about the ancient right of way before they bought the property". Presumably they paid less than they would otherwise have had to do; and, had they won, they would gladly have pocketed the enhanced location value. With full LVT operating, we might have supported their application.

(iii) "When it comes to property prices Munich leads the German pack" (Gerald Cadogan, "Financial Times", 10th. November). "Munich's attractions are undeniable. [It is] Germany's equivalent of Silicon Valley, as well as being a hub for the media…A fashionable alternative, especially for the media set and sporting stars, is to move out to the expanding leafy south-western suburb of Grünwald beside the Isar". Because of the high cost of building plots in Grünwald, "it can make financial sense to buy a plot that already has a house in order to pull it down and build something larger, or install three new houses. Front gardens are also targets for selling separately to build new houses."

(iv) "On concrete stilts…the trains of the new Mass Rapid Transport System shuffle by, doors open in the heat. The system has pushed up house prices along its route" (Adam Hopkins, "Financial Times", 1st. December). This is Madras, India's fourth city, with six million inhabitants. Many are desperately poor, with no land, no birthright, no hope, and certainly no share in this new bounty.

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