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# Practical Politics No.94

We reproduce here a past issue of our journal.

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## POWER BASE

The Santal tribal group is the indigenous population of part of northern Bangladesh. In the '60s the Santals numbered over 2 million. Now they are fewer than 1 million. Mostly they are landless peasants, having been "cheated out of their land by members of the majority Bengali community, who acquire forged deeds to their property and evict them" (David Chazar, "*Financial Times*", 22nd. January). A lawyer, "one of the few educated Santals", is quoted: "The main problem is illiteracy and lack of knowledge of their rights . . . The people who do this [defraud Santals out of their land] are usually prominent businessmen or farmers".

A tribe is being reduced to a level of existence that threatens extinction. The Bengali peasants who will be brought in by the new, big Bengali landowners, face generations of living at or little above subsistence. Whoever wants to know why there is Bangladeshi immigration to Britain might ponder the consequences of landlordism, and reflect that he who owns the land enjoys the wealth and wields the power. The landless, whether in the forest, in the paddy fields, crowded in unhygienic misery in teeming city slums, or huddled on mudflats in rivers that periodically flood, are life's eternal losers.

The position in the advanced, industrial economies is different only in degree. Here, there has built up gradually over the last two hundred years an acceptance that there is a standard of living below which those at the bottom of the social heap must not be allowed to go. This level is no longer bare subsistence, but one that is at least adequate to stave off recurring civil disorder - or, worse, revolution. Enough wealth splashes down to produce an artisan class and a petty bourgeoisie that are content not to fret too hard over their uneasy, though inchoate, feeling that all is not as it might be.

We do not underestimate the difficulty of seeking to end the power of landed privilege. The need, though, is urgent, not least in Bangladesh - for Santals and the Bengali majority alike. Projects for land division are misconceived and do not work (see Issue No.11). The correct policy is LVT.

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## ROAD, RAIL, AIR - A PRACTICAL LESSON IN ECONOMICS

The first three illustrations, below, show how improvements in communications bestow added attraction, and make presents of site values to

lucky owners of land who have done nothing to deserve them. The community is robbed, and Government has to load taxes on wages, daily spending, and savings instead. We note references to two motorways, one main railway line, two airports, one university, two citations of infrastructure already in place, and an absence of planning worries. The fourth illustration, however bemoans the absence of good infrastructure and reveals a severe competitive handicap suffered by marginal areas.

(i) "By next spring, the second runway at Manchester Airport will be in use, bringing with it new demand for airport-related development. Some of this pressure will undoubtedly be felt in north Cheshire" (Gary Halman, "*Property Week*", 14th. January). "Just south-west of the Macclesfield district, Vale Royal is well placed to capitalise on this spin off. Unfettered by green belt constraints, it also lies on the strategic north-south transport spine of the M6 and west coast mainline.

(ii) Airport expansion at Luton has fuelled a lot of interest in office and industrial development in the town. Investors are also attracted by the infrastructure, the university, and prices that are low compared with the M4 corridor and London itself (from report by Helen Osborne, "*Estates Gazette*", 15th. January).

(iii) "In an area which boasts good transport links, Warrington received a further lift in September when plans to build the new junction 8 of the M62 motorway were approved" (Julien Kenny-Levick, "*Property Week*", 14th. January). "The investment market is now fuelled by real prospects of rental growth with land values also having increased in the region over the last 12 months."

(iv) From the North "distances to markets - particularly in Europe - are greater and some of the mileages businesses have to routinely cover are huge" (Andrew Collier, "*The Express*", 11th. November). "The road network needs to be dramatically improved . . . Who is seriously going to locate a new factory in the North when every single widget has to wheeze through choked-up Spaghetti Junction to reach its markets?" If the land values roads engender were routinely collected by LVT, new stretches of motorway would pay for themselves. As for taxes on road fuels, we have several times recently argued that these heavily penalise peripheral areas, whereas LVT, by definition, falls lightly on areas of low land value. LVT is the necessary corrective to regional imbalance.

