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# Practical Politics No.92

We reproduce here a past issue of our journal.

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Issue No.92, December 1999

## HYPOTNECATION, CHANCELLOR? TRY OUR HYPOTHESIS!

The Chancellor OT the Exchequer is a tinkerer. We said as much in our Issue No.72 (July 1997). The pre-Budget mini-budget, unveiled to Parliament on 9th. November, served but to strengthen this view. The announcements were enlivened by a new(ish) form of games-playing, called hypothecation, whereby part of the yield from some taxes will be reserved to designated expenditure. Thus any motor fuel tax increases above the level of growth in the r.p.i. will go in future to modernisation of roads and public transport. Similarly, rises above the r.p.i. in the excise duty on tobacco will be set aside for hospitals and health care. This is a lark which began with the so-called windfall tax on the privatised utilities, to support training unemployed youths - see our Issue No.71 (June 1997). It is of course a name-game, designed to make the flock feel happier as it is being fleeced. Only taxes for causes which are generally popular will be hypothecated in the first place. Then the hypothecated allocation of £X million to the good cause will be offset by a surreptitious cut of £Y million from the pool of general taxation; after a while the linkage will be quietly forgotten in all but name; and eventually even that will be dropped from the Treasury vocabulary.

We believe we can help the Chancellor. Let us take roads and public transport. What happens when investment goes in new roads and improved traffic systems, and in new 'bus routes and more frequent services? Does not land in the neighbourhoods thus blessed become more desirable, and do not location values rise in the areas served? The profitability of 'bus and other transport networks is dissipated amongst lucky landholders who gleefully gobble it up. Why dun road hauliers and the motorist?

The value of land is in no way a private creation. It is public. It represents the relative advantages, natural and social, enjoyed by each location relative to all others. Let us suppose the Chancellor were to take the bold step of proclaiming the Government's intention to introduce LVT, at a substantial percentage of site rental value, rising, as nearly as is practicable, to the full amount. The yield would allow reduction and replacement of existing taxes which - hypothecated or otherwise - fall on work and the rewards of working, and should not be touched while one bawbee's worth of land value remains in private hands.

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A FARM WITH NO HOPE . . . AND A HOME IN  
KNIGHTSBRIDGE

Landowners and developers with their eyes on green rural acres "know land in the South East is worth up to £1 million an acre if only they can get planning permission" (Susie Steiner, *The Times*, 6th. November). However, where there is agricultural land with no hope of development, "the South-East commands no more than the West Midlands or the North-East" (London *Evening Standard*, 13th. October). In other words, land value comes from where people forgather, what they want to do, and whether planning authorities consent. The owners of land, as such, play no part in this. Yet effortlessly they scoop the resultant benefits, Why let them? We have a chancellor of the exchequer who has shown he does not disdain windfall taxes. All land value, in its way, is windfall.

"The price of houses is closely related to the price of development land", notes that same *Evening Standard* article. A piece of land of 1.7 acres between Harrods and Harvey Nichols is currently on the market for around £60 million per acre, and apartments, when they are built on it, will have endless noughts on the selling price."

The *Evening Standard* also records that hill farms are "a mere £153 per acre in Scotland". The price of many a little suburban semi would thus buy a 1,000-acre spread in those Scottish hills, Where land is concerned, size does not matter.

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## THIS SPORTIN' LIFE

(i) The M.C.C. has the freehold to most of Lord's Cricket Ground, but a part is only rented, and is owned by Railtrack. Railtrack, whilst retaining the freehold, intends to auction off the leasing rights "for between £1 million and £5 million" (Paul Marston, *Daily Telegraph*, 25th. November). Cricket lovers will be relieved to know that the M.C.C. will have its tenancy protected for 137 years.

(ii) "The new Hampden Park may have cost £60 million to build, but one of the main entrances to the stadium just happens to be through a garage forecourt filled with second-hand cars blocking access yesterday" (*Daily Express*, 13th. November). The owner of the land can not agree a price with the Hampden authorities. The report appears to imply that the landowner has what amounts to a "ransom strip". True or not, the public interest would be served if LVT were in operation and the landowner were taken at his own assessment and asked to pay up accordingly,

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## LOVELY MONEY, AND ALL FOR NOTHING

Recent headlines in our newspapers show how a lucky few are able to cash in on the shortage of available housing land. "Don't do it up - knock that tatty old house down" (Sue Fleidman, *The Observer*, 27th. June). "Garden too big? Then divide it - and prosper" (Gwenda Brophy, *Financial Times*, 9th. October). "Families strike gold at the end of the garden" (*Daily Mail*, 10th.

November). "Developer forks out . . . for a strip of garden" ("*The Times*", 19th. November).

Knocking down to clear the site and build a new house is now popular. "Expensive areas are favoured. The demolishers' ideal purchase is a small, older-style house on a big plot in a good road. When they find it, prices can hit the roof" (Fieldman).

"While house prices in many parts of the country are rising, land prices have increased to an extraordinary degree" (Brophy). Owners with large gardens are tempted to sell part of the grounds. "The usual practice is for vendors to sell plots with at least outline planning consent for new dwellings . . . The difference in value of a piece of land with and without planning permission can be immense."

There are terraced houses at Riddleadon, near Keighley, Yorkshire, "probably worth around £50,000" ("*Daily Mail*"). Nine families have collected £100,000 each "after selling a 6ft-wide strip of lawn at the end of their front garden". A housebuilding company had been obliged to widen the approach road as a condition of winning permission to construct a new estate. The residents held the company to ransom. "Two or three families will miss out" ("*The Times*"). "Their land was not needed for the development, and, although they will have to put up with the disruption . . . they won't receive any money." Mere owners of land title are not creators, but takers, and have no influence on whether or how they are enriched.

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## HATS OFF FOR GLASGOW, MAYBE?

Glasgow City Council has 4,000 acres of vacant land for new business, industry, and housing. The Council knows that demanding high prices for land will inhibit development, so "will exercise patience, wait for the developer to deliver his project, then take either a capital payment or a share of the income stream" (John Maccalman, "*The Herald*", 8th. September). The latter avoids alienating the land and appears to be a rough-and-ready collection of land rent.

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## KEY POINT

"It is a basic tenet of property investment that proximity to mass transit enhances the value of any given site" (Norma Cohen, "*Financial Times*", 20th. November).

The Jubilee Line extension of the London Underground from the West End to Stratford via the south bank of the Thames, Canary Wharf, and the Dome, has recently opened. "Data from the Investment Property Databank . . . show that within the past two years there has been a dramatic improvement in both capital values and rental values among commercial properties straddling the line of the JLE. . . The new line has helped the areas it runs through by connecting them speedily with central London".

The workmen who built the line pay tax on their wages. The suppliers of all the capital equipment likewise pay tax on their earnings. Passengers using the trains are, logically, expected to pay fares. Landholders, however, although they benefit hugely from this project, make no contribution. LVT would put that right.

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## DISPOSSESSION

Arundhati Roy, in talking across the lunch table to Jan Dalley (*Financial Times*, 20th. November) explained how, when 3,300 dams were being built in India over a 15-year period, thousands of wretchedly poor people were wrenched from their livelihoods and dumped in disease-ridden resettlement accommodation, without any compensation. Instead, compensation was paid to those who owned land. That immediate injustice apart, who will have funded the compensation? Clearly it ought to have been the lucky landowners whose land benefited from these irrigation dams and canals, but somehow we doubt it. In this disordered world - and not only in India - it's "Heads Landowners win!" and "Tails! Everybody else loses!"

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