PRACTICAL POLITICS

May 2001 Issue No. 106

We have looked back at Issue No. 26 of March 1992, written for the General Election on 9th. April of that year, and (just as we did in April 1997 when we were contemplating the General Election to be held on 1st. May) we find our 1992 Issue in no need of change. Let it stand as our manifesto this time too. Instead, for the Election on 7th. June, this Issue reproduces some statements and comments made earlier in "Practical Politics", in the hope they will be useful in prompting debate. They are to be found on Pages 3 to 6.

THE BABY BOND, or the Birthright Besmirch'd, is a Tragedy in one neglected Act, by A. Blair and G. Brown, based on the plot of the Landlord's Bonanza. The wheeze is a proposal to present each infant at birth with a Child Trust Fund – a two hundred and fifty pounder to the rich boy or girl and a five hundred pounder to the less favoured.

The authors of our play will not, of course, be giving away their own money, oh no! It will come from state coffers, filled by depredations on the earnings, savings, and spending of all of the people, including the parents of these same infants.

The enactment overlooked is a National Land-Rent Bill, to introduce annual collection of the site rental value of all land, to be used to fund essential public services in place of the existing taxation system.

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 our authors and their acolytes think this entirely acceptable, then let them proclaim it to be so – and thus oblige their rivals and all would-be moralists to consider their own positions on this point. Will the audience tiptoe away, or will it stay and rage?

ROAD, RAIL, AND A TUNNEL

(i) The Greater London Authority is examining a congestion charging proposal. The area boundary, sometimes down the middle of the street, will divide Londoners from each other. “If you don’t live within the area you could end up paying £1,250 a year for the freedom to drive into central London” (Jane Barry, “Evening Standard”, 21st. February). “With zone residents paying a mere £125 to enjoy the comfort of their cars, it’s bound to have an effect on property prices”. Congestion charge advantages will have to be paid for in land values (as a component of a household or commercial rent, or capitalised in the purchase price), along with all other differentials between one location and another. “Properties which are a pleasant walk away from a good Tube station look set to increase in value” (Anne Spackman, “Financial Times”, 31st. March). “If they have parking, that is an added bonus. If they have all those things and are inside the proposed charging zone, so much the better.”

(ii) “Commuters from Ashford in Kent will see their journey to London go down from an hour to under 40 minutes, as a result of the new high-speed rail link” (A.S., “Financial Times”, 14th. April). An estate agent is quoted, “Houses which were selling 18 months ago for £550,000 are going for £700,000 today…There is still more growth to come because of the railway.” Ashford landowners love it.

(iii) “Railtrack’s property portfolio is for the first time since privatisation worth more than its stock market valuation” (Clayton Hirst and Jason Nisse, “Independent On Sunday”, 8th. April). Shame about the lines and signals. “Railtrack is effectively the country’s fourth largest property company”.

(iv) Beneath the streets of Boston, Massachusetts, the world’s biggest underground engineering project is in progress. An eight-lane road tunnel is being built. “The people of this Glasgow-sized city are beginning to realise that what’s happening will make their town one of the most attractive in North America” (Noel Young, “Sunday Herald”, 11th. February). Engineers have now broken through “the last link of the tunnel connecting the Massachusetts Turnpike with Logan airport.” The cost of “roughly £10bn” falls on the Federal Government, the State, and local drivers (through tolls and vehicle licences). “More ships will use the port…there will be fewer airline delays…a whole new mini-city on the waterfront…a great number of jobs and prosperity.” The writer did not mention Boston’s landowners, passive but mightily enriched.

HOUSING, CONSTRUCTION, AND LAND

(i) Forth Ports "made pedestrian progress" last year, "but the City is more interested in the property aspects" (Andrew Wilson, "The Herald", 27th. March). "Land in Leith can be worth up to £5m an acre…It is company policy…to sell or develop the 50 acres it controls at the Port of Leith over the next five years largely for residential and mixed use."

(ii) "Buying sites where people want to live is one of the keys to success for a housebuilder" (Philip Cowan, "The Herald", 14th. February). So, it is people who make land valuable, not the landowner. Commentators should pause here to consider the deep implications of this obvious truth.

