

# PRACTICAL POLITICS

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Since the Chancellor of the Exchequer's autumn mini-budget (discussed in Issue No. 101), we have had the Urban White Paper, presented by the Deputy Premier wearing his DETR hat, and the public launch by the Prime Minister himself of "A New Commitment To Neighbourhood Renewal". The White Paper was largely a repackaging of earlier Government proposals, eked out by pickings from Lord Rogers' Urban Task Force. The "Neighbourhood Renewal" action plan was again a string of earlier announcements, together with sets of ambitious targets for the reduction of social inequalities, and schemes to fund selected local communities in deprived areas to do some things for themselves. It should not have sounded hollow, but it did. What was missing was a policy.

Whoever would consume must first produce. The division of labour allows specialisation, increasing thereby both production and, through trade, consumption. Some production can be devoted to capital formation, so that the productive power of labour is greatly increased and more wealth becomes available for consumption. All of this is obvious. It does not explain how wealth comes to be so inequitably distributed, nor why some cannot find remunerative employment. Government offers palliatives, of the robbing Peter to pay Paul type, but no cure is in prospect. This is as far as modern thinking goes.

No one examines the distinctive rôle of land. Way out in the wilds there is land that has no economic value: it is termed sub-marginal. Then there is land that can be used for economic purposes only if no charge is made for its use: it is known as marginal. All the rest is sufficiently suited for economic use for charges to be leviable for the privilege of making use of it: this land yields what in political economy is called rent.

Planet Earth is not man-made. Land is fixed in quantity and location. The rent a site commands can be huge. It is a differential, depending on the advantages it affords, on the intensity of economic activity, on where people work, live, and seek their leisure. Land rent is the obvious source of public revenue. Making a reality of such a programme really does "empower" people. Withholding or under-using valuable land becomes a thing of the past; employment opportunities open; wages and goods are relieved of tax; and all who work become the prime savers and owners of capital.

## **AFFORDABLE HOUSING**

Provision of affordable housing means provision at a subsidised cost. Workmen will not accept less than the going rate. The going rate of interest on capital will have to be paid. Therefore it is the beneficial owner of land who has to give. This will usually take the form of a section 106 agreement – a “planning gain” deal, whereunder planning permission for a project will be made dependent on provision of “social” housing, meaning housing built at below full land acquisition cost. This treats individual land owners arbitrarily, and some will prefer to draw back, waiting for what they perceive will be more profitable times.

The cry for affordable housing does of course presuppose that for a good number of people housing is unaffordable. Why? Presumably it is a poverty problem – in which case we should (as noted here on page 1) be looking for a solution to involuntary poverty. Housing provision is best tackled by assessing and collecting site rental values to bring more land to the market at progressively lower cost. Full LVT will eliminate buying/selling price and allow taxation to be taken off labour and capital and their products. It will no longer be necessary to buy land but only the building, fencing, driveway, and other improvements such as those made to the garden. Mortgages will therefore be much smaller. More and better housing will become available, and those who want it will be able to afford it, as buyers or tenants. All that bureaucrats need do is ensure planning permissions respond to demand.

*Footnote (musing):-* Why subsidise housing? Do those who cannot afford to house themselves have to occupy expensive sites? Offering affordable housing to maintain a workforce on expensive land is a hidden subsidy to businesses operating in the vicinity, who would otherwise have to pay more to attract labour from a broader catchment area. This is distorting what might be a tendency to disperse work activities to the periphery, or elsewhere entirely. Adding public transport subsidies aggravates the problem, because a supply of labour at below true cost enables city centre landowners to keep raising rents. Do those who formulate public policy ever follow through to see the consequences of their actions?

