PRACTICAL POLITICS

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ALL AT SEA IN THE SHALLOWS

Improvisation and tinkering have been elevated to cult level. The Conservatives have decided to fiddle with the tax code to favour the saver. “Make no mistake, for the thrifty the proposed change is actually a huge give-away” (George Trefgarne, “Daily Telegraph”, 6th. February). “Under the plan, nobody will pay tax on the interest from their savings, or their dividends, unless they have an income of £32,000 or over. Then, as now, they will have to pay 40 per cent”. In a devastating analysis, the writer lays the entire Conservative tax policy to waste. “One man’s tax break is another man’s loophole…The losers will be the millions of poor people who do not earn enough to save and those enterprising souls who work hard in the hope of accumulating capital and yet still pay 40 per cent tax on their earnings.” We should point out that savings are usually from taxed income. Nevertheless Conservatives cannot escape the charge that they have jumped into the middle of this tax-and-savings issue without proper thought.

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.

Meanwhile, Liberal Democrats abjectly accept the current system. “The 10p lower tax rate would be scrapped, and the 22p basic rate would go up to 23p, while a new higher rate of 50 per cent would squeeze more from those earning more than £100,000 a year” (John Deans, “Daily Mail”, 27th. February). Taxpayers will get a Citizen’s Tax Contract, setting out where taxes come from and all the goodies they go on. Will there be a big box at the side marked “land value” with an arrow to a copious trouser pocket?

WALES, and Europe's offshore islands

The European steel industry has for years suffered from over-capacity. Within the U.K., shipbuilding, car manufacture, the call for structures and pipelines for North Sea oil and gas, and "metal-bashing" generally, are all well past their peak. Arbed (of Luxembourg), Usinor (of France), and Aceralia (of Spain) are planning to merge. Corus, an Anglo-Dutch company incorporating the old British Steel, has but recently completed its merger and finds itself having to cut back capacity and shut down plant. The sites least well placed to meet demand are, unsurprisingly, judged to be those at the geographical margins, and they are in Wales, at Ebbw Vale, Llanwern, and Shotton. It is not a question of capital investment or of labour productivity, it is a matter of location.

Something can be done about it, but only by radical change in fiscal policy. 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 and the south-east, let alone from the continental EU. Land values are normally lowest at the outer fringes, reflecting those regions' geographical and other disadvantages as compared with the centre. Taxes like PAYE, v.a.t., and motor fuel duty take no account of this, and at the margin tip potential wealth creation in to 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. In short, LVT creates tax havens precisely where they are wanted most – at the economic margins.

Many people in Wales have rather a soft spot for the EU, for reasons which undoubtedly include the amount of money churned back to the country in the form of grants from what are known as Objective 1 and Objective 2 funds. We, with our self-imposed remit, take no formal view on the constitutional and political aspects of "Europe". Our present point is that the U.K., being situated offshore at the north-west periphery of the EU, is, with the possible exception of the south-east of England and parts of East Anglia, at a distinct locational disadvantage with respect to the continental heartland. Taxes of the conventional sort, as we have already had occasion to point out, are peculiarly injurious to marginal economic activities. The U.K. has and must retain the right to replace present taxation by a national land rent charge – and it must use it.

The U.K. should press forward with a determined programme to implement LVT now. This has three important direct consequences. First, removing taxes from wealth production, from the products of wealth creation, and from wages and interest, gives the whole Kingdom a real competitive edge. Producers can withstand the challenge of imports and be in a strong position to penetrate markets abroad. Secondly, within the country there is that famous "level playing field", because taking rent for the public revenue removes location value from profitability calculations and ensures that labour and capital combine within each business to compete with others on equal terms. Thirdly, the attractiveness of the country to foreign investors becomes obvious.

South Wales, be it noted, has already lost jobs, as Panasonic, Sony, and Hitachi have made big cuts, "preferring to reinvest in Eastern Europe" (David Thame, "Estates Gazette", 24th. February). Fiona Footwear has closed, "Lucky Goldstar's investment did not turn out as planned", and some, like Acer, "never arrived despite plans to invest." This is the tax and margin effect, but it presages a more significant trend that will affect the British Isles as a whole. As the EU takes in more countries from the east, so will the centre of economic gravity lurch eastwards, accentuating the marginality of the offshore islands to the north-west. When offshore petroleum revenues (a rough-and-ready form of LVT, by the way) start to sink, when the CAP groans to the point of collapse (or is rigorously reformed and cut back), and when Germany declines to continue as paymaster to "Europe", where will Wales turn for help? LVT is not an intellectual exercise, it is fast becoming a necessity.

Birkenhead and Holyhead

"The Twelve Quays project in Birkenhead will provide a new roll-on roll-off ferry terminal with links to Ireland – and that could eat into Holyhead's ferry business. In 18 months' time, lorry drivers will be able to travel from Liverpool, cutting two hours off their driving time. That could be a problem for Holyhead" (estate agent, quoted by David Thame, "Estates Gazette", 24th. February). This is tax and marginal location again. Anglesey has Objective 1 status, but it just does not mix with present tax policy.

Cardiff

Cardiff suffers from "structural impediments such as the need for improvements to the airport and infrastructure" (Adrian Morrison, "Estates Gazette", 24th. February). What will the city's Objective 2 status do for land values?

MANCHESTER – AN OBJECT LESSON

Barely half a mile from the centre of Manchester is the Ancoats district, labelled the world's first industrial suburb. "While land in the city centre is going for up to £7m an acre" (Peter Hetherington, "Guardian", 8th. February), Ancoats is "sinking into oblivion" and "fears are growing that some owners are holding on to key sites and buildings in the hope of making a killing as land appreciates in value on the back of nearby developments…Only 400 people now live in the area, although planners hope it will eventually accommodate 3,000, with new schools and health centres." The North West Development Agency "has threatened around 100 owners with compulsory purchase orders. The exercise could cost it £10m." Public funds are to be shamelessly distributed to land speculators, to buy back for public purposes land which the public itself is daily making increasingly valuable by its demand for space. This is the heart of Manchester, after all! In any sanely run society, landowners would be handing the annual site rent over to the community. We should not then need any Development Agency dispensing millions to ensure proper redevelopment – a rush of planning applications would pour into City Hall. This is LVT as the stick. The carrot is enjoyment, tax-free, of income derived from genuine wealth creation.

SCOTLAND NOT EXPORTABLE

"One of Scotland's richest families could avoid paying more than £3m in tax if a development deal goes ahead after control of land moved to an offshore tax haven" (Iaian Wilson, "The Herald", 17th. February). The Duke of Buccleuch has signed over about 50 acres of land in Midlothian "to a trust set up by his wife. She has appointed a trustee who is based in the Cayman Islands." This is lawful, and we definitely do not object to moves by the Buccleuchs to protect income arising from building a business park and housing. All we require of Buccleuch Estates is yearly payment to the exchequer of the site rental value. Land cannot be spirited away or hidden in a tax haven, and the LVT bill has to be met as a prior condition to retaining location occupancy rights. Because LVT replaces present taxes, the Caribbean island haven loses its point.

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