(iii) House-hunters in the desirable west end of Glasgow appreciate the "excellent public transport links, first-class shopping, good cultural and sporting facilities and a plethora of restaurants and pubs. Even its own cinema and Botanic Gardens" (Lorna Martin, "The Herald", 23rd. March). How much of this did landholders make?

(iv) An article on property investment (Mark McSherry, "Sunday Herald", 4th. February) appeared under the misleading heading, "Bricks prove their weight in gold". Property is an imprecise word, a trap in economic analysis. It consists of land (the ground, the site) and of buildings and other developments. Buildings depreciate, that is to say they need constant maintenance and eventually wear out and become obsolete. Land does not depreciate. Its value changes with time, reflecting the level of general economic activity; it thus nearly always rises. Whether book-keeping practice recognises it formally or not, land is different! Land is not man-made. Buildings, which have been made by man and are true wealth, add something to what was there before. Those who build them and maintain them are performing a useful function and are individually entitled to enjoy the rewards of their efforts. Mere ownership of land, however, adds nothing. Legislation needs to align public law with morality and recognise the distinction.

(v) "Our tax system compounds the problem. There is still little tax incentive for housebuilders to convert existing empty buildings" (Anthony Dunnett, Chief Executive, South East England Development Agency, "Property Week", 16th. February). "In this ever-more environmentally aware world we should use our tax system to encourage recycling our remarkable built heritage and brownfield sites". Indeed we should. Untax development and collect site rent, we say.

WHO WILL TEACH THE TEACHERS?

In its series, Mainly for students, the "Estates Gazette" of 7th. April wrote of how to become a property investment specialist. Four pages of background information cover institutional and other investors, property companies, surveyors, law and accountancy, financing, fund management, and market research. "Property is held as an investment because of its current rental income, expected rental growth, potential for capital gains and diversification benefits within a portfolio, as well as providing a hedge against inflation in certain economic conditions." The term, property, is never formally defined. There is no mention of land at all, despite its evident contribution to so-called "income and capital returns". The nearest to it is the statement, "Account should also be taken of obsolescence, which erodes asset value (notwithstanding any general growth in property market values)." Substitute "building" for "asset" and "land" for "property", and it makes sense. We must hope the students are brighter than the tutors!

"Practical Politics" is the bulletin of the **Land Value Taxation Campaign**. The Campaign is a non-party organisation established with the aim of securing legislation to change fundamentally the basis of public revenue in the United Kingdom. It proposes that existing taxes on wages, goods, and services be progressively replaced by a property tax on the rental value of all land, a policy known historically as land value taxation ("LVT"). The term, land, is used in its meaning in political economy – the material universe apart from man and his products. The Campaign distinguishes the returns to labour and capital, which it regards as private values, from those to land, which it holds to be public values and thus peculiarly suited to provide the basis of public revenue. The policy advocated by the Campaign would be introduced in a series of deliberate steps so as ultimately to secure the full rental value of land for the Exchequer.

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We have not instanced specific cases nor have we sought to cover every topic – notable absentees include rural and environmental concerns and the cycle of boom and slump.

We have included references to the original text in square brackets. The first two numbers indicate the Issue and the page, and the second two give the month and year. Thus [64/4 7/96] means the extract is taken from page 4 of Issue No. 64 of July 1996.

Basics

Let us briefly go right back to basics. Wealth is created by the application of Labour (human effort) to Land (natural resources). Some of that Wealth is not directly consumed, but is diverted back to the process of further Wealth creation, in which case it is called Capital. Wealth is therefore produced by Labour, making use of Capital, and working on Land. When Wealth is distributed, Labour receives Wages, the provider of Capital is paid Interest, and what goes to the owner of Land is called Rent. No matter how rarefied the subsequent refinement of thought, nothing will make sense which ignores or confuses this analysis. [37/1 6/93]

Origin and growth of land value

Man's presence, level of economic activity, and decision making, confer differential location values on land. Concentrations of population in cities, the provision of transport facilities, the availability of utilities and other general services, are all reflected in site values. The deliberations of public bodies to allow a motorway to follow one route rather than another, to introduce pedestrianisation or a one-way traffic system in a shopping district, to freeze an area as green-belt land or reallocate acreage from agricultural use to housing, to permit or deny an application to extract gravel, to place a preservation order on a building, to limit the number of storeys on shops or offices, to restrict flying hours at aerodromes, all affect the value of land, not only at specific sites but also in their general vicinity. Land value, then, responds to what it is permissible to do at the site and to what is actually being done round about it. [20/2 6/91]

