# PRACTICAL POLITICS

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**THE DIFFERENCE**

The “Estates Gazette” of 3rd. November carries a trenchant article against the commercial property practice of the upwards-only rent review, described as “like resale price maintenance” and “a restrictive practice that the law has condoned for too long”. The piece then questions the protection afforded to commercial tenants when the lease has come to an end. The author, whose arguments deserve to be read and assessed in full, is the Rt. Hon. John Gummer, M.P.

What is of special interest to us is a remark made almost as an aside. “Why is this not a marketplace like any other?” In the context of economic analysis, property is an imprecise word. It consists of land (the ground, the site) and of buildings and other developments. Crucially, land is not man-made, whereas buildings decidedly are made by man, by application of labour and capital (itself wealth manufactured previously). Buildings depreciate, which is to say they need constant maintenance, wear out, and become obsolete. Land does not depreciate. Its value changes with time, reflecting the level of general economic activity, and tends nearly always to rise. Those who design, construct, and manage are true wealth creators, adding to what was there before. Those who “contribute” land are “providing” something neither they nor their predecessors in title ever created. When they sell or let, they receive a share of man-made wealth solely for getting out of the way and allowing others access to the Earth and its raw materials.

Land does not respond to the price mechanism as consumer goods and capital goods do. When land prices rise, no more can be made and none can be moved from where it has little value to where demand is greatest. To use the jargon, land is “price inelastic”. It is thus the ideal object of speculation, abetted by a tax system that hits at development in proportion to its quality and worth, but that rewards withholding and under-use. If, intellectually and practically, land is disaggregated from capital, correct analysis immediately becomes possible. Whatever accounting convention may say, land is different. Land rental value should be taken to fund public revenue requirements in place of penal and confiscatory contemporary taxes.

## THE LOCATIONALLY CHALLENGED

Land value is built and maintained by the public's collective actions. The rental value of each site is what a willing occupier will pay to secure for himself the particular benefits of the location. In general and in aggregate, the picture is one of progress, swelling the gains that pass undeserved to owners of land. Occasionally, though, public and private activities interact to make some sites less appealing, or perhaps merely to restrict the expected gain. With LVT in operation, land value assessments pick up the changes and provide financial compensation in the form of a lowered levy or an appropriately smaller rise. Some instances where this would apply are set out below.

**(i)** "Hastings, despite being in the generally prosperous South-east, has seen only slow growth in [housing land] prices, largely because it has poor **road access** both to London and east-west along the south coast" (Hamish McRae, "Independent", 2nd. August).

**(ii)** When a couple "bought their handsome Tudor timbered farmhouse with 16 acres in 1988, nearby Stansted was a small **airport** with a few flights a day…They paid £450,000" (Faith Glasgow, "The Times", 8th. September). Now "the house could easily fetch £1.5 million – if it did not lie in the flight path a couple of miles from Stansted." Instead, it is on offer "at £825,000". One must of course bear in mind that the growth of Stansted, and improved local infrastructure and employment prospects, account for the increased location value evident even in the lower price.

The article cites comparable cases. "A house backing on to a **railway line** will typically be 20 per cent cheaper than its counterpart across the road." A Georgian house in Pulborough, Sussex, whose "front door opened on to the **main road** through the village", went for £565,000. "In a better location the house would have fetched £1 million plus".

**(iii)** The French are planning to stock the Languedoc-Roussillon region with thousands of **windmills** to produce what purports to be environmentally friendly electricity. "Some of them will be 300ft high and surmounted by aviation warning lights. Anyone living within half a mile will have to endure the endless churning of turbine blades with the wingspan of a jumbo jet" (Patrick Bishop, "Daily Telegraph", 17th. August). That should hit the re-sale value of homes in those sunbaked medieval villages: the shops and houses are themselves unaffected, but the location certainly loses a good deal of its appeal.

**(iv)** Lewes, Sussex, suffered "after the deluge and devastation caused by storms last winter" (Liz Phillips, "Daily Mail", 26th. October). "Nevertheless, estate agents find there is no shortage [of] buyers in desirable areas, especially if the price has been reduced to reflect the **flood risk**. A house that has flooded will sell for around £50,000 less than a similar property which remained dry."

**(v)** Ripples from Paddington regeneration schemes "have already reached Lisson Grove, the obscure downmarket area sandwiched between St. John's Wood and Marylebone Road" but **local authority blocks** "do moderate rental levels" (Robert Liebman, "Independent", 4th. August). Does gentrification always begin thus, one wonders? How significant is demography? Land values capture the hard answer.

## MAN OVERBOARD?

"The Isle of Man is inured to assaults on its status as a tax haven" (Gerald Cadogan, "Financial Times", 3rd. November). "Last year there was one from the European Union, and another from the Organisation for Economic Co-operation and Development…Now a committee of the French Assembly has fired another cannonade."

The Isle of Man was once a resort for summer holidaymakers who to-day flock to the Mediterranean. To make good the loss, the Manx government looks to financial services such as banking and insurance. The population of 76,000 enjoys full employment, with income tax at 12% (basic rate) and 18% (top rate).

Critics want the Isle of Man to be brought under EU jurisdiction and, pending what is termed harmonisation, to be subject to at least the penal taxation levels applying in the U.K. This would bring the Isle of Man economy into line with similar marginal outlying areas in the U.K. Unemployment would rise, there would be little work for the young who would drift away and be replaced by the elderly retired who would put a heavy burden on health-care services. The Isle of Man would then become, triumphantly, a drain on the U.K. exchequer, and would qualify for Objective 1 funding from Brussels as well!

Why should the Isle of Man raise taxes when it has no need of extra revenue? In our view, the Manx cats can teach the EU fat cats a thing or two, starting with the virtues of competition in the matter of taxation policy. All we urge Man to do is examine replacing even its current low-ish taxes by annual collection of the rental value of the land.

## NOT PARIS

"Southport, unlike so many of its resort counterparts, has avoided sinking into depression and tawdriness…There are rail links to Liverpool and Manchester – both of which are easily commutable; there are accessible motorways – M58 and M6 – and both Liverpool and Manchester airports are less than an hour away…There are good schools in the area, in both state and private sectors" (Gwenda Brophy, "Financial Times", 19th. May). "Claiming Southport has a Parisian feel, as some property sellers in the area do, might be stretching it a little too far". The town's landowners must just remain content with the sea air and the scent of freshly minted money gathered from appropriated land rent.

## STATING THE OBVIOUS

"Of course a house in central London is going to be worth more than a similar one in the north of Scotland" (Hamish McRae, "Independent", 2nd. August). Of course? But why? The cost of borrowing is the same; so is hire of equipment; the prices of building materials are very similar; and labour costs are not wildly different either. Ah! but "Suitable plots of land are few and far between" (Paula Hawkins, "Independent On Sunday", 24th. June). "The cheapest plots are in the Western Isles, Orkney and Shetland. Here, they can sell for as little as £13,000. The average cost in Scotland is nearly £36,000, while in Wales it is £38,000. In England, where plots average £98,000, the cheapest land is in Lincolnshire, Cumbria and East Yorkshire."

The land that already makes up the area of central London is by definition irreproducible, and unfortunately the cheap plots found elsewhere cannot in any case be moved in. Mounting demand in London is thus expressed within a monopoly situation to force prices up – a process further abetted by the hoarders and speculators. As we noted on page 1, the marketplace in land really is not like any other. Furthermore, the value of land has nothing whatsoever to do with anything an owner of land does or can do merely by virtue of holding a paper title to land. It is what people do collectively that counts – where they need to live, work, and take their leisure, and what they create to support their lives and livelihoods.

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