Practical Politics No.95

We reproduce here a past issue of our journal.

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TAX AND THE REDISTRIBUTION OF WEALTH

The national minimum wage is up. The working families tax credit has been introduced. Child benefit is up. Pensioners have had a £100 winter bonus. The minimum pension guarantee has been raised. Against these are the "stealth taxes". Pension funds pay £5 milliards more per year to the Treasury. Married couples' tax relief has gone. So has tax relief on mortgages. People buying the more expensive homes now face higher stamp duty. Higher-paid workers are making higher National Insurance contributions. As the leading article in the "*Evening Standard*" on 15th. February noted, "A report for Labour's policy forum endorses 'a redistributive tax system . . . as part of building fairness' . . . The Government has opened the way to a healthier debate about the purpose, size and distribution of the tax burden."

All right, then, let us debate. Finding and targeting what used to be called "the deserving poor" will always be a hit-and-miss affair. Allowing for a fat bureaucracy and the scallywags who will clamp on to the system, will mean there is never enough in the pot. At the other end, we surely know by now that the really rich - individuals and companies - can afford the many legal ways of avoiding a soaking, and in any case conventional taxes are going to be harder and harder to collect as the years roll by. Changes in the "culture" of society may well mean that the "natural" victims of a high-tax regime - the better-off middle classes - will decline to put their heads in the noose so easily as their forefathers have done. It may be said they "ought" to, of course, because the purpose is sound.

Is it, though? In reality, the modern welfare state deals with the symptoms of economic ills without touching their cause. As we have shown (Issues Nos. 12 and 21) and argued (No.89), no land owner or predecessor in title ever made the land, nor is a land owner responsible for the revenue stream that enriches him. At the stage of the primary distribution of Wealth, the Rent due for the use of Land should be collected for the purposes of public revenue, leaving Wages to go in full to Labour and Interest to the suppliers of Capital. This is known historically as land value taxation. The private appropriation of the Rent of Land is at the root of all social problems and stands between man and plenitude. A dole is no substitute for loss of birthright.

LAND REFORM IN ZIMBABWE: THE BUNGLED OPPORTUNITY

President Mugabe last month lost a constitutional referendum. Several essentially distinct issues were bundled together, and the result must also have been influenced by factors outside the scope of the voting. One proposal that fell with the rest was the power to seize white-owned farms without compensation. We have covered this, and the background to it, in some detail in Issues Nos. 16, 44, and 74. Parliamentary elections are planned for next month, but it is possible that the land clause may be implemented before then by using the government's current parliamentary majority to amend the existing constitution.

A great opportunity is being lost. The redistribution of seized land is triply unsound. First, earlier hand-outs have gone not to poverty-stricken peasants but to government cronies: corruption and landlordism are colour-blind. Secondly, reallocation is arbitrary in this generation and unfair to future generations; it does nothing for the landless urban poor; and it is as flawed morally as leaving land in the possession of whites. Thirdly, it ignores the precedent of a Rhodesian Municipal Ordinance of 1914 which allowed municipalities to distinguish between land and improvements in local rating (several did, including Salisbury and Bulawayo). Wealth producers need security of tenure, and should have the value deriving from their labour and from the capital they supply; but they have no need actually to own land as private property and no right to pocket pure land value. The President's so-called reform is a cruel sham.

Footnote

> Zimbabwe and its people have a real problem, which we do not wish to minimise or trivialise. As further background to Africa's post-colonial land troubles, we reproduce a piece from our Issue No.24. It also contains a lesson for our own government as our article on page 1 of this issue demonstrates.
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> In "*Unemployment And The Land*", W. R. Lester quoted evidence given before the Native Labour Commission (Kenya) in 1912-13. "Settler after settler came before the Commission and demanded in the most precise terms that the natives should be forced out of 'Reserves' to work for wages by cutting down their land so that they should have less than they could live on. Lord Delamere, himself owner of 150,000 acres, said: 'If this policy is to be continued that every native is to be a landholder of a sufficient area on which to establish himself, then the question of obtaining a satisfactory labour supply will never be settled'. The process of reducing men to unemployment and poverty is here stated in all its nakedness and simplicity".

STILL ON THE LAND SLIDE

We have been following the fortunes of the Japanese economy for ten years since Issue Nd. 8 (March 1990), from the late stages of the boom to the bursting of the bubble and latterly through the deep, traumatic trough. There is still no sign that the long depression is ending. Land remains over-valued.