Land value has arisen from population growth and from intensified economic activity. In big cities, where the highest land values are found, a massive infrastructure has been put in place, notably water and sewerage, power, transport, telecommunications, and police, fire, and hospital services. With commercial developments of all kinds, go public administration, housing, and leisure facilities. The owner of land, purely in his landowning capacity, does, can do, nothing to create, maintain, or enhance that value. Land value is truly a community value. Giving it away instead of using it for essential public expenditure, means we have to raise the money a second time from taxes on production, wages, savings, and spending on capital and consumer goods. What a way to run a great nation! [78/3 4/98]

Infrastructure

Public money spent on the infrastructure need not be a drain on public funds. Roads, bridges, railways, and the like, ought always (and will usually) show a profit. The profit materialises as enhanced land values. When measured and collected as part of a general policy of implementing land value taxation, these values provide a perpetual income stream bringing a true cash return on the initial public outlay. [13/3 11/90]

Housing

There is not now, and has not ever been, any good reason for a shortage of decent housing. The wages of architects, surveyors, building craftsmen, and general labourers are not exceptionally high. The machinery needed is not scarce or particularly expensive. Construction materials are not in short supply nor are they dear. The problem is the availability of land at affordable prices. LVT would force derelict sites on to the market. By collecting the same duty from the land irrespective of the quality of development on it, LVT would give slum landlords the strongest of incentives to redevelop, for improvements and the receipts from tenants would now be relieved of tax. [26/2 3/92]

When did you last see a newspaper advertisement from a housebuilder urgently seeking construction workers? Have there been appeals for bulldozers, roofing tiles, or cement mixers? Of course not! Labour and capital are available in abundance, and eager to go to work. Land is the problem. [56/3 11/95]

A homeowner would own his house as personal property, and he would acquire exclusive right to occupy the site in return for making over the rental charge (land value tax). Buying a house would mean paying only for the structure, fences, perhaps for exceptional garden improvements. Borrowing would be hugely cut by removing the need to finance land purchase. Mortgage repayments would thus be lower, council tax would have gone (along with much else), and all that would be required is payment of the site rent. An owner could of course let his house to others and retain the income from it. [78/3 4/98]

We build tiny houses with handkerchief gardens, low ceilings, cheap, small, and technologically outdated fittings and appliances – to save money, because land costs are so high. [80/3 6/98]

Tourism

Do we need a tourist tax to pay for sewerage and cleaning beaches at holiday resorts? The question has arisen because it is argued that visitors reap the benefit of good resorts without contribution to their maintenance. There is a misconception here. The value of land in a resort would be lower if there were just the residents, and no visitors. People give land its value, and the influx of non-residents enhances land value, differentially from location to location. A problem arises only if land value is not collected by the public exchequer, but left as a present for landholders to pocket. [83/3 12/98]

Planning

Planning permission does not of course create value. Rather does it unlock it. Value stems from the population itself, from its general economic activity, its prior investment in infrastructure, and its current demand for living, working, and leisure space. What happens when a public authority approves an application for development or redevelopment for more intensive land use, is that the permission translates in to enhanced site value and becomes a windfall gift from the public to the landowner. More accurately, it is an enforced gift made by an organ of the state, acting ostensibly in the name of the people but nevertheless transferring a collective public value to a private interest. The professionals, who know, must be amazed we are so stupid. [45/1 5/94]

LVT does not seek to collect a value which existing law makes it impossible to realise. The duty is always based on optimum use within current planning rules. [10/2 5/90]

On the fringe

Land values are lowest at the outer fringes, reflecting those regions' geographical disadvantage as compared with the centre. Taxes like PAYE, VAT, and motor fuel duty take no account of this, and at the margin tip potential wealth creation into unprofitability. With such taxes replaced by nation-wide collection of site values, however, the impost bears lightly at the fringes, and there is no need for compensatory churning of taxpayers' money, first taken out of the economy and then ploughed back in as special assistance grants – a system that is hit-and-miss, open to abuse, expensive to run, and apt to create a regional dependency culture. [88/3 5/99]