## **LONDON HOUSING AND THE NATIONAL AVERAGE, with reflections on PLANNING**

The Government is apparently “under pressure to raise public-sector pay levels in London, where homes cost 79% more than the national average” (Barry Riley, “Financial Times”, 13th. January). Why is this? Plant

and machinery are the same to buy and run. Materials such as cement, bricks, stone, tiles, slate, wood, and glass cost the same, and so do items like sinks, lampshades, carpets, and refrigerators. The wages of architects, building tradesmen, and general labourers are not greatly out of line. The big difference is land. All that can happen when demand for it rises, is an increase in price, followed by further increases as demand persists. Land is, literally, a natural monopoly.

LVT is the leveller, securing the rental value of land for the public exchequer. This accomplished, similar houses would in general command similar prices everywhere. The outgoings on a home would exclude taxes on the house and other improvements, and would be limited to the annual site value. "The amenities provided by natural surroundings, society, and government, make some places so obviously more congenial than others. Justice demands that those who enjoy these amenities should pay for the privilege according to the degree of benefit accruing to the position they occupy" (Sir Kenneth Jupp, "Land and Liberty", Spring 2000).

*Footnote 1:-* The present system of property taxation rewards inaction and speculation whilst penalising development in line with its extent and quality – the better the building the higher the u.b.r. or council tax! It is amazing that anything so absurd can have survived into the 21st. Century.

*Footnote 2:-* LVT assessments assume optimum site use within planning and similar constraints. There is thus a compelling incentive to appropriate use, and, particularly in an industrial, office, or shop context, to periodic adaptation or redevelopment in response to social and economic change. In time, the planning process may become less prescriptive, in that it will come to use the evidence of the land value map both as guidance and to test the potential consequences of planning proposals.

*Footnote 3:-* "As a result of the Government's new planning directive PPG3, planning permissions are becoming more difficult to obtain and [house builder] Persimmon, for one, is now increasing, where possible, the number of units on each site where consent has been given" (Andrew Wilson, "The Herald", 30th. August). "House builders have long preferred using their cash to buy land rather than each other" (Lex, "Financial Times", 20th. January) but "Tougher UK planning regulations mean land often becomes available in larger tracts in 'brownfield' inner city sites, which only big groups can afford". So, as land becomes scarcer and dearer, and houses tinier and less affordable, it is well-meaning government planning that is to blame. The need for LVT is overwhelming.

## COMING UP FROM THE PIT

RJB is the nation's largest coal producer, but its contracts with the power generators run out in 2003 and the future looks insecure – or does it? “There is more to RJB than coal – the firm has land and development plans” (Kristina Smith, “Property Week”, 3rd. November). “RJB Mining owns 50,000 acres of land: 28,000 acres of farmland, 15,000 acres around mines and 7,000 acres of brownfield... Estimates of RJB's land value range from £75m to £200m” depending on whether one takes value in existing use or allows for development potential. “People have realised that the location of the defunct mining sites, with their good transport links, makes them ripe for development.”

Coal mining areas have been in steep economic decline for some years, and it is good that full advantage may be taken to redevelop land and buildings which are now becoming redundant. In any intelligently ordered society, every effort would be made to see RJB's initiative fully rewarded and no obstructions laid in its path. Unfortunately, we do not live in such a society. The more RJB invests and the grander its developments, the more u.b.r. it will have to pay. The more profitable its new business, the higher will be its corporation tax bill, the more v.a.t. will be generated, and the more tax will be collected from shareholders' dividends and working people's wages. The penalty is all on work, on doing something useful and doing it well. RJB, as an entity of wage earners and providers of capital, should be freed of such confiscation. Instead, it – and all other holders of land throughout the Kingdom – should be required to pay across the annual rental value of the sites they occupy: that is something they did not create.

## A QUESTION OF STATUS

“Does living in a city add value to your property? Homeowners in the three new cities of Brighton and Hove, Wolverhampton and Inverness hope so” (Lynne Bateson, “Daily Mail”, 12th. January). Well, as their home insurers will tell them, the premium payable on the house, as structure, does not rise – any gain will be in the social cachet attaching to the site. Secondly, no home owner could claim private right to a location value enhanced by public administrative fiat.

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