The banks had lent massively against the illusory security of ridiculously speculative land values. Borrowers who had equally frenziedly taker loans on the same assumption that land was worth many times more than its current value in economic use, suddenly found they could not meet the interest charges, much less make repayment. Banks, though, were reluctant to foreclose or write down the value of the pledged security, lest the true extent of their own insolvency were revealed. Where there has not been collapse, there is stagnation and paralysis.

One "solution" adopted by the government was resort to the printing press to inflate the money supply and reduce the burden of land costs in real terms. However, in a company interim report on 2nd. December last, Leopold de Rothschild noted the "huge government spending programmes" and "an enormous financial sector bail-out package", commenting that such financial stimuli "cannot continue indefinitely". The yen could be undermined. Already in November 1998, Moody's, the international credit rating agency, removed Japanese government debt from the top tier of triple-A borrowers. Now Moody's has issued a statement saying it has placed Japan's domestic securities "on review" again, "because of concerns about the country's growing level of public debt" (Dan Sabbagh, "*Daily Telegraph*", 18th. February). A further downgrade "could increase the country's cost of borrowing". To compound matters, the economy "is so fragile that it may not hit the government's official meagre target [of 0.6% growth] for fiscal 1999" (Gillian Tett, "*Financial Times*", lgth. February). In fact, figures soon to be released are expected to show that the economy contracted in the fourth quarter of 1999 for the second consecutive quarter".

Economic recovery can best be brought about by radical fiscal change. Just to announce that land will be assessed at full annual site rental value, and that that value will be systematically collected at a rising percentage to reach as near 100% as practicable, would instantly knock all the remaining speculative froth out of land p~icing. As site rental revenue came in, it would replace taxes on production, trade, earnings, and savings. Japan would then be on course for sane, sustainable growth.

CRASH COURSE

"Almost every economist and forecaster reckoned a year ago that 1999 would see a recession" (Tim Martin, "*Daily Telegraph*", 7th. February 2000).

"The country is not about to enter a slump" ("*Practical Politics*", Issue No.82, November 1998). For our analysis of boom and bust, please see "*Landing In Trouble*" in our Issue No.29.

V.A,T. AND HOUSING

There is a suggestion that the Chancellor of the Exchequer may extend v.a.t. to the building of houses on greenfield sites. The wrong sort of environmentalist and assorted N-l-M-B-Y folk should not be jumping for joy. The move could even give the government an urge to see such land receive planning permission and come on the market. "Houses are sold for what the market will bear, and adding VAT would change neither the enthusiasm nor the ability of people to pay. Building practices and other costs would not change either; the impact would be primarily on the value of the field on which the next house was to be built" (City Comment, "*Daily Telegraph*", 16th. February). At present, in the areas of the country where people want to live, there is a massive difference in value between land with planning permission and land without . . . and imposing VAT would cut into this windfall, rather than presenting it all to the landowner."

[Note from our webmaster/editor:

> V.A.T. is the UK tax on "value added". It is currently 17.5%, and is usually fully paid by the "end-user".
>
> A company collects the tax from its purchasers and, subtracting any v.a.t. paid to his suppliers, pays the net amount to HM Customs and Excise.
>
> In the UK this tax has the most draconian laws attched to it of entry and search, confiscation of books and property, and penalties for late payment and errors of calculation of the tax. Compliance costs must be enormous.]

DOWN WITH THE DOME!

"The value of the Millennium Dome site could be more than double if the building were knocked down" (Marie Woolf, "*Daily Telegraph*", 25th. February). Conservative estimates value the land at £1 million an acre. But builders and surveyors say that the 48 acres and the building of the new Tube station have raised its value between £1.5 million and £2 million an acre."

[Note from the Webmaster/editor for our overseas readers -

> £1m/acre = US$1.6m/acre = £23/sq.ft = US$36.74/sq.ft.
> £1m/acre = £247/sq.m. or US$396/sq.m.
>
> Likely rents in Greenwich:
>
> shops: £100 to 200/sq.ft./yr. or £1080 to 2160/sq.m./yr.
> offices: £15 to 40/sq.ft./yr. or £162 to 432/sq.m./yr.
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> Likely built annual rent income per acre, assuming 50% occupancy of ground area:

£3.26m for shops on ground floor;
£0.43m for each storey of offices.]

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