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## STAMP DUTY AND HOW TO LICK IT

In this country the buyer of shares pays 0.5% in tax on his purchase, The equivalent rate when commercial properties changed hands used to be 1% but went up to 3.5%, This difference in the rate of stamp duty has been leading to interesting avoidance practices. Property men paying at 3.5% seek to pay only 0.5%, whilst share traders paying at 0.5% look for a way to pay next to nothing.

(i) "Big commercial properties no longer change hands; instead, the buyers and sellers trade the company which owns the property" (City Comment, "*Daily Telegraph*", 26th. January). True, there is the cost and bother of turning the building into a separate company, and there is "another layer of useless bureaucracy in the form of the company returns", but, for a 3% differential in stamp duty, it is worth it.

(ii) "Buying shares in London carries a stamp duty of 0.5pc, which on big trades can amount to thousands of pounds. It is the highest in the world" (George Trefgarne, "*Daily Telegraph*", 26th. January). "There is no stamp duty in the United States", so, unsurprisingly, there is "growing evidence of blue chip companies listing in New York and avoiding Britain's stamp duty on share trading. The latest is Lloyds-TSB . . . Prudential is also preparing to make the move, where it will join BP and HSBC . . . Others joining the transatlantic flow include high-tech names such as ARM Holdings, which has joined the Nasdaq exchange in the United States, as have Reuters and Vodafone. The companies are keeping London as their main listing, but are using American Depository Receipts (ADRs) for a secondary listing in the United States. This means shares are deposited at an American bank which then issues tradeable certificates of the same value." There is a 1.5% exit fee on shares moving from London overseas, but technology is eroding the ring fence. In April, an electronic link-up between Crest, the London settlement system, and its American equivalent, "goes live". Investors will not buy shares in British companies in London if they can do so more cheaply in America.

Conventional taxes are becoming increasingly unreliable. Unless they are cut, the incentive to develop avoidance schemes is irresistible. Either way, the Treasury loses revenue. Conventional taxes are also harmful, penalising work, enterprise, and initiative. By contrast an annual levy to collect the site value of land cannot be avoided and is therefore certain in its yield. That site value reflects the advantages of each plot (land area) in relation to all others; and the levy represents payment for benefits actually received by virtue of having exclusive use of the site. What the occupier then achieves is his to keep.

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## CACHET - AT A COST

"It's all to do with location. Knightsbridge is closer to the centre . . . People will pay more to have the cachet of living there" (estate agent, quoted by Mary Wilson, "*The Times*", 8th. December). For apartments in a refurbishment in Kensington, "the average sq ft price is £500, making it a top-of-the-market development" (Wilson, op. cit.). "If it had been in Knightsbridge, it would have cost £650 a sq ft. Quite a difference." Yes - and this difference is admitted to be all to do with location. All location value is in fact different in kind from the value of all developments made in or on land.

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## THE HOUSE HUNTER AS LAND SPECULATOR

One way to make money from property, even on a small scale, is to build well or refurbish with care and taste. Another is to guess correctly which area is about to come up in the world and move in with perfect timing. "[London] post codes starting with SE and E are the cheapest to live in - at the moment. These areas are benefiting most from infrastructure changes such as the Jubilee Line extension and are ripe for gentrification" (David Spittles, *Evening Standard*, 12th. January). "Even if they are run-down, inner-city areas close to the West End and City are almost certain to become more sought-after. Probably the best place to buy is in a slightly grubby area squeezed between two that have already arrived . . . for example, Brixton, which is bordered by Clapham and Dulwich."

There are iniquitous taxes on housing and householders. Repairs are subject to v.a.t. The wages of building tradesmen and general labourers are subject to income tax and deductions for National Insurance. Council tax has to be paid on the house's capital value banding assessment. If it is not the owner's principal place of residence, there is a potential c.g.t. liability on disposal. On death of the owner, it forms part of the estate for inheritance tax. How much better it would be to cut out these noxious imposts and implement LVT in its fullness. The householder deserves to be allowed to keep all of what he earns, and to be able to spend it on untaxed goods and services. He has no claim, either in ethics or political economy, to pocket the site value of land.

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