Claims and challenges

Tax labour, and you discourage employment of workpeople. Tax capital, and you drive it away. Tax the site value of land on the other hand, and more of it becomes available, more cheaply. [45/3 5/94]

Owners who hold land out of use or who gravely under-use it, are (i) creating artificial scarcity and bringing about higher rents and prices than would otherwise have been the case, and (ii) forcing businesses to second- or third- choice locations. Artificially high land values lead to lower economic efficiency. [31/4 12/92]

Taxes on goods, on services, on trade, on spending, on saving, penalise and inhibit the process of wealth production. Existing taxation involves juggling a balance of evils to come up with the least damaging and least unacceptable mixture. [70/2 4/97]

Taxation to-day is essentially little more than a structure of fines and penalties for engaging successfully in legal economic endeavour. People know this and consequently public acceptance of taxation is dwindling. Assent is further undermined by growing doubts about the uses to which tax revenues are being put. A worrying proportion of the best talent is dissipated in tax-related legal, accounting, and general administrative activity. At the purely practical level, the collection of the rental value of land (land value taxation) scores over all rival fiscal measures. [100/1 12/00]

Substituting collection of land rent (site values) for existing methods of taxation has important consequences for the land hoarder. Until funds have been generated to pay it, LVT acts as a stick. Thereafter it is a carrot. The initial return to the occupier of land is not just zero, it is negative. Once the land value duty has been paid, however, the net return becomes 100%. That is the incentive. [19/4 5/91]

Definition of the rights of ownership and of property determines the relationship of citizens to each other, and of the citizen to the state. Whether there was a Divine Creator or not, the Earth was certainly not made by man. It follows that all men have equal rights in the bounty of Nature. A man may not own what neither he nor any other man created. It is the exertion of labour by man which confers legitimacy on a claim to ownership. [64/4 7/96]

The yield from LVT is certain and secure: land cannot be hidden or moved to a foreign tax haven, so that the duty can be neither avoided nor evaded. [50/4 2/95]

Economists know full well that the entire Rent of Land can be taxed away without affecting supply. Indeed, in so far as it penalises withholding and under-use, it corrects what at present appears as under-supply and over-pricing. [64/4 7/96]

Our essential aim is the collection of the economic rent of land. Land values are to be the first source of funds for public expenditure. If there were to be a surplus, we should still want to have land rent collected in full, and envisage distribution of the balance to the general public in the form of a *per capita* payment (a poll tax in reverse!). [6/4 1/90]

Landownership

The function of land ownership serves no useful purpose. No one needs to own land for any reason except to exploit others by appropriating the common rent fund. All one needs is security in occupation. This is guaranteed by LVT, in that annual payment of site value to the exchequer gives the right to exclusive use of the piece of land in question – with no taxation of improvements or of the processes or products of industry.
[21/3 7/91]

Marxists were troubled by a “surplus value” which they assumed was taken by Capital. In fact, it finds its way in to the Rent of Land, measuring the locational advantages which (to use the jargon) some entrepreneurs, workers and peasants enjoy but others do not. That is at the root of the skewed distribution of wealth. Through having been able to appropriate Rent to their own use, big landowners and big landowning corporations are the ones who have had “spare” Wealth and have thus become also big owners of Capital. The functions of Landowner and of Capitalist in political economy nevertheless remain distinct, even when combined within one person or one business entity. It is the Land question which is fundamental. [51/3 3/95]

Landowners do not “provide the land”. God did that, some time back. Landowners, purely in their capacity as owners of title to land, provide nothing. They take. For graciously agreeing to allow labour and capital to exert themselves in wealth creation on “their” land, landowners collect a rent as tribute. [53/3 5/95]

Finally…

The Scottish Office Land Reform Policy Group, set up to consider options for land reform in rural Scotland, has now produced its third, presumably final, document, “Recommendations For Action” (January 1999). In future, no one can argue that LVT has been looked at by an official inquiry and rejected: on the contrary, it has been recommended that “A comprehensive economic evaluation of the possible impact of moving in the longer term to a land value taxation basis should be undertaken.”
[84/1,4 1/99]

What can you do without land? The answer, in political economy, is of course: Nothing. No wealth can be produced without natural resources and without the space to work on. [35/1 4/93]

Land value is the one thing that should never be privatised. [67/2 1/97]